START-UP AND ENTREPRENEURSHIP

Rationale and objectives

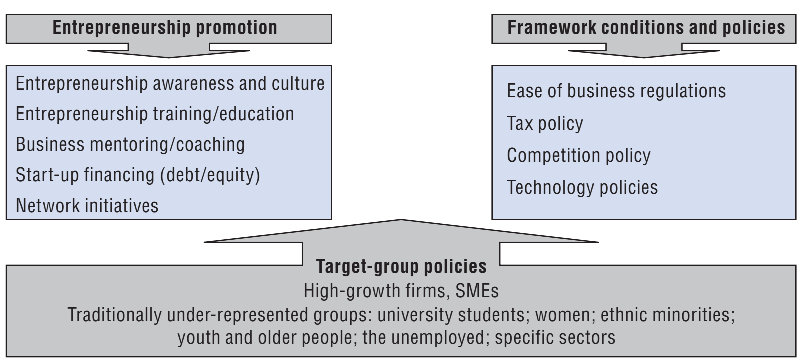
Public support of entrepreneurship is often justified by perceived market failures that affect business creation and by the positive impact of business dynamics on economic growth and job creation. Public policies for entrepreneurship are often motivated by evidence demonstrating the impact of young innovative firms on economic growth and job creation. Policy makers also seek to address perceived market failures for start-ups, including information asymmetries and financing gaps.

For example, information asymmetries in credit markets are greater for new firms that lack a credit history, while formal equity finance tends to fund lower-risk later stages of investment. As a result, entrepreneurship funding often comes from the three F's: founder, family and friends. Positive externalities also shape the entrepreneurial process. Innovative entrepreneurs tap into new knowledge that is commercially valuable but not commercialised by incumbent enterprises that prioritise profit maximisation from existing products.

Major aspects

Entrepreneurship policies can adopt supply-side or demand-side measures. In general, they can be grouped into four broad areas: programmes addressing entrepreneurship culture and ecosystems; access to finance; reduction of regulatory and administrative barriers; and programmes targeting specific groups (Figure 6.4).

Figure 6.4. **An entrepreneurship policy framework**



In the first group are entrepreneurship promotion programmes for raising awareness in the society (*e.g.* advertising campaigns, awards, profiling of role-models, etc.); training and education schemes to instil entrepreneurship skills through interactive and experiential teaching methods (*e.g.* business plan competitions, student virtual start-ups, etc.); mentoring and coaching programmes to help new entrepreneurs or those experiencing fast growth (*e.g.* business incubators, business accelerators, etc.); network initiatives to strengthen the competencies of co-located entrepreneurs through knowledge spillovers (*e.g.* cluster programmes and science parks).

In the second group are programmes for access to finance, including both debt and equity finance (*e.g.* seed funding, start-up grants and loans, programmes to support venture capital and business angels, investment readiness, loan guarantees).

In the third group are measures aimed at the simplification of business regulations (*e.g.* start-up administrative compliance, bankruptcy legislation, etc.); special *pro tempore* taxation and social contribution regimes for new firms (*e.g.* reduced corporate tax rate and tax reporting requirements); competition policy that affects market accessibility for new entrants (*e.g.* antitrust measures, banking legislation); and technology policy that creates opportunities for research commercialisation by new firms.

In the fourth group are policies that target specific groups, such as high-growth firms, innovative small and medium-sized enterprises (SMEs) or SMEs in general. There are also tailored entrepreneurship policies and programmes for traditionally underrepresented groups such as university students, women, ethnic minorities, youth and older people, the unemployed, and specific industry sectors.

Recent policy trends

In an effort to recover from the crisis, governments have given greater attention to improving access to debt and equity finance. For debt finance, a number of OECD countries' credit guarantee programmes have been ramped up during the crisis in terms of size of the guarantee fund, percentage of the loan guaranteed, or number of eligible firms (Chile, Hungary, Korea, Portugal, etc.). New elements have also been added and new programmes started, including counter-cyclical loan programmes for firms faced with liquidity problems owing to the recession (Finland, Italy, the United Kingdom) and start-up loans combining loan guarantees and business advice (Denmark).

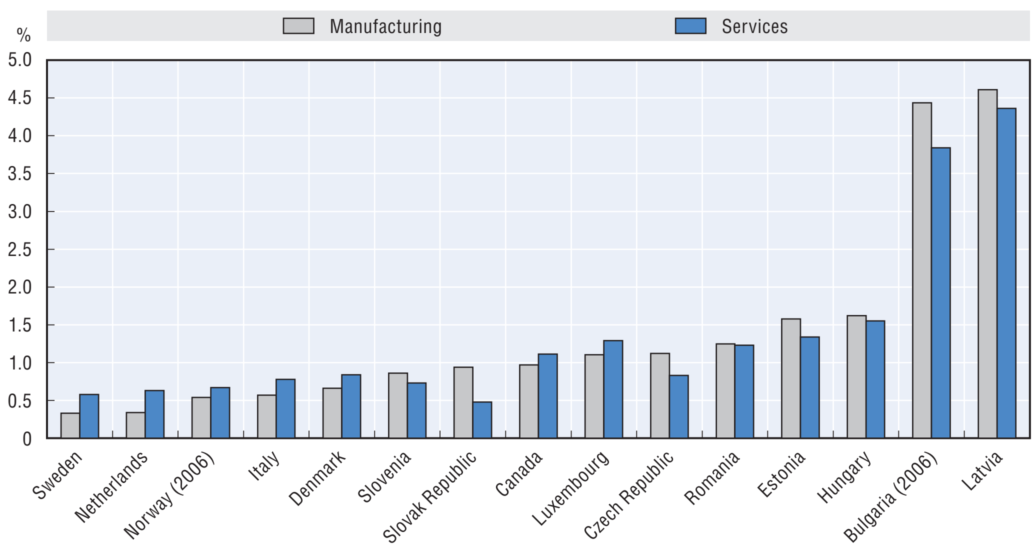
Many countries have also been proactive in stimulating equity financing (Canada, Chile, Denmark, Finland, France, Italy, the Netherlands, New Zealand, Sweden and the United Kingdom). Canada has allocated USD 390 million (CAD 475 million) for the venture capital programme of the National Business Development Bank and removed impediments to foreign venture capital investment. A growing number of countries have measures in place to support angel and venture capital investment, including through the creation of public-private co-investment funds to leverage private investment (the Netherlands, New Zealand, the United Kingdom, etc.).

Governments have also participated in funds of funds investing in local high-technology companies (Mexico, Germany). Through these funds of funds, governments support private venture capital funds, boosting the level of equity funding but leaving investment decisions to the private fund's management. Germany has a national public-private high-technology start-up fund, and at the local level some *Länder* have set up equity guarantee facilities for private investment in local SMEs.

Innovative entrepreneurship has been encouraged in many countries and in many different ways. France has supported cluster development through regional *pôles de compétitivité*; Finland has backed high-growth start-ups through business accelerator programmes in knowledge-intensive sectors such as the life sciences, information and communication technologies (ICTs), and clean technology; Germany has taken a comprehensive approach to university entrepreneurship support through the EXIST scheme, which fosters entrepreneurial culture, start-up grants and technology transfer in higher education institutions. A formal partnership approach has been followed in the Netherlands with Techno-Partner, a programme to bolster new technology-based firms through regional partnerships involving universities of applied science, incubators, experienced entrepreneurs, banks and equity finance.

"Gazelles", young high-growth innovative firms, have been a focus of entrepreneurship policy and have drawn policy makers' attention because of the number of jobs they are estimated to create. In this case, public support has generally been geared towards accelerating their growth and internationalisation. Mexico has a national programme to help gazelles through training, specialised consultancy and support for the commercialisation of products and services in international markets, mainly the United States. Spain has introduced a grant-based scheme for young innovative firms which subsidises R&D-related expenditures such as research staff costs, intellectual property rights, and research facilities. For more mature firms (beyond the start-up stage), the Netherlands offers banks and private equity enterprises a 50% guarantee on newly issued equity or mezzanine loans.

Figure 6.5. **Share of gazelles (turnover definition) by sector, 2007**



Note: Gazelles are firms that have been employers for a period of up to five years, with average annualised growth in employees (or in turnover) greater than 20% a year over a three-year period and with ten or more employees at the beginning of the observation period. The share of gazelles is expressed as a percentage of the population of enterprises with ten or more employees.

Source: OECD (2011), *OECD Entrepreneurship at a Glance*, OECD, Paris.

StatLink http://dx.doi.org/10.1787/888932689997

Policies aimed at framework conditions have been common, too. Mexico has simplified regulations through an online registration process that makes it possible to start a business in less than three days; and France has introduced the new legal status of the *auto-entrepreneur*, a form of self-employment benefiting from a favourable tax regime. Special *pro tempore* fiscal measures for new firms (*e.g.* tax exemptions and tax deferments) have been tested in France, Italy, New Zealand and Sweden.

Finally, specific target programmes for under-represented groups are less common but available in many countries. Youth entrepreneurship has been encouraged in Canada and Spain through dedicated lines of start-up financing. Spain has also devoted a specific programme to women's entrepreneurship. The most outstanding target programme in terms of size is Germany's self-employment scheme for the unemployed, which absorbs 17% of national active labour market policy spending and reaches out to 9% of the country's unemployed.

References and further reading

OECD (2010a), *High-Growth Enterprises: What Governments Can Do to Make a Difference*, OECD, Paris.

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