

Supporting Young Entrepreneurs Through the COVID-19 Crisis: What's Next?

OECD Webinar – 26 May 2020

With participation of delegates from the Working Party for SMEs and Entrepreneurship (WPSMEE) and Local Economic and Employment Development (LEED) Committee

The issue: Young entrepreneurs are among the hardest hit during the COVID-19 crisis. International surveys suggest that nearly 90% of young entrepreneurs report a negative impact on their business, including reduced customer demand, supply chain disruptions, and distribution disruptions. About one-quarter of those surveyed reported that they have stopped their business completely. In the short-term, policy makers need to ensure that measures for small businesses are available to, and appropriate for, young entrepreneurs, who are increasingly working as freelancers or combine self-employment with education and/or employment. Looking further into the future, policy makers should anticipate the implementation of measures to address rapidly growing youth unemployment and greater barriers to labour market entry for young people. Youth entrepreneurship programmes can be part of the policy response to help young people gain labour market experience and build professional networks to help them pursue a sustainable business activity or transition into employment.

The webinar aimed to address the following issues:

1. How should support measures for micro businesses be tailored for the needs of young entrepreneurs?
2. What should policy makers do to scale-up youth entrepreneurship support to respond to growing youth unemployment?
3. What are the key lessons from the youth unemployment crisis of the early 2010s?

1. Context and policy options

David Halabisky, Policy Analyst, Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), OECD provided a brief overview of youth entrepreneurship issues. He noted that young people often indicate a **strong interest in becoming entrepreneurs** but that **young people are about half as likely as adults to be self-employed**. Moreover, they tend to operate smaller businesses in sectors with low barriers to entry and high levels of price competition. Therefore, youth-operated businesses tend to have lower survival rates.

The **youth entrepreneurship gap can be explained by several factors**, including a lack of experience in the labour market, lower levels of entrepreneurship skills, lower levels of savings that can be invested into the business, and smaller professional networks that can be used to access resources.

Mr. Halabisky also provided a brief overview of recent OECD work on youth entrepreneurship, including a new policy brief, the Missing Entrepreneurs reports and country-specific policy reports. This work shows that **youth entrepreneurship programmes can be successful under a range of conditions** (e.g. support for graduates and drop-outs) but there are some common characteristics among programmes that demonstrate success:

- Support is tailored to the needs of youth;
- Packages of support are offered, e.g. finance combined with training and coaches;
- Programmes are delivered in a flexible manner; and
- Support is provided in increasingly intensive stages that require some success before receiving further support.

He concluded by noting that the COVID crisis presents new challenges for young entrepreneurs, policy makers and programme managers.

Prof. Dr. Alexander Kritikos, The German Institute for Economic Research (DIW Berlin) structured his presentation around four issues: 1) the impact of the COVID crisis on the self-employed and young entrepreneurs; 2) responses to the crisis by the self-employed; 3) the expected impact of the crisis on business creation; and 4) potential policy responses to support young entrepreneurs.

COVID has had severe impact on entrepreneurs. In Germany, **two-thirds indicate that they do not expect to survive more than six months** without further support measures. More broadly, there has been a strong increase in unemployment and about 10 million people applied for reduced working hours arrangements (including zero hours), of which approximately 6-7 million have entered the scheme. **Youth are heavily impacted because there are fewer employment opportunities** for new graduates and **fewer apprenticeship opportunities** for those in vocational training.

Most entrepreneurs have responded with bootstrapping methods but youth entrepreneurs are typically less familiar with bootstrapping methods given their inexperience. About half of young entrepreneurs are accessing emergency measures in Germany, which is the same for the overall population. However, **youth appear to be slightly more likely to be digitising their businesses** during this time of disruption.

Business creation is typically counter-cyclical, but it appears that it is cyclical during periods of shocks or depressions. Therefore, **a drop-off in business creation should be expected in the short-term**. It is not clear if young people will be more likely to enter into entrepreneurship given the lack of employment opportunities or if they will be less likely given the more difficult market conditions.

Evaluation evidence points out some important lessons that should help guide policy decisions about youth entrepreneurship programmes in the short-term:

1. **Start-up subsidies** can be effective but **young people react better to flat subsidies** rather than those that depend on previous labour income.
2. **Training, coaching and business incubators can be effective** for young entrepreneurs **but only if they have been designed specifically for young people**, e.g. language used in materials is pertinent for youth.
3. **Knowledge transfer** is becoming increasingly important for young entrepreneurs in higher education so it is important to have strong support mechanisms for graduates.

Finally, it is clear that a second round of liquidity measures for all SMEs and entrepreneurs will be needed.

The discussion covered the role of increased individual risk aversion relative to greater risk aversion in the business environment (e.g. banks) in constraining youth start-ups. Both factors were noted as important but the discussion highlighted that individual factors are likely to have a stronger influence on (potential) youth entrepreneurs since younger people are unlikely to want to assume a great deal of risk at the beginning of their careers, partly because they may have student debts. Moreover, young people are less likely to interact with formal actors in ecosystem.

The discussion also highlighted the resilience of young entrepreneurs. Overall, young entrepreneurs tend to show a greater flexibility in adapting their business to changing market conditions because they have fewer fall-back options than older people who may be able to transition into employment more easily. They are also open to exploring new markets and have higher levels of digital skills, on average, that could be used to reach new markets.

Finally, the discussion also covered alternative finance. It was noted that these financing mechanisms are still not widely used and that lenders and investors are increasingly apprehensive due to the high level of risk in markets. While youth may be more aware of the potential of some options, there does not appear to be great potential for alternative finance to stimulate business creation in the short-term.

2. Examples of country policy responses

ITALY – Dr. Tiziana Lang, National Agency for Active Labour Market Policies (ANPAL) provided an overview of the “Yes I Start Up” programme and described how the delivery of the programme has been altered during the COVID crisis.

The **programme’s objective is to promote and support self-employment and entrepreneurship among young NEETs**. It was launched in 2018 by ANPAL as part of Italy’s Youth Guarantee and is implemented by the National Body for Microcredit (ENM). The programme includes a standardised training course with 15 modules (80 hours) that is delivered by a Public-Private Partnership Network composed of 445 partner organisations across the country. Participating entrepreneurs are also eligible to receive a grant of EUR 5 000 to EUR 50 000. Up to 1 May 2020, 1 369 enterprises were funded and they created 2 451 new jobs. Total value of the grants is EUR 44.7 million.

The **COVID crisis required some adjustments to the delivery of the programme**. In-person training was suspended **so a new online platform was created**. The new platform facilitated **remote training**, which ensured continuity for those already in the programme and also **improved access** to supports for those in rural and remote locations. The platform also had some unforeseen benefits, notably **improved monitoring** of programme participants and the ability to use the platform to **facilitate access to emergency support measures** for existing entrepreneurs.

The discussion uncovered additional details about the programme, including that there is a gender balance among participants and that coaching is delivered on a one-to-one basis.

In addition, there were questions about the monitoring and assessment of the training component of the programme. Dr. Lang explained that an impact assessment is done for each module and that the online platform is now used to help track and measure results. This includes basic metrics (e.g. number of participants) as well as test scores and ratings on the training content and methods. The ENM undertakes an assessment of microcredit and microfinance in Italy every two years, monitoring among others the survival rates of businesses created. An assessment is also undertaken as part of the Youth Guarantee reporting to the EU about the employment outcomes of participants, including self-employment (after 6, 12, 18 and 24 months).

Participants were also keen to learn about the measures put in place by the Government in support of self-employed, artisans and retailers to face the effects of the Covid19 crisis on production and liquidity. It was noted that a range of other support measures have been introduced including grants and the deferrals of social security contributions. To improve access to these measures for youth entrepreneurs, the definition of young entrepreneurs has been adjusted.

HUNGARY – Dr. György Nagyházi, Ministry of Innovation and Technology provided an overview of youth entrepreneurship support programmes in Hungary and how they are responding to the COVID crisis.

The youth entrepreneurship programme was implemented slightly differently in the east and west regions. The programmes **aim to reduce youth unemployment** and is focussed on providing **personalised assistance** for NEETs. The programmes are largely funded from EU Structural Funds and are delivered through various agencies, while the entry point is the National Employment Service. The pathway for participants begins with **training** and then a **business plan** is developed and **submitted to a jury of private sector professionals for access to further support**. Once approved, the business projects receive a **start-up grant** and participants can access **professional consulting**. Between 2015-18 827 young entrepreneurs were supported. Some regional differences were noted in the outcomes – the western

region had greater take-up rates and most successful business start-ups, likely due to the proximity of universities.

The new programme was launched in 2019 and contains some adjustments such as a wider definition of eligible youth. The greatest impact of the COVID crisis on the new programme was a **sharp drop-off in the number of new participants** seeking to enter the programme. Moreover, as in the Italian example, the training course moved to an **online delivery platform**. More broadly, a relatively small number of emergency support measures have been implemented in Hungary.

The discussion focussed on two issues – skills development and programme take-up. It was noted that entrepreneurship training programmes for youth may need a greater emphasis on digital skills given that many microbusinesses have been digitising during the COVID crisis. This was reinforced by participants who noted that small businesses in Estonia were not hit as hard because many were already digitised and active online. Collaborative skills were also raised as another skill that has increased in significance during the crisis since many entrepreneurs are working together to support each other.

In addition, the digitisation of youth entrepreneurship programmes was underscored as critical for maintaining continuity for participants that are already receiving support.

3. Key takeaway policy messages

Dr. Jonathan Potter, Head, Entrepreneurship Policy and Analysis Unit, CFE, OECD noted that the **context has changed greatly for youth entrepreneurship programmes**. Back in 2010 there was very high youth unemployment and this had reduced over the past ten years. But suddenly we found ourselves back in a very high youth unemployment scenario.

While youth entrepreneurship can help respond to growing youth unemployment, policy makers face a **paradox** in the short-term. The COVID crisis will push more young people into entrepreneurship because there are fewer jobs and fewer training opportunities. However, the crisis is increasing risk aversion for individuals as well as for markets, which negatively influences business creation.

We know that **young people can often be successful in entrepreneurship**, although they also commonly face barriers in areas such as finance, networks and skills that policy seeks to address. Moreover, youth entrepreneurs have demonstrated that they are resilient and keen to digitise their business activities. We also know that many **youth entrepreneurship programmes have been successful**. So what should policy makers do?

1. Ensure that youth entrepreneurs can **access emergency financial support** (e.g. grants, fiscal measures) as well as financial measures that support business creation.
2. **Offer dedicated training, coaching and business incubator programmes**. Tailored support tends to be the most effective for youth. For example, individual coaching and mentoring was a key factor in the impact of the Hungarian youth entrepreneurship programme.
3. Continue to **support youth entrepreneurs in universities and graduate entrepreneurs**. These entrepreneurs can bring innovations into the market that respond to the COVID crisis, particularly in digitalisation, and have a strong potential role in helping to drive economic recovery.
4. **Additional liquidity support measures** are likely needed for existing youth entrepreneurs. Survey data from Germany suggested that two-thirds of entrepreneurs do not expect to be able to survive in business for six months without support or a change in conditions.

Finally, it is important to consider how **delivery mechanisms need to be adjusted during the crisis**. The Italian Yes, I Start Up programme example demonstrates that not only is online training effective for youth, but new digital platforms can improve outreach and monitoring of public support programmes.

What's next?

A further webinars on self-employment, entrepreneurship and COVID-19 are planned:

- 9 June 2020: **Women enterprise policy and COVID-19**. [Register](#)

Related webinars are planned on:

- 16 June 2020: **SME policy response to COVID-19: Leveraging alternative finance providers**.
- 23 June 2020: **Financial relief for SMEs: Avoiding long-term over-indebtedness**.
- 30 June 2020: **The silver lining – How policy responses can help SMEs fast-track their recovery and growth**

Read More

The OECD has produced extensive work on inclusive entrepreneurship policy, including policies and programmes that support youth entrepreneurs. Much of this work has been produced as part of a long-standing programme of work exploring the untapped potential of entrepreneurship among under-represented and disadvantaged demographic groups, in collaboration with the European Commission. Outputs include the [Better Entrepreneurship Policy Tool](#), an online tool for policy makers who are designing and delivering inclusive entrepreneurship policies and programmes, as well as the following recent reports covering youth entrepreneurship:

- [Policy brief on recent developments in youth entrepreneurship](#)
- [The Missing Entrepreneurs 2019](#)

For more information about this work programme, please click [here](#).

The recently launched OECD COVID-19 portal, provides analysis of the impact of the COVID-19 crisis and reports on policy responses, including a note on SME policy responses <https://www.oecd.org/coronavirus/en/>

OECD contacts

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