



Guidance Note: Building a Supportive Regulatory Environment for Inclusive Entrepreneurship

Overview

This note describes the steps that policy makers can take to ensure that the regulatory environment does not create unnecessary challenges or disincentives for entrepreneurs starting a business from unemployment. The policy guidance is structured around the good practice statements that comprise the “Building a Supportive Regulatory Environment for Inclusive Entrepreneurship” module in the Inclusive Entrepreneurship component of the Better Entrepreneurship Policy Tool. For further discussion of these issues and additional examples of relevant policy actions, please see:

*OECD/European Union (2017), *The Missing Entrepreneurs 2017: Policies for Inclusive Entrepreneurship*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264283602-en> [1]*

*OECD/European Union (2016), *Inclusive Business Creation: Good Practice Compendium*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264251496-en> [2]*

*OECD/European Union (2015), *The Missing Entrepreneurs 2015: Policies for Self-employment and Entrepreneurship*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264226418-en> [3]*

*OECD/The European Commission (2014), *The Missing Entrepreneurs 2014: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264213593-en> [4]*

*OECD/The European Commission (2013), *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264188167-en> [5]*

3.1. Business start-up regulations and procedures do not pose undue difficulties for the unemployed aspiring to enter entrepreneurship.

Business start-up regulations and procedures can be a significant obstacle to business start-up for many entrepreneurs, especially those from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed). These groups often have low levels of entrepreneurship skills and little experience with regulations and institutions related to business start-up. Policy makers have been simplifying processes and reducing capital requirements in recent years, but more can be done. To ensure that business start-up regulations and procedures do not pose undue difficulties for the unemployed, policy makers should undertake a regulatory impact assessment in consultation with organisations that support unemployed people and other relevant stakeholders such as public employment services.

Administrative regulations and procedures related to business creation can pose challenges for all entrepreneurs. However, entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) may face greater barriers in understanding and complying with start-up regulations and procedures due to limited experience with regulatory procedures and institutions, and lower levels of entrepreneurship skills. Such barriers can discourage business start-up, especially where the costs and time involved to register a business or to become self-employed are high. Barriers and challenges may also encourage some to operate in the informal sector.

Policy makers have been simplifying business start-up requirements and procedures, notably by:

- Simplifying business registration process through inter-agency co-operation and e-Services;
- Removing minimal capital requirements; and
- Reducing the statistical monitoring burden on start-ups.

It is important for policy makers to continue with these efforts as entrepreneurs from under-represented and disadvantaged groups are disproportionately affected by these requirements.

To go further, policy makers should consider additional options for simplifying administrative requirements during business start-up. First, they can reform existing burdensome regulation. Second, they can minimise the burden introduced by new regulations, through the use of tools such as the Regulatory Impact Assessment.

Another issue for policy makers is to minimise indirect barriers to business creation, such as licensing, certification and permit requirements, which also add time and complexity to the start-up process.

An effective provision of information on business creation and self-employment that caters to specific target groups is also an important tool for supporting entrepreneurs from under-represented and disadvantaged groups in business creation. Information should be clear and presented in easy-to-understand language. Where there are many migrant entrepreneurs, information should also be provided in several languages. Consideration should also be given to the format (e.g. brochure, online) since different groups will access information differently. Information must be disseminated through channels used by the intended target groups.

A more active approach to addressing undue administrative burdens during the start-up process is to provide individual assistance (e.g. coaching) to guide entrepreneurs from under-represented and disadvantaged groups through the start-up process. Although a resource intensive approach, it can be effective. Another option could be to provide one-shot advice and support with business start-up procedures over the phone, through email or at a help desk at an appropriate location.

Policy makers may find it useful to set out a strategy for addressing administrative burdens related to business creation and self-employment. There are a few aspects to consider:

- *Targeting simplification efforts:* This involves specifying the targets of reform (e.g. 20 percent reduction in the cost of registering a private limited company) and target groups to benefit from it (e.g. unemployed youth).
- *Institutional design:* Different government departments and outside stakeholders may share responsibilities for designing, implementing and measuring entrepreneurship strategy outcomes. It is important to create central units to ensure co-ordination and long term commitment to the administrative

simplification strategy.

- *Tools to develop and implement the strategy:* A number of tools can be used in isolation, or in combination, to develop and implement the strategy, including: better regulation, organisational improvements, ICT implementation, better information and enhanced coherence among administrative requests. Not all of them may be applicable to particular administrative contexts.

In assisting the unemployed to understand and comply with business start-up regulatory obligations, policy makers should:

- Undertake a regulatory impact assessment in consultation with organisations and other relevant stakeholders that support unemployed people, e.g. public employment services, trade unions, labour organisations.
- Consider how business start-up regulations and procedures impact the types of businesses started and operated by the unemployed.
- Ensure that information on business start-up procedures and requirements is easily accessible online.

3.2. Tailored information on business creation is available and accessible for different profiles of the unemployed.

The provision of tailored information on business creation and self-employment can facilitate business creation by groups that are under-represented and disadvantaged in entrepreneurship (e.g. women, youth, immigrants, the unemployed) since it can address their specific needs. In developing tailored information for the unemployed, it is important to ensure that the information is written in easy-to-understand language and presented in an accessible way.

The provision of tailored information on business creation and self-employment has two purposes. First, it can raise awareness about the potential of entrepreneurship as a career or part-time activity. Second, it can help people from groups that are under-represented or disadvantaged in entrepreneurship (e.g. women, youth, immigrants, the unemployed) in the start-up process by explaining requirements and offering basic advice on meeting obligations.

Potential entrepreneurs from under-represented and disadvantaged groups face varied obstacles and circumstances, which should be taken into account when designing and delivering information on business creation and self-employment for them. The business start-up process can itself be a challenge for many of these entrepreneurs since they have little experience with entrepreneurship. In addition, they are also likely unaware of the range of support services that are offered to help them start their business (e.g. information portals, business advice, training).

The provision of tailored information can facilitate business creation by these groups. The information provision is likely to be more effective if it is tailored and there are three important considerations when developing information products to support inclusive entrepreneurship:

1. *Format.* Not everyone has easy access to the internet, or is aware of the existence of online information services. Alternative formats, such as leaflets in job centres and career centres, may be more effective in raising awareness, sign-posting and informing some groups of potential entrepreneurs.
2. *Content.* Policy makers must balance the need to provide detail with simplicity. Too much detail, complex language, use of jargon, and poor presentation of the material can make the information inaccessible and discourage business creation.
3. *Delivery.* The delivery of information on business creation can take several forms. It can be provided

through mainstream delivery mechanisms or through specialised agencies, depending on the size of the target group. Policy makers should promote entrepreneurship through channels and mediums that are relevant to the identified target group, e.g. community organisations, interest groups, newspapers, online platforms, magazines, etc.

Information about business creation is increasingly delivered through the Internet. A range of online platforms provide a “one-stop”, also known as a “first-stop”, facility for potential entrepreneurs to access information on issues such as marketing, operations, business registration, tax compliance and sources of finance. The advantage of this approach is that information can be disseminated widely at a very low cost. It is beneficial for entrepreneurs because the information is usually very easy to access. Furthermore, online information and tailored support materials can help people from some target groups overcome difficulties associated with physical access to business support centres.

In developing tailored information on business creation for the unemployed, policy makers should:

- Disseminate easy-to-understand information on business start-up through organisations that support unemployed people, including public employment services, trade unions, labour organisations, career centres, training centres, chambers of commerce and relevant non-governmental organisations.
- Ensure information is relevant for different profiles of the unemployed, e.g. long-term unemployed, recent graduates.
- Ensure that information is written in a jargon-free language and presented in an accessible way.
- Consider how different profiles of the unemployed access information, e.g. long-term unemployed, recent graduates.
- Include information that is pertinent for different types of business activity, including part-time businesses and social enterprises, and a range of sectors.

3.3. Social security systems contain incentives for entrepreneurship among the unemployed.

Social security systems can offer both incentives and disincentives for entrepreneurship. Unemployed people can be encouraged to start a business by taxation policies that incentivise labour market activities, such as entrepreneurship. It is critical that the unemployment benefit schemes and social welfare policies do not contain disincentives for business creation. Welfare bridge schemes can be an important policy tool for helping unemployed people move into work through business creation.

Social security systems are comprised of schemes such as unemployment insurance, health insurance, sickness benefits and pension schemes. Entrepreneurs' access to social security schemes often differs from this of employees. In order to remove disincentives for business creation, public policy needs to ensure that there is appropriate coverage of social security for the self-employed. This is particularly important for entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) who are more likely to be beneficiaries of these schemes. They may lose access to some of their benefits if they start a business, or may be significantly disadvantaged without a safety net in the event of injury, long-term ill-health or business closure.

Depending on the national context, the self-employed may be entitled to contribution-based benefits, such as State Pension and Maternity Allowance, yet ineligible for other benefits enjoyed by employees. Self-employed people are also less likely than employees to be saving in a private pension scheme. To be entitled to the same protection as employees, there needs to be a commensurate adjustment in the contributions made by the self-employed to various social security schemes. In countries where the self-employed are not covered by social security, they do not make the same contributions as employees.

Improving access to social security schemes for the self-employed would help create a level playing field between the self-employed and employees, removing some of the disincentives for entrepreneurship. To explore options for improving access to social security for the self-employed, policy makers should consult with relevant stakeholders from under-represented and disadvantaged groups to gain an understanding of the advantages and disadvantages of current social security schemes. Similarly, any proposed change should be vetted with stakeholders to ensure that there are no unintended consequences.

One of the most common approaches to offering incentives for entrepreneurship is the use of a “welfare bridge”, which is the payment of future benefit entitlements in the form of a small subsistence allowance during the early stages of being an entrepreneur. Often this allowance is paid for six months. In many cases a one-time grant is also provided to support business creation. Bridging schemes are typically supplemented by additional support services, for instance training, mentoring and start-up loans or grants. Examples of welfare bridge schemes aimed at supporting and promoting entrepreneurship among the unemployed include the New Start-Up Subsidy in Germany or the Start-up Grant in Finland.

Case study: New Start-Up Subsidy, Germany

The *New Start-Up Subsidy* is a national welfare bridge scheme which supports the unemployed in business creation. The scheme offers financial support to unemployed people in creating a business as an alternative to more traditional ways of working. The allowance covers basic costs of living and social security contributions during the initial stages of start-up to increase the chances of new venture survival.

[Tell me more \[6\]](#)

Case study: Start-Up Grant, Finland

The Start-Up Grant is a welfare bridge scheme which supports business creation among unemployed people and those in employment, studies or domestic work wishing to move into self-employment. The Grant is an example of a welfare bridge scheme that provides potential entrepreneurs with secure income during start-up and initial business development. This publicly-funded scheme started in 1984 and has been ongoing with annual budget of approximately EUR 38 million in recent years.

[Tell me more \[7\]](#)

Some evidence suggests that these schemes have been successful and the start-up survival rates of those in receipt of support are similar to survival rates of those without the support. Yet, it has also been pointed out that policy makers must consider the programme costs, deadweight costs and displacement costs when measuring the effectiveness and efficiency of such schemes.

Another mechanism for providing incentives for business creation is a temporary reduction in social security contributions. Often these mechanisms are done for two years. It is good practice to phase out the reduction rather than ending it abruptly as entrepreneurs will need some time to adjust to the increased charges.

To provide incentives for business creation to the unemployed through the social security system, policy makers should:

- Ensure that unemployed people are eligible for any temporary measures that provide an incentive for business creation, e.g. a temporary reduction in social security contributions.
- Ensure that unemployment benefits do not act as a disincentive to entrepreneurship, i.e. generous benefit systems can create a high opportunity cost to business creation.
- Use welfare bridge mechanisms to support the transition into self-employment.

- Assess the extent to which other social welfare benefits are reduced or eliminated when income is earned in self-employment, e.g. housing benefits, disability benefits.

3.4. Monitoring and evaluation are used to assess problems in the regulatory environment for entrepreneurship among the unemployed.

Monitoring and evaluation are an important part of the policy development process. These activities are often contracted out to leverage specialised knowledge and to maintain the impression of impartiality. When evaluating measures and initiatives that seek to minimise the impact of regulations on business creation by the unemployed, policy makers examine how unemployment and social security benefits offer incentives or disincentives for different profiles of the unemployed, e.g. long-term unemployed, recent graduates.

Monitoring and evaluation are important policy development tools that can be used by policy makers to understand and assess problems in the regulatory environment for inclusive entrepreneurship. Policy makers should want to understand how the regulatory system influences the decision to start a business and become self-employed, as well as the impact of regulatory measures that seek to create incentives for business creation. An important feature of evaluation of regulatory measures in the context of inclusive entrepreneurship is to track impact on different groups.

Basic monitoring is done with key performance indicators (KPIs) by programme or project managers. KPIs measure progress of a policy or project against the objectives and targets. Indicators can be grouped into three main types:

1. *Impact* (i.e. changes in the problem or other outcomes of concern);
2. *Cost-effectiveness* (i.e. costs for a given level of impact); and
3. *Net Benefits* (i.e. all beneficial impacts minus all costly impacts).

Mid-term and *ex-post* evaluations can help identify the ways in which a policy can be improved or developed to increase its impact. These evaluations are typically undertaken by external experts to ensure independence and objectivity. Such evaluations should be built into the policy design process from the outset. Furthermore, the lessons learned from evaluations should be available and accessible to other policy makers in order to share good practice.

Effective policy evaluation should include several features. It should be systematic and analytical, focused on actual effects and provide judgement of the level of success. Moreover, they should aim to improve decision making, help resource allocation, enhance accountability, and bring about organisational learning. Six principles for sound evaluation practices can be highlighted:

1. Evaluation should lead to policy change;
2. Evaluation should be part of the policy debate;
3. Evaluators should be “in at the start”;
4. Evaluation techniques should always use the most appropriate methodology;
5. Evaluation should apply to all policies and programmes; and
6. International comparisons should be made where necessary.

The process of policy evaluation may vary, depending on the circumstances. Some government departments

and organisations have a dedicated unit with responsibility for evaluating policies, while others may commission evaluations in-house or from outside organisations, as required. Although best practice principles exist, the context of the policy and the target audience requires particular attention against these broader best practice guidelines.

Policy makers can use various tools to monitor and measure the extent to which administrative regulation and procedures impact on business creation. To start with, the World Bank Group's Doing Business reports provide estimates of the number of legal procedures for starting a business, and time and cost involved, across countries. These indicators can be used by decision makers to assess their particular context in comparison with other countries.¹

Regular monitoring of social security schemes should be undertaken to ensure that the target groups of Regular monitoring of social security schemes should be undertaken to ensure that entrepreneurs are not treated less favourably by social protection schemes than employees. An appropriate mechanism for monitoring should involve consultations with representative organisations of employers, workers, businesses, representatives from under-represented and disadvantaged groups of entrepreneurs and other relevant stakeholders, including ministries and departments responsible for designing and implementing social security schemes. The monitoring should comprise a number of elements, including:

- Regular national consultations to assess progress and discuss policies for the extension of social security.
- Regular collection, compilation, analysis and publication of social security data, statistics and indicators, disaggregated, in particular, by gender, age, employment status (i.e. employees, self-employed, unemployed).
- Specification of definitions and methodology used in the production of social security data, statistics and indicators.
- Establishment of a legal framework to secure and protect private individual information contained in the social security data systems.
- International exchange of information, experiences and expertise on social security strategies, policies and practices.

When monitoring and evaluating the impact of measures and initiatives that seek to reduce the regulatory burden on the unemployed who aspire to create a business, it is important for policy makers to:

- Assess the extent to which unemployment and social security benefit systems offer incentives and disincentives for business creation for different profiles of the unemployed, e.g. long-term unemployed, recent graduates.
- Consider the regulatory impact on the types of businesses that unemployed people create, e.g. sector, activity, location, etc.

Collect key performance indicators by age and gender.

¹The World Bank Group's 'Doing Business: Measuring Business Regulations' website presents measures of legal procedures for starting a business and time and costs involved in 190 countries. Available at: www.doingbusiness.org/data/exploreeconomies/united-kingdom/starting-a-business [8].

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- [1] <http://dx.doi.org/10.1787/9789264283602-en>
- [2] <http://dx.doi.org/10.1787/9789264251496-en>
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[5] <http://dx.doi.org/10.1787/9789264188167-en>

[6] <https://betterentrepreneurship.eu/en/node/907>

[7] <https://betterentrepreneurship.eu/en/node/901>

[8]

file:///C:/Users/Yaniko.Smith/AppData/Local/Temp/Temp2_GNs%20Unemployed.zip/www.doingbusiness.org/data/exploration/starting-a-business