Strengthening social inclusion through inclusive entrepreneurship

Parallel session 5
Background information

This paper was prepared as a background document to the OECD Ministerial Conference on Small and Medium-sized Enterprises, taking place on 22-23 February 2018 in Mexico. It sets a basis for reflection and discussion.

About the Ministerial Conference

The 2018 OECD Ministerial Conference on Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth is part of the OECD Bologna Process on SME and Entrepreneurship Policies. The Conference will provide a platform for a high-level Ministerial dialogue on current key issues related to SMEs and entrepreneurship. It will seek to advance the global agenda on how governments can help strengthen SME contributions to productivity and inclusive growth; how SMEs can help address major trends and challenges in the economy and society; and how the OECD the support governments in designing and implementing effective SME policies.

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Strengthening social inclusion through inclusive entrepreneurship

Policy note
Summary

- Some social groups are under-represented or disadvantaged in entrepreneurship, for example women, youth, older people, migrants and the unemployed. Increasing entrepreneurship among these groups, as well as improving the quality of their business start-ups, represents an opportunity to increase participation in the labour market and boost economic growth.

- While these social groups are heterogeneous, their members typically face greater barriers to business creation than the mainstream population. Challenges include a lack of entrepreneurship skills, difficulty in accessing finance for business start-up, difficulties navigating the regulatory framework, a fear of failure and a lack of confidence.

- Inclusive entrepreneurship policies seek to give everyone an opportunity to be successful in business creation and self-employment, regardless of their background or personal characteristics.

- Governments can do more to support entrepreneurship for disadvantaged groups with a range of tailored instruments that improve access to finance, strengthen entrepreneurship skills, and help build entrepreneurial networks. Key success factors include effective outreach to the target populations, as well as ensuring that the support provided addresses the unique challenges faced.

Questions for discussion

1. What are the specific entrepreneurship support needs of people from under-represented and disadvantaged groups in entrepreneurship, and how can policy address these needs?

2. How can inclusive entrepreneurship measures leverage digital platforms and tools to reach target clients that are often hard to reach?

3. How do programmes balance tailoring support for the unique needs of socially excluded groups against the economies of scale gained through mainstream delivery?

Why is it important?

Inclusive entrepreneurship is an important vehicle for achieving inclusive growth. Business creation by under-represented and disadvantaged groups helps create jobs and fight social and financial exclusion, while stimulating economic growth across the economy. However, while entrepreneurship plays an important role in stimulating innovation and driving job creation, only a relatively small part of the population is involved in starting a business, and not all people have the same opportunities to create and run a business. The objective of inclusive entrepreneurship policies is to ensure that all people have an opportunity to start up and operate in business or self-employment, regardless of their personal characteristics and background.
Supporting the creation of sustainable businesses by members of target group populations is expected to increase labour market participation and attachment, thus providing individuals with an opportunity to earn income and improve their standard of living. Furthermore, entrepreneurship offers an opportunity for individuals to be more active members of society, increasing their self-confidence and building their local community. Lastly, the employability of individuals within the target populations is also expected to improve. While not everybody who receives entrepreneurship training or support will start a business, individuals participating in entrepreneurship training programmes, interacting with a coach or mentor, or receiving assistance in developing a business plan, will acquire skills and experience that make them more employable.

These outcomes can benefit economies, as unemployed and inactive people move into work, either through self-employment or wage employment. This can also lead to more business start-ups that have the potential to create jobs for others, and improve growth prospects by utilising under- or unutilised human capital.

What are current trends and challenges?

Youth and women are less likely to be self-employed than the mainstream population. In 2016, men were nearly twice as likely as women to be self-employed across OECD countries, although there are some countries such as Mexico and Chile, where the gender gap in the self-employment rate is very small (Figure 1). Youth are also under-represented in self-employment. Fewer than 5% of working youth (15-24 years old) were self-employed in nearly all OECD countries in 2016, which was approximately one-third of the proportion of the adult population. Moreover, few unemployed people return to work through self-employment. In most countries, approximately 2% of unemployed people report that they intend to return to work by becoming self-employed. However, nearly 3% return to work by starting a business, suggesting that many cannot find any other employment opportunity. Other social target groups such as seniors and migrants are not under-represented in self-employment, but often face more and greater barriers to entrepreneurship (and in the labour market more generally).

Figure 1. Self-employment rate, 2016

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<th>Percentage of total employment</th>
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<tr>
<td>Total</td>
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Note: *denotes data from 2015.
Furthermore, businesses started by people from these social target groups appear to be smaller. Self-employed women and youth were less likely than the average to have employees in nearly all countries in 2016 (Figure 2). Approximately 30% of self-employed men in OECD countries had employees, while only about 20% of self-employed women did. Self-employed youth were even less likely to have employees – fewer than 10% did in 2016. The picture is mixed for the self-employed over 50 years old, who were less likely to have employees than the average in approximately half of OECD countries.

Figure 2. Proportion of self-employed with employees, 2016

Entrepreneurs from under-represented and disadvantaged groups are more likely to report barriers to business creation than the general population. One of the most frequently cited barriers to business creation is access to finance, which was cited by 26% of youth and 22% of women in 2012 (Figure 3). Youth were also twice as likely as adults to cite a lack of entrepreneurship skills as a barrier. Older people appear to face different barriers, since they tend to have more experience in the labour market, and are more likely to have relevant professional networks and savings that can be used for business creation. Significant barriers to entrepreneurship for senior entrepreneurs include a lack of awareness, age discrimination, declining health, financial disincentives, as well as the opportunity cost of time (i.e. they may prefer leisure activities over the value future income, since the timeframe for reaping the benefits may be relatively short). The barriers typically faced by the unemployed include a lack of finance and skills, but also small or outdated professional networks and high opportunity costs since the income earned in self-employment may be less than the unemployment benefits received. Immigrants face different barriers, including a lack of knowledge about the regulatory and institutional environment, low levels of social capital and language skills.
What are key areas for policy to consider?

Policy makers can do more to support inclusive entrepreneurship by addressing market, institutional and behavioural failures, that tend to fall heavily on disadvantaged and under-represented groups such as the unemployed, youth, women and migrants. This includes building a culture that is supportive of entrepreneurship in diverse social groups; increasing awareness about the opportunities, benefits and practices of entrepreneurship; as well as increasing motivations to pursue these activities. Moreover, inclusive entrepreneurship policies should not only seek to increase the number of start-ups among under-represented and disadvantaged groups, but also seek to improve the quality of these start-ups so that they have a greater chance of becoming sustainable. In this respect, it is also important that the businesses created be sustainable and minimise the displacement of other activity. Therefore, inclusive entrepreneurship policies and programmes need to be designed to encourage creativity and innovation, and be targeted at those entrepreneurs with distinctive business ideas with the potential to become sustainable businesses.

Key policy approaches used to promote and support inclusive entrepreneurship include entrepreneurship training, coaching and mentoring, facilitating access to finance and building entrepreneurial networks. To be effective, support measures need to be tailored to the unique challenges faced by the different social target groups, and targeted outreach efforts are needed to reach potential entrepreneurs. For example, Going for Growth in Ireland provides coaching and mentoring to growth-oriented women entrepreneurs, as well as helping them build their networks. It is also important for policy makers to consider bundling support measures into packages, since many of the barriers and challenges are inter-related, and to utilise appropriate delivery mechanisms. This approach is taken by the BBZ programme in the Netherlands, which provides entrepreneurship training, coaching and mentoring, and an allowance to support people receiving social welfare assistance in business creation. Support measures are often more effective when specialist agencies or
specialist branches of mainstream agencies are used, but client density must be sufficiently high to achieve cost efficiency. Key actions policy makers may consider include:

- **Deepening the understanding of the challenges that different social target groups face in entrepreneurship**, and of the effectiveness of different policy approaches used to address these challenges. This calls for improving data collection and efforts to assess the impact of inclusive entrepreneurship policies and programmes.

- **Addressing barriers in the process of acquiring entrepreneurship skills** by offering entrepreneurship training courses that exploit the potential of online technologies, and provide complementary support such as finance, coaching and mentoring.

- **Improving access to finance** in conditions of high risk and little collateral by providing financial information and advice to entrepreneurs, supporting the matching of investors and entrepreneurs, offering loan guarantees, and participating in the emergence of microfinance institutions and crowd funding platforms focused on disadvantaged and under-represented groups.

- **Providing flexibility in how social security entitlements are paid**, allowing for lump sum payments to support business creation and providing allowances or continuing to pay unemployment benefits for a fixed period of time to people who start up from unemployment.

- **Offering business development support** to upgrade the quality of businesses started by people from under-represented and disadvantaged groups, including by encouraging business projects in markets where there is excess or growing demand and by developing business management expertise.

- **Building the entrepreneurial networks** of growth-oriented entrepreneurs from outside the mainstream population to help fill gaps in their access to entrepreneurship skills and finance.

**Further Reading**


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