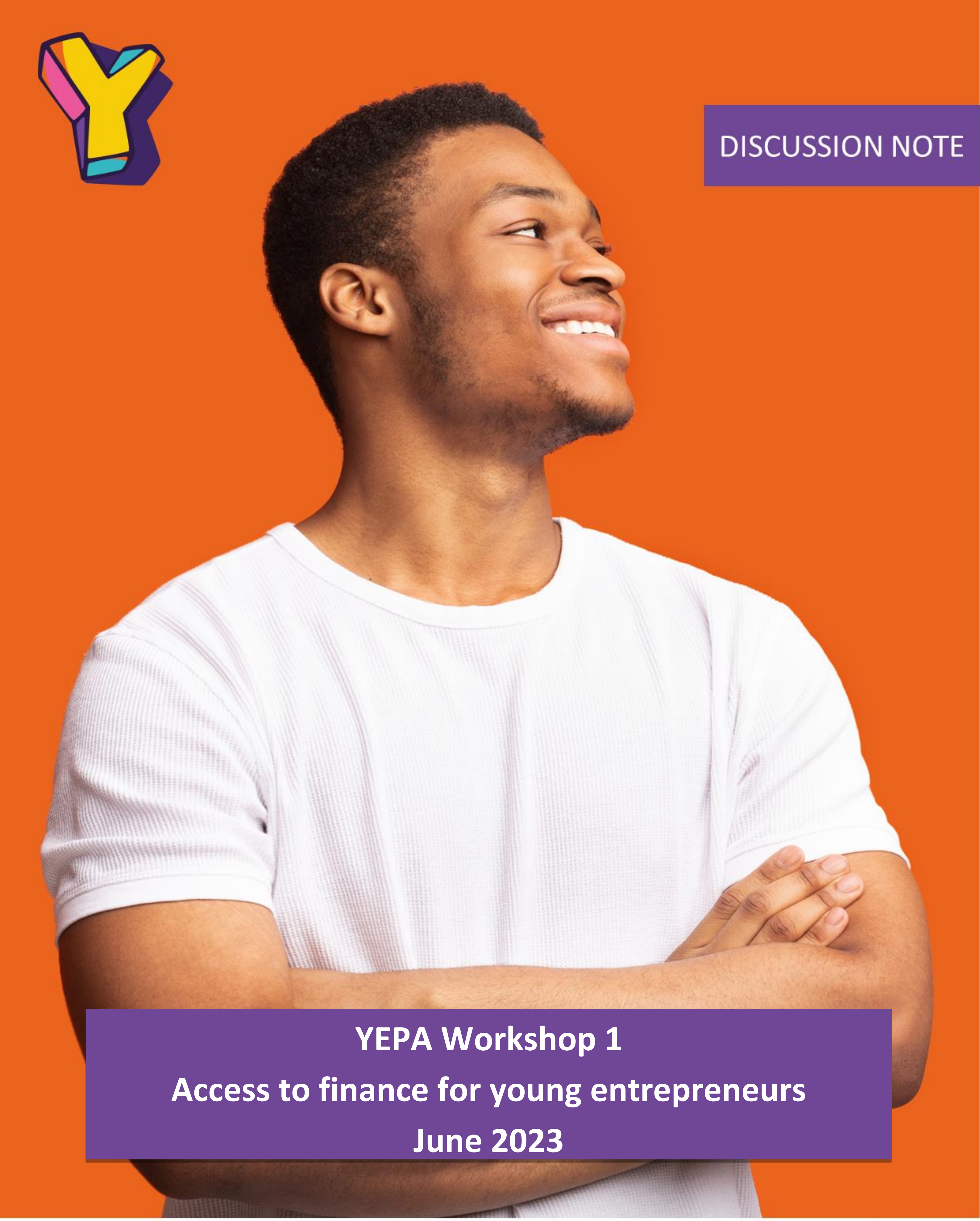


DISCUSSION NOTE

YEPA Workshop 1

Access to finance for young entrepreneurs

June 2023

OECD

European Commission

Access to finance for young entrepreneurs

Who are young entrepreneurs and what do they do?

Surveys often show that young people have a high level of interest in entrepreneurship and self-employment. For example, a new Flash Eurobarometer survey shows that 39% of youth (15-30 years old) in the EU would prefer self-employment to working as an employee and 46% would consider setting up a business. This is consistent with many other surveys, such as the GUESSS survey of nearly 300 000 university students across 58 countries which shows that half of students plan to be an entrepreneur during their studies or within five years of graduation.

There is no strict age definition for "youth entrepreneurship" used across countries. Many policies and programmes in the EU define "youth" as 15-29 years old because this is the age group used by many EU-level policies and initiatives, including the Youth Guarantee and the Youth Employment Initiative. However, the age definition of "youth" varies across countries and programmes. For example, Enisa (Spain) offers dedicated financing to young entrepreneurs (under 41 years old) and Futurpreneur Canada supports young entrepreneurs aged 18-39 years old.

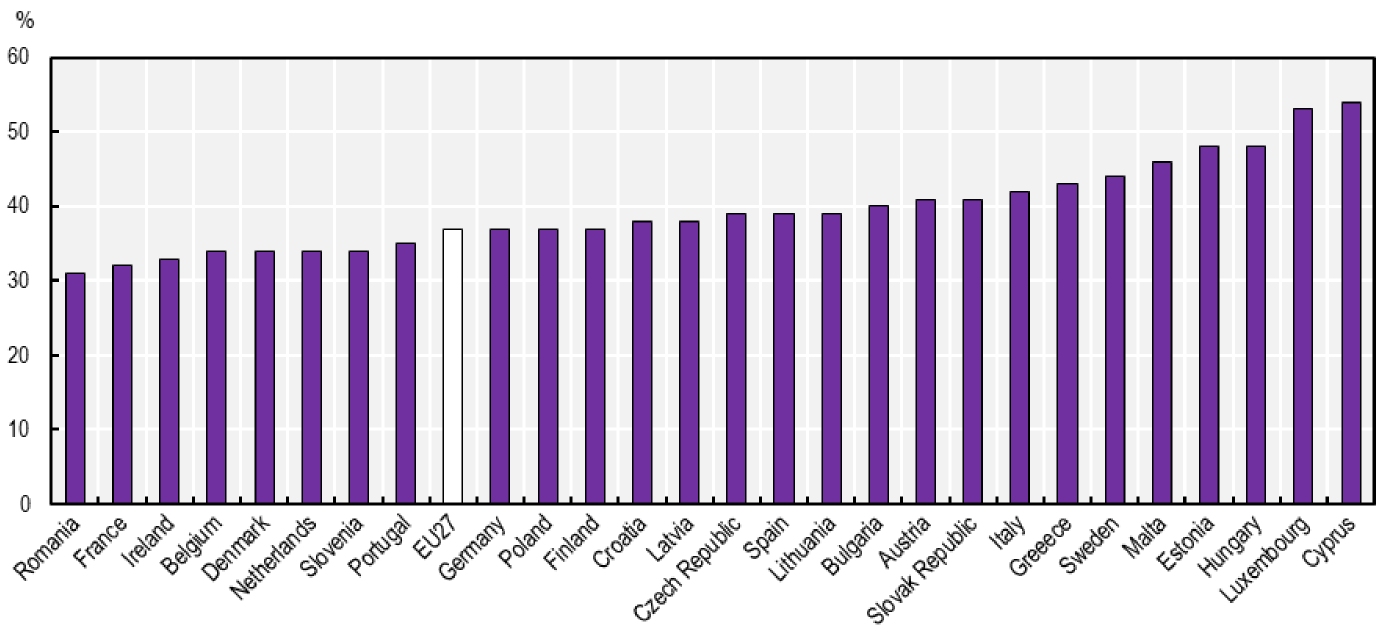
Statistics produced based on Labour Force Surveys have traditionally used 15-24 years old to define youth but the new Youth statistics portal by Eurostat uses 15-29 years old. However, the OECD-EU inclusive entrepreneurship project often uses the age grouping 20-29 years old because many active labour market measures and programmes aimed at young entrepreneurs do not target school-aged children (recognising that education policy increasingly covers entrepreneurship as part of formal education, even for very young children).

Why is access to finance for young entrepreneurs a priority policy issue?

One of the most frequently identified challenges for entrepreneurs, regardless of the scale or sector, is securing sufficient financing to launch their project. A recent Flash Eurobarometer survey asked young people (15-30 years old) about the barriers faced to self-employment. The most common response was a lack of capital and resources, cited by nearly 40% of respondents overall (Figure 1). This is consistent with earlier surveys and research.

This challenge has grown since the COVID-19 crisis as many entrepreneurs have faced liquidity challenges and financial markets are getting tighter. The European Central Bank's Euro Area Bank Lending Survey found that banks continued to substantially tighten credit standards for loans or credit lines to enterprises in 2023 Q1. The pace of net tightening reached the highest level since the sovereign debt crisis in 2011. Firms' net demand for loans fell strongly in 2023 Q1. The decline in net demand was stronger than expected by banks in the previous quarter and the strongest since the global financial crisis.

Figure 1. Share of young people (15-30 years old) reporting that a lack of capital/resources is a barrier to self-employment, 2022



Source: Flash Eurobarometer #513 (2023).

What sources of start-up funding are used by young entrepreneurs?

Traditionally, most entrepreneurs finance their start-up (i.e. pre-start-up activities and early stages of development) with funding from the 3F's – founder, friends, and family. Individual savings (the "founder" in the 3F's) is the most common source of start-up financing in nearly all EU Member States (Table 1). Overall, 36% of potential young entrepreneurs reported that their own savings would be among the top three sources of funding used, followed by banks (33%) and family and friends (21%). The proportions vary across countries, but the top three sources often remain the same. Government sources of funding identified less frequently (12%) and some sources that are covered frequently in the media are even less popular, including crowdfunding (11%) and venture capital investments (8%). These responses by potential young entrepreneurs are generally consistent with previous surveys on sources of funding use by entrepreneurs. For example, [Daniels, Herrington and Kew (2016)](#) found that the most common sources of funding used by entrepreneurs were: savings, family, friends and banks. This study also found that private investment (including venture capital) and government financing were used much less frequently.

Social entrepreneurs are also likely to rely on the 3F's for financing, as well as philanthropic grants, debt financing and public funding. Few social enterprises tend to access bank financing, mainly because of a lack of collateral or a lack of availability of tailored financial tools, such as patient capital or equity or quasi equity. This confirms the lack of tailor-made start-up capital on the equity and quasi-equity spectrum for social enterprises.

Table 1. Initial sources of funding (Top 3) for business creation by potential young entrepreneurs (15-30 years old) (%)

	My own savings	Banks	Family and/ or friends	My current salary	Public institutions	Crowdfunding	Microfinance providers	Business incubator	Venture capital investments
EU27	**36**	**33**	**21**	20	12	11	9	9	8
Malta	**58**	**48**	26	**32**	12	12	4	6	8
Cyprus	**50**	**40**	27	**29**	9	7	11	3	14
Estonia	**49**	**33**	30	28	13	12	4	11	7
Ireland	**49**	**39**	20	**26**	13	10	5	6	7
Czech Republic	**48**	**34**	28	**29**	10	9	6	6	8
Slovenia	**46**	**30**	26	**27**	13	11	9	12	6
Sweden	**46**	**36**	13	**31**	8	6	4	5	11
Netherlands	**45**	**29**	22	**28**	7	10	7	6	8
Bulgaria	**43**	**38**	26	**27**	7	12	7	6	12
Denmark	**43**	**34**	17	**23**	9	12	5	7	6
Greece	**42**	**27**	**29**	27	8	13	9	5	16
Lithuania	**42**	**31**	**24**	21	20	11	6	10	7
Luxembourg	**42**	**52**	20	**22**	16	13	6	8	7
Slovak Republic	**42**	**43**	**23**	17	15	8	8	9	8
Poland	**41**	**26**	**19**	19	19	13	14	10	7
Croatia	**40**	**34**	22	**23**	19	10	13	13	12
Spain	**39**	**33**	**25**	21	15	10	9	6	8
Hungary	**39**	**26**	**27**	23	6	11	6	5	7
Belgium	**37**	**34**	17	**21**	8	12	10	7	12
Latvia	**37**	**25**	**23**	22	11	8	9	17	7
Austria	**37**	**38**	22	**25**	13	13	9	10	7
Romania	**37**	**27**	**22**	20	10	10	8	6	7
Germany	**34**	**38**	**21**	18	13	14	7	13	8
Finland	**34**	**42**	12	**16**	11	9	5	8	6
Italy	**33**	**29**	**21**	13	13	11	11	8	9
Portugal	**29**	**35**	17	**25**	11	12	10	8	8
France	**27**	**37**	**19**	16	9	10	10	9	8

Note: The most popular response per country is shaded in purple. The second and third responses are shaded in grey.

Source: Flash Eurobarometer #513 (2023).

Why do young entrepreneurs face disproportionate challenges accessing finance?

All entrepreneurs face challenges securing finance for their business, but younger entrepreneurs typically face greater challenges. This affects not only their chances of successfully launching a business, but also likely constrains the growth of those that are launched. This further reduces their potential to attract future investments. Barriers are often grouped into two categories: demand-side barriers (i.e. obstacles stemming from the entrepreneur) and supply-side barriers (i.e. obstacles stemming from the market, including lenders and investors):

Demand-side barriers:

- **Skills gaps**: There is a wealth of evidence that shows that, on average, youth have relatively lower levels of entrepreneurship skills (e.g. business management skills, financial literacy skills, risk management, opportunity recognition). This typically means that they also have less knowledge about the types of financing available and how they can be accessed. Moreover, those operating a social enterprise face challenges developing a sustainable business model and communicating their plans to lenders and investors.
- **Smaller and less diverse networks:** Young entrepreneurs typically have small professional networks because they do not have a lot of professional experience. Furthermore, they tend to have networks that favour social connections over professional ones. This reduces the likelihood of identifying sources of finance through networks.
- **Lack of collateral and financial history:** Young entrepreneurs rarely have a long work history so they usually have little capital or collateral that can be used to secure debt, and many have incurred a student debt. This makes it difficult for lenders and investors to assess risk, and typically results in higher interest rates charged.
- **Little experience seeking start-up finance:** Young entrepreneurs usually have little experience seeking and acquiring debt and equity financing. Therefore, they are not aware of all potential sources nor how to effectively pursue them.

Supply-side barriers:

- **Difficulty to assess risk:** A common challenge faced by entrepreneurs is to provide adequate financial information to lenders and investors so that they can assess the risk associated with new start-up projects. This challenge is even greater for those without experience or a long financial history. Social entrepreneurs face a greater challenge because traditional assessment criteria are not well-equipped for social or hybrid business models.
- **Transaction costs are higher in small loans and investments:** Young entrepreneurs can be less attractive to lenders because they often seek smaller amounts of debt. This makes the recovery of fixed administrative and transactions costs relatively larger. This can result in higher interest rates charged.
- **Investor bias:** There is some evidence that some profiles of entrepreneurs face discrimination in financial markets, notably women and immigrants.
- **Traditional financial instruments are not always suitable for new business models:** Social and hybrid businesses likely require a different mix of capital, including patient sources of capital because they tend to have lower profit margins.

What are governments doing?

Approach	What is it?	Example
Grants and income subsidies	Grants are capital transfers by which money ownership is transferred from one party (i.e. the grantor) to another (i.e. the grantee). They tend to involve smaller amounts of finance and are often not repayable. Policy makers have traditionally used grants and subsidies to help entrepreneurs from under-represented groups to help them integrate or re-integrate in the labour market (e.g. job creation schemes and wage subsidies). More recently, grants and subsidies have also been employed to stimulate entrepreneurial activity. They are the most common form of start-up financing offered by governments, notably to young entrepreneurs.	Danish Foundation for Entrepreneurship (Denmark)
Soft loans	Soft loans are often targeted at people who face difficulties in accessing finance from traditional lending institutions. Many subsidised loan schemes have provided support to young entrepreneurs as well as other entrepreneurs from under-represented groups. An example of a soft loan is the "Honour Loan", which provides a combination of grants and interest-free loans (see Case Study 1). They do not require collaterals or other forms of guarantee as they are conceded against the borrower's word of honour.	ENISA Young entrepreneurs (Spain)
Loan guarantees	Loan guarantee schemes reduce the risk assumed by lenders through a guarantee issued by a government for a portion of a loan. Often governments will guarantee 20% to 50% of the value of a loan, up to a maximum amount. Default rates tend to be higher than for traditional banking loans, but they are partially offset by the higher rates of interest charged. There are public, private and public-private loan guarantee schemes.	SME credit guarantee scheme (BMKB, Netherlands)
Microfinance	Microfinance is a small loan of less than EUR 50 000 that is accompanied by some form of training or coaching. A small loan without the non-financial support is typically called microcredit. Microfinance aims to help people build a credit history and improve their access to mainstream financial products.	Adie (France)

Alternative debt finance	Alternative debt financing includes overdrafts, factoring, leasing, and trade credit. There is evidence that small businesses often use alternative debt finance, with more than one-quarter using trade credit, more than one-third using leasing, hire purchase and factoring, and more than one-third using credit lines and overdrafts. This is largely due to the inability to access traditional finance through bank credit. Moreover, alternative sources of debt finance tend to be more expensive – with the possible exception of trade credit.	Job Opportunities through Business Support (JOBS, Bulgaria)
Crowdfunding	Crowdfunding sources debt and equity from a multitude of investors, rather than from a single large institution (see Case Study 2). Loans and investments are typically arranged through an online platform. Some investments are "reward-based" meaning that investors receive a final product rather than repayment.	Spreds (Belgium)
Peer-to-peer lending	Peer-to-peer (P2P) lending is similar to lending-based crowdfunding. Beneficiaries of P2P lending typically repay the cash, plus interest, over the term of the loan. Interest rates in these transactions are higher than for bank loans and are set by managing platforms and funds (i.e. based on the financial information and personal securities of the borrower). It is not uncommon for P2P lending to be based on subordinated loans (i.e. loans that in case of liquidation can only be claimed after borrowers have paid senior lenders). In some innovative cases, P2P platforms can carry part of the default risk or provide partial insurance against loan defaults.	Prosper (United States)
Business angels	Business angels are high net worth individuals who invest in business in which they have no family connection with the goal of making a profit in the medium- to long-term. In addition to providing finance, business angels are also a source of business advice and professional networks. The size of business angels' investment tends to vary between EUR 25 000 and EUR 500 000, but it can be much larger when angel investors pool their funds (e.g. through networks, clubs, or syndicates).	SICTIC (Switzerland)
Self-financing groups	Self-financing groups are community-based systems where members lend to each other. Loans in self-financing groups are proportional to the deposits of members. These loans tend to be in the range of EUR 5 000, with repayment periods often within six months and never longer than a year. An interest rate can be applied, in which case profits are re-invested in the group.	ACAF (Spain)
Risk capital	Risk capital is equity finance aimed at emerging high-potential, high-growth businesses. Investors typically assume a large amount of risk with the hopes of reaping very large reward. There are three main forms of equity: 1) business angels or informal equity finance provided by individuals (i.e. often a successful former entrepreneur) on relatively flexible conditions, 2) venture capital finance provided by investors, investment banks or other financial institutions in a more structured format, and 3) growth equity which are larger investments in later stages of business development for significant minority ownership stakes.	UPTEC Investors Day (Portugal)

Integrated support packages

While it is important to address the challenges and barriers faced by youth entrepreneurs in accessing finance for business creation, there is also a need to improve financial literacy skills, notably in business finance. Non-financial supports such as training, peer-learning, networking, coaching and business consultancy can support the development of business management and financial literacy skills among young people. A good example of this integrated approach is the Yes I Start Up programme in Italy (see Box 1 for more information). By integrating different types of support into one support package, supports can effectively address multiple barriers faced by youth entrepreneurs in parallel.

Box 1. Workshop host: Yes I Start Up, Italy

Yes I Start Up is an entrepreneurship training programme of the National Agency for Active Labour Market Policies (*Agenzia nazionale per le politiche attive del lavoro* – Anpal), which was developed by Invitalia (Agency for enterprise development) and the Italian Agency for Microfinance (*Ente Nazionale per il Microcredito* – ENM) in 2018. The programme aims to promote self-employment and entrepreneurship among NEET youth (18-29 years old) by providing free entrepreneurship training, mentoring and support services.

Using a public-partnership model, the programme delivers training through a network of 500 local training providers (e.g. public training institutions including universities, private consultancy companies, associations, chambers of commerce). The training programme is designed to equip participants with the skills needed to start and manage a business. Courses are delivered to small groups (at least 4 students and a maximum of 12) and divided into 15 modules. This includes 60 hours of online classes and 20 hours of individual tutoring. The entrepreneurship skills support is also accompanied by access to financial support through the SELFIEmployment measure, which is managed by Invitalia. The SELFIEmployment funds provide loans ranging from EUR 5 000 to EUR 50 000 with zero-interest loans, without the need for collateral and/or other subsidy measures. Entrepreneurs who qualify for the loan benefit from support from an Invitalia tutor for a year and a half to support them with financial and administrative matters.

Over 2018-20, 1 700 NEET youth completed the YISU course across the 500 active training structures, including 1 610 teachers and 1 500 classrooms There were 350 training sessions offered - 100 of which were online. 586 of participants submitted applications for funding through the SELFIEmployment Fund, of whom 208 were successful. Among those who received funding, 97% of participants were d still in operation after 3 months.

Business consultancy is especially effective when it is integrated into support packages that include financial instruments. Consultancy offers an individualised training support to young entrepreneurs. Through working with a professional business advisor, youth entrepreneurs can benefit from a mix of formal techniques (e.g. business excellence models, assessment tools, etc.) and informal techniques (i.e. extracting lessons from advisors' previous experience). This approach can help youth entrepreneurship increase their chances of developing a sustainable business due to the increased entrepreneurship skills and the ability to access the funding needed to start a business.

Another approach is to indirectly provide financial support by creating opportunities for young entrepreneurs to engage with investors. For example, incubators and accelerators often promote opportunities for entrepreneurs participating in their programme to network with ecosystem actors and potential investors. This may include networking events, investor/entrepreneur speed dating events or directly match young entrepreneurs with investors to facilitate funding opportunities (see Box 2).

Box 2. Workshop host: UPTEC, Portugal

UPTEC is the Science and Technology Park of the University of Porto. The primary mission of UPTEC is to support the creation and development of business projects in the arts, sciences, and technologies through sharing knowledge between the University of Porto and the business ecosystem. Beyond connecting the university to the market, UPTEC offers mentoring and business development services, facilitates strategic partnerships and co-operations, hosts events and networking opportunities (e.g. Investors Day) and fosters knowledge sharing and peer-learning programmes. It includes R&D centres, entrepreneurship training programmes, and incubation services.

For example, they offer entrepreneurs a pre-incubation programme that is designed to prepare entrepreneurs for the challenges that they will face when creating and developing a new business project. There have been 11 editions of the programme with more than 480 entrepreneurs, who created over 75 companies. They also provide an intensive one-week programme that provides an overview of entrepreneurship to researchers. There have been 10 editions of the programme with more than 200 participants.

Selected policy issues covered in workshops

Microfinance

Microfinance is an important financial tool for supporting youth entrepreneurs because it is designed to address the obstacles faced in the credit market. In general, microfinance offers small collateral-free loans of less than EUR 50 000. This can help young entrepreneurs build a credit history to improve their access to mainstream financial products. Microfinance is often delivered through specialised microfinance institutions (MFIs), such as microStart (Box 3), but can also be offered by other financial institutions, governments, and other actors. While microfinance providers vary in legal status, size, and offerings, the vast majority of MFIs operate under the legal status of non-governmental organisation (NGO), non-bank financial institution (NBFI), credit union or financial co-operative. However, they can also take on other legal forms such as banks and governmental bodies.

Box 3. Workshop host: microStart, Belgium

microStart is a microfinance institution in Belgium, which has adapted its operations to facilitate access to new entrepreneurs who do not have access to financing from the conventional banking sector. microStart offers microloan grants to entrepreneurs which are accompanied by entrepreneurship training and support services, including dedicated providers. microStart has five agencies located in Antwerp, Brussels, Charleroi, Ghent, and Liège in addition to nine offices in Bruges, Kortrijk, Halle, Hasselt, Louvain, Mons, Namur, Ostend, Saint-Nicolas, and Verviers.

Among the entrepreneurs supporting by microStart, nearly one-third are young entrepreneurs. Almost one-fifth of the entrepreneurs do not hold a tertiary degree. Many of them had difficulties accessing finance due to a range of factors: lack of credit history or collateral, lack of information on start-up financing, lack of experience and knowledge, and lack of awareness of microfinance. To address key challenges and support youth entrepreneurs, microStart offers tailored and dedicated support: business creation support tools, e.g. e-learning, toolbox, management training; advisors and individual coaching; financial solutions up to EUR 25 000; and, outreach campaign, including workshops and role models.

Over the past decade, microStart has offered coaching and training to more than 9 100 entrepreneurs of whom 2 600 were young entrepreneurs. Overall, microStart has provided 6 780 microcredits, injecting EUR 56 million into the Belgian economy. Among these entrepreneurs, 2 600 were young entrepreneurs who received 1 735 microcredit loans, which contributed EUR 15 million to the Belgian economy. The overall social return on investment is EUR 2.53 – for every EUR 1 invested in microStart countries there is a EUR 2.53 return to the community.

Many MFIs also provide a variety non-financial products and services to their clients - nearly 80% of MFIs in Western European countries. These include business development services, such as mentoring, coaching, and training. By packaging financial support with complementary support services, MFIs help increase the chance of business sustainability and the repayment of the loan by their clients.

While there is no one EU regulation for microfinance, the European Union implemented a voluntary European Code of Good Conduct for Microcredit Provision to promote best practices within the sector. The Code serves as a quality label for MFIs that uphold high ethical and responsible lending practices (Box 4). Some countries have introduced microfinance regulations. This can help to formalise the activities in the microfinance sector and provide legitimacy to the lending activities. In doing so, it can help to avoid predatory behaviours and lending that might occur if the sector was entirely unregulated. However, MFIs are often not covered under banking regulations, which tend to be based on holding deposits. As most MFIs are considered NBFIs, financial regulations can affect the operation of microfinance institutions and the range of activities that they can provide. Moreover, regulations around financial systems are often biased towards the formal banking system.

Box 4. European Code of Good Conduct for Microcredit Provision, European Union

The European Code of Good Conduct for Microcredit Provision was first established in 2011. It aims to set high ethical standards through a unified set of best practice guidelines for the microfinance sector in Europe and serves as a self-regulation tool and quality label for MFIs. It was developed based on recognised best practices in the microfinance sector in close consultation with stakeholders and updated through another consultation process in 2019. The updated Code took effect in January 2021.

It has several objectives, including to provide assurance to recipients as well as investors and funders that microfinance institutions conduct their business in a fair and ethical manner. It also serves to reassure regulators that the microfinance sector operates according to sound business practices and principles, as well as promote common ethical finance principles within the microfinance sector.

The Code primarily targets non-bank microfinance institutions, which provide loans of up to EUR 50 000 to micro-entrepreneurs or self-employed people. It is available in 23 EU languages and is based on five pillars:

- **Customer and Investor Relations** – This pillar outlines the obligations of microfinance institutions towards customers and investors. It also establishes the rights of customers and investors.
- **Governance** – This pillar covers standards for both management and the boards of microfinance institutions.
- **Risk Management** – This pillar provides an overview of common approaches and procedures for managing risk within the microfinance institution.
- **Reporting Standards** – This pillar outlines the indicators that microfinance institutions must collect, report, and disclose.
- **Management Information Systems** – This pillar presents common standards for management information systems.

Moreover, signing-up to the Code is a pre-condition for microfinance institutions to receive funding under the InvestEU Social Investment and Skills window and the EU Programme for Employment and Social Innovation (EaSI) financial instruments. After an evaluation process, the microfinance institutions may be certified for a four-year period based on their compliance with the Code. The decision is taken by a Steering Group chaired by the European Commission and composed of members who represent the European Commission, the industry, the European Investment Fund, European Investment Bank and the service providers involved in the Social Inclusive Finance Technical Assistance (SIFTA) programme, funded under the InvestEU Advisory Hub. The list of Code awarded microfinance institutions is made public on the European Commission website.

Source: European Code of Good Conduct for Microcredit Provision - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

There are three main regulatory and legislative frameworks for non-bank financial MFIs. Several EU Member States and EU candidate countries have introduced specific microcredit legislation through a national law: France (2001), Bosnia and Herzegovina (2006), Kosovo (2008), Romania (2009), Italy and Portugal (both 2010), Montenegro (2017) and Greece (2020). Furthermore, France restricts microcredit activity to not-for-profit organisations. The second approach is to use regulations for NBFIs to cover microcredit as one of the regulated products, which is the case in Belgium, Finland, Hungary, Ireland, Luxembourg, Romania, Spain, and Sweden. Lastly, countries can implement regulations that require non-bank actors to partner with a regulated bank, which is found in Austria and Germany.

Many EU and OECD countries have increasingly used microfinance to support business creation. However, there is significant unmet demand for microfinance in many markets. Estimates suggest there is a microfinance gap of about EUR 14 billion per year for formal businesses in the EU. At the Member State-level, the highest estimated value of unmet demand is for Italy

(EUR 2.1 billion), followed by France (EUR 1.9 billion), Germany, Poland (both EUR 1.3 billon), and Romania and Spain (EUR 1.1 billion each).

Case Study 1. Funds for Good, Belgium

What is it?

Funds for Good is an organisation that aims to provide both financial and social returns. Funds for Good Impact is an activity dedicated to helping entrepreneurs who lack financial resources to develop their entrepreneurial projects. The organisation primarily serves two target groups, which they call self-made (i.e. entrepreneurs who wish to reintegrate the job market by creating their own job through entrepreneurs) and game changes (i.e. those who launch a societal project with a positive impact on the environment and/or society).

A new initiative has been recently launched – ImpaktEU. It aims to make the European financial ecosystem more inclusive through directing funding to the development of microfinance and social entrepreneurship actors in Europe. The fund is focussed on generating impact and offers long-term financing through various debt instruments with flexible repayment periods.

What impact has it had?

The programme provides financial support as well as support services. Funds for Good offers entrepreneurs soft loans (i.e. honour loans) at 0% interest, which serves as quasi-equity. The repayment grace period is between 6 and 24 months and the loans can be coupled with other sources of financing. Entrepreneurs also receive free volunteer coaches who accompany the entrepreneur through daily challenges. Entrepreneurs receive coaching for a minimum of one year with one meeting per month. Additionally, experts provide a one-time consultation that guides the entrepreneurs on issues related to legal advice, marketing, sales strategies, product deployment, etc.

Since 2013, the organisation has financed over 1 000 projects, which helped to created almost 1 200 jobs. It has provided more than EUR 2 million in honour loans and about 1 500 hours of coaching by 117 coaches. Of the projects financed, the vast majority are self-made entrepreneurs (987) who received about EUR 1.5 million in financing. 70% of these entrepreneurs are still active 2 years after the programme.

Source: Introduction - Funds For Good

Crowdsourced debt and equity

Crowdfunding is a collective resource-pooling practice, which is used to finance a variety of projects (e.g. individual people, companies, organisations, dedicated funds, projects, products, groups, etc.). The financing is conducted through an online marketplace using electronic payments. These platforms have a set of common features, which include:

- Online marketplace matching idea with funds;
- Open to any individual over 18 years old with access to the internet;
- Limited timeframe of capital-raising campaign; and,
- Combination of economic and non-economic benefits.

There are four main models of crowdfunding: equity, debt, reward and donation-based. There has been steady, significant growth over the last decade in the use of crowdfunding (USD 1.5 billion in 2013 to USD 22.6 billion in 2022). In November 2023, a new EU regulation on crowdfunding will be implemented with the hopes to fully integrated the EU market for crowdfunding, improve transparency of the platforms and improve opportunities for companies and investors by increasing the volume of crowdfunding.

Crowdfunding has the potential to improve finance for new start-ups by entrepreneurs, notably youth entrepreneurs. Having a successful crowdfunding campaign can also help entrepreneurs to build legitimacy for their projects and thus gain access to further capital from larger investors and lenders. Entrepreneurs can also receive exposure for their products and potential media covered, which may help broaden their networks. Moreover, women entrepreneurs tend to be more successful on crowdfunding platforms, receiving 1.3 times more than male-led campaigns and raising about 11% more money.

While there are many benefits of crowdfunding platforms, entrepreneurs who wish to be successful on these platforms need to have sufficient levels of financial literacy and digital skills to understand the opportunities and risks of crowdsourced financing. Moreover, it is important for policy makers to develop appropriate regulations to ensure that platforms are transparent. This transparency allows all parties, including lenders and investors, to have some level of protection.

This is a growing source of funding for young companies because it provides fast access to funds and is less costly than other types of traditional finance. Entrepreneurs are typically required to fill out an application and provide some financial information that will be assessed by the platform. There are various types of platforms which offer different business models. Some charge a fee or a percentage of transactions because the platform screens funding deals as well as offers other administrative and strategic services.

Case Study 2. European Crowdfunding Network, Belgium

What is it?

Beginning 2013, the European Crowdfunding Network is an independent, professional business network that aims to promote transparency, regulation, and good governance in the digital finance sector. One of the networks objectives is the tackle common misconceptions about crowdfunding and to promote crowdfunding as a viable alternative financing instrument for entrepreneurs. It engages in policy dialogue with EU institutions, participates in market students and research projects, provides consulting services as well as coaching and mentoring to start-ups and SMEs, hosts events (e.g. seminars, webinars, workshops, conferences) and helps to promote the EUROCROWD Code of Conduct.

What impact has it had?

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Source: Home - European Crowdfunding Network (eurocrowd.org)

Distributed ledger technology and blockchain

Distributed ledger technology is a decentralised database that is share across a network of computers but not controlled by a single central authority. Each node (i.e. computer in the network) maintains a copy of the database and any updates are recorded independently by all nodes. Blockchain is a method to implement a distributed ledger. However, not all distributed ledgers use blockchains. The defining characteristic of a blockchain is that information is recorded in blocks that are sequenced. It acts as a ledger in a record book (i.e. it records and stores all transactions between users in chronological order).

The most notable use of blockchain technology is cryptocurrencies. They are digital assets designed as a medium of exchange. Cryptocurrencies do not rely on central banking systems instead they use decentralised control structures. Beyond cryptocurrencies, blockchain can be used to provide a diverse array of financial services. These include remittances, online payments, smart contacts, and organised reputation systems (i.e. peer/customer scoring and rating systems). For example, blockchain was used in a public entrepreneurship competition in Portugal, see Case Study 3 for more information.

These innovations hold potential for supporting entrepreneurs, particularly those who have difficulties accessing more traditional forms of finance. Due to the removal of intermediate, transaction costs can be reduced, settlement times decreased, and fewer errors committed. All of these would lead to smaller loans become more profitable for lenders and the overall cost of external finance for the entrepreneurs would decrease. This would notably benefit entrepreneurs with lower margin businesses and those who do not maximise profits. There is also potential to use blockchain technology to improve the disbursement of public funding to youth entrepreneurs as it provides improved traceability. This would help government programmes reach their targets more effectively as well as improve monitoring and evaluation of programmes.

However, the adoption of distributed ledger technologies has been slow. There are three primary challenges with implementing distributed ledger technologies: scalability, technical barriers, and privacy issues.

Case Study 3. GovTech, Portugal

What is it?

In 2018, the Government of Portugal launched the GovTech programme, which was an innovation programme designed and managed by the Secretary of State for Administrative Modernisation Graça Fonseca and the Agency for Administrative Modernisation. The programme aimed to foster innovation through encouraging businesses that were addressing the United Nations Sustainable Development Goals through their services and products. The GovTech award included EUR 30 000 in prize money, a protocol signed with the Sate to develop and test the product/service, an incubation contract with a certified entity, internationalisation support and access to Web Summit. The winner was selected through citizen participation using a crypto-asset (e.g. token), which allowed the voting system to operate through blockchain.

What impact has it had?

Overall, participation in the blockchain voting system was high with 4 559 312 tokens being used out of the 4 959 400 issued (92% of tokens used). There were more than 1 700 investors that participated in the initiative and more than 100 start-ups which participated in the competition with 3 start-ups selected as winners – *Informat, Vida saudável para todos* and Bio2skin.

While the use of blockchain in the initiative was innovative, the use of tokens was not exactly necessary as it held a purely democratic voting value. There was limited transparency in the voting process, notably regarding how investors cast their vote (i.e. which start-ups investors selected compared to the start-ups selected by the general public) and whether investor preferences reflected the jury's decision. Moreover, there was no use in the remaining tokens that were not used by investors.

Takeaway messages

- Financial support measures can be more effective when provided alongside "soft" support, including entrepreneurship training, networking opportunities, mentorship, coaching, business consultancy as well as incubation and acceleration services. Tailored training schemes should aim to build financial literacy and digital skills among youth entrepreneurs.

- Policy makers can look to expand public financial support to microfinance institutions through guarantee and debt instruments and applying softer conditions for providers targeting youth entrepreneurs. These incentives could take the form of longer microloan terms and subsidised interest rates.

- Regulations play a significant role in shaping the development of alternative sources of funding for young entrepreneurs. Policy makers could consider different regulatory approaches to support the development of the microfinance sector and to encourage the use of crowdfunding. Introducing regulatory measures around crowdfunding encourages transparency for all parties and helps to provide some level of protection.

- Policy makers could consider becoming more actively involved on crowdfunding platforms to support youth entrepreneurship. Governments could sponsor their own campaign on an existing platform (e.g. provide small grants, offer entrepreneurship training), create their own crowdfunding platform, partner with an existing platform (e.g. provide additional funding), or co-fund projects that meet specific criteria (i.e. youth-led start-ups).

- Policy makers could consider investing more in the commercialisation of research to support young entrepreneurs, notably those in higher education and recent graduates. This could include incentive programmes for universities, direct financial resources and support schemes that aim to support young researchers in commercialising their research, entrepreneurship competitions to stimulate the formation of spin-offs, and the creation of dedicated vehicles for creating start-ups by young people (e.g. entrepreneurship centres, technology transfer offices, technology parks, incubators).

Further reading

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OECD/European Union (2022), "Policy brief on access to finance for inclusive and social entrepreneurship: What role can fintech and financial literacy play?", OECD Local Economic and Employment Development (LEED) Papers, No. 2022/06, OECD Publishing, Paris, https://doi.org/10.1787/77a15208-en.

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