

How governments can ease the entry of ‘recovery entrepreneurs’



The focus of Covid-19 economic responses so far has been on [assisting existing businesses](#) and their employees with weathering the crisis. In particular, the priority of governments has rightly been on [saving existing jobs](#). Little is done yet to help new companies and employment opportunities emerge. Yet we know from Joseph Schumpeter that crises are a period of [creative destruction](#), where new ideas and ways of doing things come to the fore.

This blog is about the new “recovery” entrepreneurs and how governments can ease their entry into business. The timing does not seem propitious yet. In France, the number of newly incorporated companies [collapsed](#) by 42% in April 2020 compared to March 2020, after a drop of 30% in March 2020 compared to February 2020. In Spain, the number of newly created companies [fell](#) by 28% in March 2020, compared to last year’s. With the gradual relaxation of lockdown rules, however, opportunities are sure to open up soon.

Some of the new opportunities are just a different – more technological – way to do the same business. For example, firms have invested in digital applications. Workers have learned how to use remote databases and reach their customers over social media. The office has become virtual and may remain so post-Covid-19 in some sectors of the economy. There is also the possibility that entirely new sectors may emerge after the crisis, or that new competitors may take market share from established firms in other sectors. Helping these transitions is one of politicians’ next tasks.

Several European countries are moving in this direction. Portugal, for example, has established a [program](#) that supports startups with less than five years of business activity, through the contracting of incubation services with an incentive of EUR 1,500. Austria has set up a [Covid-19 Startup Relief Fund](#) – which will support innovative Austrian start-ups, founded less than five years ago, by way of financing and subsidies. The United Kingdom has created the [Coronavirus Future Fund](#) for start-ups – which is available for companies that were incorporated before 2020 and raised at least GBP 250,000 in equity investment in the last 5 years.

In the upcoming months, access to finance will remain a major concern for entrepreneurs willing to launch a new business. Most of the government support programs target existing firms incorporated before the Covid-19 pandemic. Eligibility conditions tend to be restrictive – for instance, imposing a minimum number of years of operations. Moving forward, more financial support might be required for the new “recovery” entrepreneurs.

In addition, in the Covid-19 context, it would help new entrepreneurs to have a simple and electronic process to start and operate a company. In that regard, the [directive 2019/1151](#) – amendment of directive (EU) 2017/1132 as regards the use of digital tools and processes in company law – has to be implemented in all European countries as soon as possible. It provides for a single online procedure for business incorporation that takes less than five working days from start to finish. The Covid-19 crisis is an opportunity to accelerate its implementation. Also, digital solutions should encompass all subsequent requirements faced by new entrepreneurs – including tax registration, VAT registration, employer or employee registration, etc. – that can create considerable delays and frustration for new businesses.

When Schumpeter was contemplating his creative destruction theory, he probably did not have in mind a global pandemic that puts a temporary stop on many economic activities. Also, he likely did not envisage the uncertainty that will remain in some sectors over the recovery of demand. That recovery may take years to reach previous levels on consumer activity. Still, his theory may prove right in the post-Covid-19 period. Governments can ease its path.



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