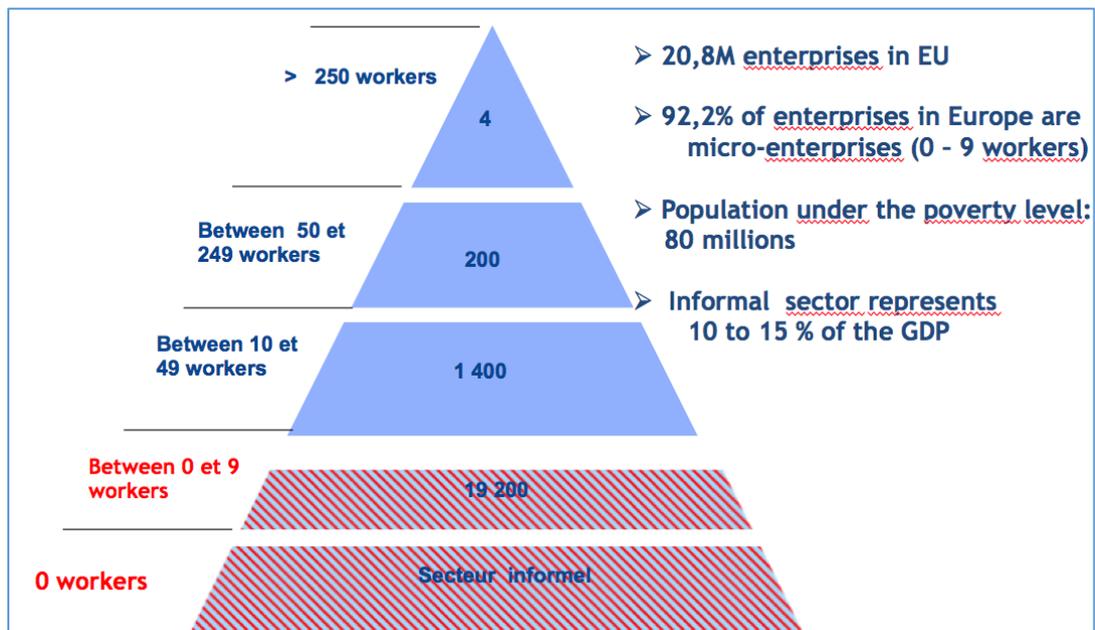


# EMN/MFC note on inclusive entrepreneurship

## Why inclusive entrepreneurship for growth?

Contrary to conventional wisdom, the vast majority of enterprises in Europe, or 92% of the total number of enterprises, are microenterprises with less than ten employees (see graph).



The setting up of microenterprises has become more attractive for a wider strata of population than before. This is supported by the ongoing evolution of the European economy, which is based on four principal trends:

- Expansion of the digital economy
- Deindustrialisation and development of services
- Ageing of the population
- Immigration

All these trends favour the creation of small production and services units. Even with their small individual size, these enterprises provide a growing part of employment in European countries, although it is not yet fully understood how self-employment contributes to net job creation in economies with high levels of unemployment<sup>1</sup>. They also are seen as a driver for innovation and regeneration in the enterprise population and inclusive growth, which is a pillar of the Europe 2020 strategy. Nevertheless, it is important to understand that self-employment and creation of small businesses does not per se mean high impact growth-oriented entrepreneurship: many micro- and small businesses are of the subsistence type started as a response to the lack of jobs, and not in pursuit of opportunities. To make use of the full potential for entrepreneurship and the creation of the next generation of growth oriented businesses throughout the European Union, the access to entrepreneurial activity needs to be as inclusive as possible. This is discussed by OECD and the European

<sup>1</sup> See MFC (2016): Of mice and unemployed: Rethinking micro-enterprise and small business policies in the EU, Warsaw.

Commission some time now under the term **inclusive entrepreneurship** (see box for definition).

**Inclusive entrepreneurship** involves business start-up and self-employment activities that contribute to social inclusion as well as to economic growth, covering entrepreneurship activities by those who are disadvantaged and under-represented in entrepreneurship and self-employment, including youth, women, seniors, ethnic minorities and immigrants, disabled people and many other groups

Based on several recent studies<sup>2</sup> it can be stated that **national frameworks for entrepreneurship** in the EU member states are not yet as inclusive as they need to be for fostering inclusive growth via business creation.

Such national frameworks consist of three pillars:

- An **activating and efficient institutional framework** for self-employment and micro-enterprises,
- **Flexible social security and health service arrangements** to allow more fluid transitions between inactivity, employment and self-employment
- Availability of **high quality training, mentoring and business development service (BDS)** to increase the chances of success of new micro-enterprises

## Microfinance and inclusive entrepreneurship

Additionally, the access to suitable finance is another important factor in providing inclusive ways into self-employment and entrepreneurship. Supply only serves a small part of this demand, which itself is underestimated, inasmuch as, according to the last study of the European Microfinance Network, the number of microloans provided in 2013 was on the order of 387,812 for a total amount of €1.52 bn. The number of microloans has increased by over 400% since 2009 and the amount has more than doubled. Close to 79% of the loans provided in 2013 went to an income-generating activity.

This rapid growth of microcredit is confirmed by the report of the Commission for the establishment of PROGRESS and the ex ante assessment for the microfinance strand under the EaSI programme<sup>3</sup>. Conducted by evers & jung, this assessment establishes the size of the unsatisfied demand and advocates the development of microcredit. Updating the European Commission's estimate in the Initiative for the Development of Microcredit (2007) yields a potential demand of 1.2 M microloans for EU-28 in 2012, for a total amount of €8.6 bn.

But Microcredit Providers can only do their job properly if the national frameworks for inclusive entrepreneurship are in place and working. Therefore, the networks of the European Microfinance sector are asking the European Commission to become more active in supporting the evolution of national frameworks for inclusive entrepreneurship. This activity can be based on existing initiatives.

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<sup>2</sup> E.g. the "missing entrepreneurs" series of annual reports by OECD (in cooperation with DG Employment), see <http://www.oecd.org/cfe/leed/inclusive-entrepreneurship.htm> for further analysis

<sup>3</sup> <http://ec.europa.eu/social/BlobServlet?docId=12485>

## Initiatives already undertaken

In the 2007 communication of the Commission about a European initiative for the development of micro-credit some main proposals for the improvement of the three pillars of national frameworks for inclusive entrepreneurship were already developed, but not much appears to have been done in order to implement them:

### 1. Improving the institutional framework

- More open attitudes toward entrepreneurship: Programmes of publicity and consciousness-raising in schools, universities and employment agencies, aimed at public opinion in general.
- Cutting red tape: Active measures to lower legal, tax and administrative barriers, such as exemption from social insurance charges for start-ups, simplified registration procedures for new micro-enterprises and access to more numerous and less expensive outlets (e.g. the introduction of the legal status of “Auto Entrepreneur” in France, which helped to simplify administrative procedures and to reduce social and fiscal contributions as well as accounting obligations for small-scale entrepreneurs).

### 2. Developing solutions for more fluid transitions between inactivity, employment and self-employment

- Bridging mechanisms for persons becoming self-employed: arrangements to maintain temporary public income support and health service during the transition phase from inactivity or employment into self-employment and social security provisions in case of failure. This includes flexible arrangements for part-time self-employed persons. (e.g. the Startup Subsidy in Germany or the reform of the Swedish social insurance system to improve welfare entitlements for self-employed workers).
- Better entrepreneurship support for inactive persons: Specific training for welfare and employment agency officials on the different aspects of enterprise creation and self-employment issues so as to make them competent to advise potential candidates.

### 3. Increasing the chances of success of new micro-enterprises through training, mentoring and business development services (BDS)

- Improving supply of BDS: Increase public and volunteer support for business development services towards microenterprises.
- Widening the use of ESIF resources for BDS support: More deployment of resources from ERDF, ESF (European Social Fund) and EARDF (European Agricultural Regional Development Fund) to promote training and mentoring for entrepreneurship, innovation and business start-ups

The three pillars of the **Entrepreneurship 2020 Action Plan of DG Growth** can also be used as a good starting point for more specific activities towards more inclusive entrepreneurship frameworks in the Member States:

- Role models and reaching out to specific groups
- Entrepreneurial education and training to support growth and business creation
- Create an Environment where Entrepreneurs can flourish and grow

The key policy recommendations from the OECD/DG Employment project: “The Missing Entrepreneurs”<sup>4</sup> also give already a good perspective on what needs to be done in this area:

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<sup>4</sup> See OECD (2013): The Missing Entrepreneurs – Policies for Inclusive Entrepreneurship in Europe

- The burden and complexity of **business regulation** should be reduced at all stages of enterprise development and particularly for micro firms, and opportunities for e-government pursued
- **Social security systems** should be redesigned to ensure that entrepreneurship and self-employment is viable enough for people in disadvantaged and under-represented groups, who may otherwise lose out on certain entitlements. Family policies should encourage dual earners and childcare services.
- **Anti-discrimination policies** should cover issues arising with entrepreneurship and self-employment and qualifications of immigrants should be better recognized
- **Entrepreneurship teaching** should be offered at all levels of formal education and some targeted initiatives introduced for older people from target groups.
- **Information** on the benefits, challenges and opportunities of entrepreneurship and self-employment should be channeled to disadvantaged and under-represented groups, including role models from their own communities.

### What can be done at EU level?

The Commission could establish a basic set of common objectives, and invite Member States to undertake a programme of reforms, aimed at improving the conditions for inclusive entrepreneurship, taking account of national circumstances and priorities. In view of the inclusive growth goal in the Europe 2020 strategy and this set of common objectives, Member States should be encouraged within the context of their National Reform Programmes to take on board those actions necessary to promote a more favorable environment for inclusive entrepreneurship which falls within the national institutional, legal and commercial frameworks. The Commission could also help the Member States by indicating quantitative targets for inclusive entrepreneurship and by compiling an inventory of good regulatory practices.