SUMMARY OF PROCEEDINGS

Re-booting start-up policy in response to the COVID-19 crisis

OECD Webinar – 12 May 2020

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

1. Context and policy options

Jonathan Potter, Head of Entrepreneurship Policy and Analysis Unit, Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), OECD presented some background on entrepreneurship and start-up policy in OECD countries and introduced the objectives of the webinar.

Start-ups are important to renewing the economy. They bring job creation, productivity growth, and the chance to find new solutions to environmental and social challenges. They can also support labour market attachment through the unemployed and inactive starting businesses.

How do we retain these benefits in the face of COVID-19, when we are expecting to see start-ups significantly drop off? What can countries do to support healthy business dynamism and encourage high-quality business creation for recovery?

The OECD CFE is active in the area of entrepreneurship policy analysis – including for example through the SME and entrepreneurship country reviews, local entrepreneurship ecosystem case studies, the "missing entrepreneurs" publications and the current updating of the OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes. In 2021-22 further work is proposed on **benchmarking national entrepreneurial systems and examining regional variations in start-up performance within countries**.

This webinar aimed to explore more specifically the start-up policy response to COVID-19:

1. To what extent do governments need to boost their start-up policies in response to Covid-19?
2. Are the needs likely to vary across countries, e.g. in line with differences in firm exit rates?
3. Should policy shift towards promoting larger start-up numbers or focus more strongly on start-up quality?
4. What measures could be used to help re-start viable SMEs that have been mothballed or closed down as a result of COVID-19?
5. How should this support be implemented and any additional funds be allocated?
6. What are the likely unforeseen impacts of increasing start-up support post COVID-19?

Prof. Mark Hart (Enterprise Research Centre, Aston University, United Kingdom) highlighted the challenges for start-up policy brought about by the COVID-19 crisis.

Data over 20 years from the Global Entrepreneurship Monitor (GEM), a household survey that tracks entrepreneurial activities and intentions, sheds light on the impact of the Global Financial Crisis (GFC) on entrepreneurship, with potential lessons for the situation faced today, despite some obvious differences and uncertainties. Data were presented on the proportions of people who saw a good opportunity for starting a business, intended to start a business and started a business in four countries – the UK, Netherlands, USA and Spain.

In the UK and Spain, the population saw a collapse in the opportunities to start a business, whereas perceptions of good opportunities were flat in the Netherlands and rose slightly in the USA during the GFC. This illustrates the **differences that different countries may experience in the midst of a major shock**.

Intentions to start a business collapsed in the Global Financial Crisis, but bounced back quickly. Over 2007-10, the share of people planning to start a business in the next 3 years dropped, then bounced back sharply in the US and the UK, while it increased slowly in the Netherlands and Spain. The extent to which intentions dropped in the short run may reflect, in part, differences in the extent to which labour market policies secured people's employment. The fall in intentions is **likely to include people who delay the decision to start-up and people who renounce entirely** from their start-up idea. A similar trend, with a temporary fall in entrepreneurial intentions followed by a recovery, could be expected with the current crisis.

Actual start-up rates are highly correlated with intentions to start. Actual start-ups fell sharply but bounced back in the four countries. However, this **recovery was driven by necessity entrepreneurship** – by people who saw no other option but to set up in business to seek an income. The scale of the increase in the share of necessity entrepreneurship varied across countries. The Netherlands and the UK saw a modest increase, while Spain and the US experienced a steeper increase. **This raises the issue of the extent to which start-up policy wishes to support necessity entrepreneurship in response to COVID-19**.

Data on firm dynamics from the OECD DynEmp project also show a **dramatic collapse in start-ups and a surge in firm deaths after 2008** (signalling the start of the GFC period) in the UK, USA, Netherlands, Belgium, Canada, and Finland. **Start-ups that grow and break out of the 1-9 employment size band have a more significant economic impact, but they represented a small proportion of all start-ups in many countries (e.g. UK, France, and Italy)**. Young firms (less than 5 years old) are job creators. They suffered more from GFC but recovered more quickly.

Few data are yet available on the impact of COVID-19 on start-ups. However, the FAME database shows a **70% increase in the number of company dissolutions in March 2020 compared to March 2019 in the UK**, representing an additional 22 000 dissolutions.

A key question for policy is how to restore the start-up rate to a trend level that is consistent with productivity and employment growth – without stimulating an increase in necessity entrepreneurship.

In the current context, policy should focus on maintaining the pipeline of future entrepreneurs and supporting start-ups with growth potential, while keeping necessity entrepreneurship to manageable levels. Support to business model innovation will also be crucial in supporting hibernating businesses seek to re-boot and pivot.

The discussion delved into the differences between the COVID-19 crisis and the GFC, highlighting the role that banks, but also alternative financing channels, can play in supporting start-ups and their survival at the current time. Participants noted the increased need for start-ups to engage with digitalisation in their business models in response to COVID-19. Participants also noted the key role that local actors can play in helping to identify start-ups and small businesses needing policy support and in encouraging them to come forward for available support.

2. Examples of country policy responses

DENMARK – Torsten Andersen (Deputy Director-General, Danish Business Authority, Ministry of Industry, Business and Financial Affairs)

Pre-COVID-19, Denmark's start-up policy focused on becoming a "green start-up nation", as part of the national objective to cut greenhouse gas emissions by 70% by 2030. The share of high-growth enterprises among firms of 10 or more employees (10.8%) was around the European Union (EU) average in 2016. Following the observation than "unicorn" hyper-high-growth firms tended to have less impact on the domestic real economy than could have been expected, Denmark has increased its focus on supporting a broad base of growth-oriented companies.

Initial evidence on the impact of COVID-19 shows that start-ups are concerned about income loss and staff reduction. According to a survey carried out by a Danish Bank (Danske Bank), 81% of start-ups expect income losses and 69% expect layoffs. While start-up rates seem to have been maintained so far, delayed effects are likely to arise in coming months.

Denmark has established a number of general business support schemes during the COVID-19 crisis that start-ups may qualify to use. These include compensation for fixed expenses and salary expenses to prevent redundancy among firms in difficulty, and government guaranteed loans, among other programmes.

Denmark has also introduced financial measures to facilitate access to capital for start-ups in different phases. The measures are operated through the Danish Growth Fund with a budget of DKK 3.4 billion):

- the COVID-19 Start-up Loan, targeted to businesses in the start-up phase;
- the COVID-19 Business Angel Loan, which targets firms that receive an investment from one of the Growth Fund's approved business angels, typically at the pre-seed or seed stage;
- The COVID-19 Syndication loan, which targets start-ups in later phases.

These measures aim to help viable firms to survive by de-risking investments without directly "picking winners" as the products are market-led and involve co-financing.

While it is too early to discuss the aftermath of the crisis, Denmark aims to gradually phase out emergency grant-based support as the economy re-opens. Environmental and social priorities are expected to continue to be at the forefront of future start-up support, which will incentivise "purpose-driven" and green entrepreneurs.

NETHERLANDS – Lucien Vijverberg (Department for Entrepreneurship, Ministry of Economic Affairs and Climate Policy)

Before the COVID-19 crisis erupted, start-up policy in the Netherlands focused on supporting innovative growth-oriented technology-driven start-ups and scale ups across five domains of interventions: (i) access to talent, (ii) access to capital, (iii) access to knowledge and technology, (iv) access to networks and markets and (v) access to government procurement. The Techleap.NL programme acts as an accelerator for the Dutch ecosystem, linking local start-up ecosystems together.

A survey has shown that the COVID-19 crisis has negatively affected 80% of Dutch innovative start-ups and scale-ups. In particular, start-ups are facing difficulty in raising finance and foreseen funding rounds have not been completed. **The survey showed that financial issues are the main concerns of Dutch start-ups and scale-ups.** The most cited concerns were loss/delays of existing or future customers, and difficulties in raising funds.

However, a few start-ups have benefited. **Approximately 10% of Dutch innovative start-ups reported an increase in their turnover.** In addition, approximately **200 health and med-tech companies have started offering an innovative solution** in response to the current crisis.

Start-ups and scale-ups may benefit from general support measures aimed at SMEs in general during the COVID-19 crisis. These notably include support to maintaining employment, financial guarantees for loans and tax deferrals.

Dedicated measures have also been introduced to respond to the specific needs of innovative start-ups and scale-ups. These include two bridge funding schemes: the Corona Bridging Loans (COL) – i.e. convertible loans ranging from EUR 50 000 to EUR 2 million; and the Temporary Bridge Credit for Innovative Startups & Scale-ups (TOPPS) – which provides loans starting at EUR 2 million with a private co-investment required. Other measures include a credit guarantee scheme for alternative lenders, additional early-stage risk capital (co-investment), the extension of the growth facility, and delayed repayment and waived interest for R&D loans. For all measures, ensuring fast access to support is a priority. Non-financial support is also provided through mentoring, webinars and virtual networking opportunities.

The Netherlands foresee the need for continuous monitoring and agile policy-making. Additional support measures for start-ups and scale-ups will be developed to respond to evolving needs.

The discussion touched on structural or medium- and long-term measures being introduced for start-ups. In Denmark and the Netherlands, the initial policy phases are focused on job retention and liquidity support. Subsequent phases will gradually introduce more structural measures, taking into account long-standing long-term goals (e.g. innovation, green transition). Denmark shared additional details on its approach to supporting purpose-driven entrepreneurship with adapted measures, with a view to achieving strategic goals (e.g. the Sustainable Development Goals) and accompanying an existing trend towards supporting impact-driven entrepreneurship.

3. Policy options for long-term recovery

Prof. David Storey (University of Sussex, United Kingdom) shared his vision for a start-up policy response to COVID-19.

He highlighted the importance of setting clear objectives for a revised start-up policy. **Policy makers need to be clear on:**

(i) The goal the policy is trying to achieve: Is it **replacing the businesses that have exited, replacing the exits with "better businesses" or reducing unemployment**? These different objectives lead to different policies.

(ii) The timescale foreseen for its achievement: Is it a **full replacement of the business stock within 12 months or 24 months for example, or a partial replacement with different businesses** over a longer time horizon?

(iii) What will be defined as success: Is it **to maintain the business stock, inject more productive SMEs or ensure a cost effective policy?**

Factors policymakers should consider in goal setting include the number of SMEs that have died, how quick the response is needed (e.g. to address rising unemployment) and whether the focus will be on direct replacement of firms or restructuring the SME sector towards higher productivity firms.

A rebooted start-up policy for the COVID-19 crisis should be part of a phased SME policy response:

- **Phase I: The Saving Strategy**. To increase SME survival (starting March 2020).
- **Phase II: Reviewing the Gaps**. To review change in business stock and policy options for phase III (starting October 2020).
- **Phase III: The Business Creation Strategy**. To financially reward new start-ups but not until they have traded for three full years (starting January 2021).

OECD governments are already in Phase I, focused on SME survival. Phase II will focus on analysing the changes in business stocks and reviewing options for Phase III. Phase III, the Business Creation Strategy itself, should:

- **Provide funding to start-ups after 3 years rather than at start-up**.
- **Encourage better businesses for a different economy**.
- **Avoid picking these better businesses.**

The support could take the form of a financial reward for firms on their fourth, fifth and sixth birthdays. For example GBP 1500 could be awarded for surviving to end of year 3; GBP 2000 to end of year 4; and GBP 2500 to end of year 5. A bonus could be provided to start-ups that hire employees and that provide some other social benefits such as green businesses, social enterprises and businesses started by people from under-represented groups in entrepreneurship. A regional focus could be included to support start-up rates in selected regions. All sectors would be eligible.

This proposal is based on the scientific evidence on start-ups which shows that:

- SMEs are less productive than large enterprises and their productivity distribution contains a long tail of poorer performers.
- COVID-19 provides a productivity "opportunity" since new firms are more productive than those exiting.
- COVID-19 may also change purchasing habits – and hence the type of firm likely to be successful
- Past large-scale programmes providing support on start-up have poor to mixed records.
- Most new firms die early and the performance of survivors is unpredictable.

The implied cost for the UK based on take-up scenarios on the above funding model is estimated at GBP 3 billion (EUR 3.5 billion), which is less than half the amount the UK set aside for Phase I.

The discussion noted the challenge of combining aspirations of fostering a greener, more productive entrepreneurial landscape with the goal of preserving struggling SMEs. It recognised that there is a policy choice between encouraging survival and promoting creative destruction.

Participants also reflected on the advantages and drawbacks of the proposal to award finance to all start-ups surviving more than 3 years. It was noted that policy may wish to target innovative start-ups and to provide early support to help start-ups during the "Valley of Death" phase, and that the amount of finance to any start-up offered appeared too small to have impacts. In response, it was noted that a general start-up policy offering finance at the business creation phase would award money to large numbers of firms that would subsequently fail (a 50% 3-year survival rate is common) and that the finance amounts suggested represented a significant incentive to entrepreneurs given the median turnover and profits of start-ups of this age.

4. Key takeaways

Dr. Jonathan Potter (Head, Entrepreneurship Policy and Analysis Unit, OECD) provided some concluding remarks:

- The GFC brought a **collapse in start-up intentions and levels.** There is early evidence that this is now happening with COVID-19.

- From past evidence, the start-up rate can be expected to pick up again within 2-3 years but to contain a **higher share of necessity entrepreneurs.** The latter may not be the desired outcome.
- It is important to **maintain the pipeline of people who wish to start up**, including those who are now postponing their start-up decisions.
- Many small businesses have gone into hibernation. **Restarting hibernating enterprises may require a new type of start-up support**, focused on "rebooting" (restarting from hibernation) and "pivoting" (refocusing the business on new consumer preferences and new business models, including increased digitalisation).
- Governments need to be clear about **the extent to which they wish to rapidly restore the pre-crisis numbers and types of small businesses and prevent unemployment, or seek a longer-term strategy to inject fewer, more productive SMEs**.
- **One option** for start-up policy would be to **support innovative start-ups and scale-ups with a range of financial measures such as start-up loans**. **Advice and mentoring could also be offered**, although attention has to be paid to cost effectiveness. **Another option is Storey's vision of a blanket financial award for surviving start-ups coming into operation 3 years after start up**.
- **Intelligence is needed to guide the policy response** on i) the **numbers and types of small businesses that are exiting** the economy by region, sector, size and so on; and ii) the **number of COVID-19 hibernators** and restarters (i.e. the number of formerly viable firms that closed during the crisis and could potentially restart or decide practice to restart) and **entrepreneurs in the pipeline** as well as their sectors, locations and needs.
- **Appropriate interventions and delivery channels should be introduced to restore the small business stock**, particularly where small business closures have been the most important by region, sector, etc. This can include supporting stronger hibernating firms and entrepreneurs to re-start.
- However the measures should not necessarily seek to use start-up policy to replace the former small business stock with the same numbers of firms and the same products and technologies, i.e. favouring the retention of the lowest productivity and weakest firms prior to the crisis. Instead, **the opportunity can be taken to use start-up policy to favour higher productivity start-ups and start-ups that meet environmental and social objectives**.

What's next?

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

- 26 May 2020: **Supporting young entrepreneurs before and after the COVID-19 crisis**. Register
- 9 June 2020: **Women enterprise policy and COVID-19**. Register

Related webinars are planned on:

- 2 June 2020: **Mobilising public guarantees for the SME policy response to COVID-19**.
- 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 entrepreneurship, including the SME and entrepreneurship policy country reviews, a series of case studies on local entrepreneurship ecosystems, and 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. Learn more. Further work is envisaged in 2021-22 on **international benchmarking of selected national entrepreneurship systems** and **the spatial dimension of entrepreneurship performance** across regions. It is also proposed to continue work on evaluation of SME and entrepreneurship policy is also continue, with an updated OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes, and the development of a repository of evaluations of impacts of COVID-19 policy measures.

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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