The Impact of COVID-19 on Northern Ireland Business Start-up Activity

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Executive Summary

Rationale

- The COVID-19 pandemic has led to an estimated 11% contraction in the Northern Ireland (NI) economy. Whilst the impact on existing businesses has been documented, the impact on business start-up activity is less well understood.

- A negative COVID-19 impact on existing entrepreneurial businesses has the potential to discourage prospective new entrants and challenge the survival and growth of recent start-ups. Alternatively, COVID-19 could offer new business opportunities in response to the pandemic.

- This report therefore seeks to demonstrate the impact on business start-up activity in NI so any policy response can need to be tailored to the specific challenges, or opportunities, that arise.

Firm Entry and Exit

- There were a total of 6,885 business births in NI in 2020, up 2% on 2019. The number of new businesses declined sharply in Quarter 2 (Q2) followed by a v-shaped recovery in the second half of the year, in line with other economies.

- The increased number of business births was accompanied by an increase in the number of business deaths, up by 22%, to 8,185 in 2020.

- As a result of the excess of business deaths over births, there was a net loss of 1,300 businesses in NI in 2020. Scotland and NI were the only two constituent UK nations to experience a net loss in businesses that year.

- Although the pandemic is responsible in part for the increased number of business deaths in NI, there was also negative net business entry in three of the four quarters of 2019 with an overall small net gain of just 55 businesses that year.

- Self-employment also declined sharply in NI in 2020, with an 18% decline in numbers between Q1 and Q4 2020. The decline was driven entirely by the drop in male self-employment with the female numbers remaining static.

Wider Evidence

- It is suggested that the recovery and indeed acceleration of business births in the latter half of 2020 in many economies can be attributed partly to opportunity-driven responses to the pandemic, and partly due to necessity-driven entrepreneurship in the absence of other paid employment opportunities.

- Despite the increase in numbers start-up businesses are regarded as particularly vulnerable to the effects of the pandemic due to the fact that they typically engage in more high risk activities; they face more barriers in terms of accessing traditional forms of finance; and they are in the early stages of their relationships with customers and suppliers.

- If the pandemic and restrictions persist it could lead to a permanent reduction in the rate of start-ups and the growth prospects of SMEs impacting jobs created, and innovation and productivity, over the longer term. Innovativeness, in particular, is regarded as a precondition of being resilient, the loss of innovative firms therefore affecting the resilience of the economy to respond to future shocks.

- Support packages for businesses have largely been in the form of financial aid. Although this has been welcomed and necessary in the face of falling revenues and continuing costs there has been a recognition that start-ups have been largely neglected.

- A shortage of finance for new business ventures is of crucial importance because research shows that start-ups born during recessions not only start smaller, they tend to stay smaller in future years even when macroeconomic conditions improve.

NI Survey Evidence

- A survey of new business owners and the newly self-employed (with businesses under 4 years old) in NI showed that over two thirds had experienced interruption to trading in 2020 and just over two fifths had also experienced temporary closure since March.

- Of the business activity impacts, innovation activities were most curtailed with more than two fifths of firms postponing the introduction of new products or services as a result of COVID and just under one fifth postponing the introduction of new processes. Despite this, one in five had identified new opportunities for innovation and 16% had introduced new products or services.

- The recurring restrictions had significant negative impacts particularly on business turnover and cash flow. Just under three quarters also cited negative impacts on ability to grow the business and two-thirds relayed negative productivity impacts. The mental wellbeing of owners and of employees were also particularly affected, the former rated as a negative impact by three quarters of respondents.

- Half of respondents did not access any grant or loan supports. For those not accessing particular supports two thirds indicated the main reason was due to being ineligible to apply/excluded. Furthermore, one in ten had applied but were unsuccessful.

- Just under three quarters of respondents felt that the business support schemes were not tailored to the needs of start-ups or the self-employed. Those who sought alternative sources of finance also found access more difficult than in previous years.

- Despite the challenges more than half of respondents believed their business would survive into 2021 and beyond. However, continuing restrictions and lack of certainty around re-opening is likely to reduce such optimism. In fact, around four fifths believe that conditions to start a business are now more difficult than pre-pandemic.

- Overall, the results lend credence to the notion that start-ups have particular attributes and requirements which sets them apart from the wider SME population. Policy responses should take this into account as any hindrance to start-up activity will have longer-term knock-on effects on future innovation, productivity and economic resilience.

1 Introduction

1. The COVID-19 pandemic has had a negative impact on the Northern Ireland (NI) economy with an estimated 11% GDP contraction in 2020[1]. The exogenous shock and the resulting infection control measures have resulted in continuous and recurring lockdowns, further halting economic and business activity into 2021 and stalling any move towards recovery. The impact on existing businesses in NI has been documented[2] but there is less evidence on the impact on business start-up activity.

2. Business start-up, or entrepreneurial activity, is regarded as a driver of economic growth due to the fact that new businesses generate jobs and drive productivity increases through increased competition, and via the creation of innovative new business ideas. In NI business start-up activity generally lags that of the UK; NI has the lowest business birth rate of the UK devolved regions in 2019[3] and an early-stage entrepreneurial activity rate statistically significantly lower than the UK (Hart et al., 2020). Although progress had been made in terms of increases in entrepreneurial activity over the last decade the pandemic has the potential to disrupt this.

3. A negative COVID impact on existing entrepreneurial businesses has the potential to discourage prospective new entrants and challenge the survival and growth of those recent start-ups. Access to start-up finance could also curtail new businesses as finance providers become risk averse in response to the downturn.

4. Alternatively, COVID-19 could offer new business opportunities via alternative business models and/or new opportunities arising in response to, or as a result of, the pandemic. Indeed, the creative destruction argument would suggest a reallocation of resources towards more productive and efficient firms and sectors as innovative new entrants replace outdated exiting firms.

5. Understanding the impact of the pandemic on business start-up activity is therefore important as any policy response will need to be tailored to the specific challenges, or opportunities, that arise. A reduction in activity will have a resulting negative impact on economic growth and will lower the potential for entrepreneurship to act as a subsequent vehicle for job creation and innovation. Alternatively, new business opportunities could be harnessed, and those with the potential to scale supported to do so.

6. This report therefore seeks to identify the impact COVID-19 has had on new and young businesses in NI. It incorporates the results of a survey of such businesses undertaken by the Ulster University Economic Policy Centre (UUEPC) and Business School (UUBS) during December 2020 – January

[1] https://www.ey.com/en_ie/news/2020/11/ni-economy-is-forecast-to-contract-at-broadly-the-same-pace-as-the-uk

[2] Bonner, K., Magennis, E. and Desmond, A. (2020) The Impact of COVID-19 on Northern Ireland Business Activity, UUEPC

[3] NISRA Business Demography NI 2019

2021, covering new business owners and the newly self-employed who have been trading for up to 4 years. The results are reported along with an overview of business entry and exit in 2020 and a summary review of the wider evidence of the COVID-19 impact on start-up and entrepreneurial activity.

2 NI Business Start-up Activity 2020

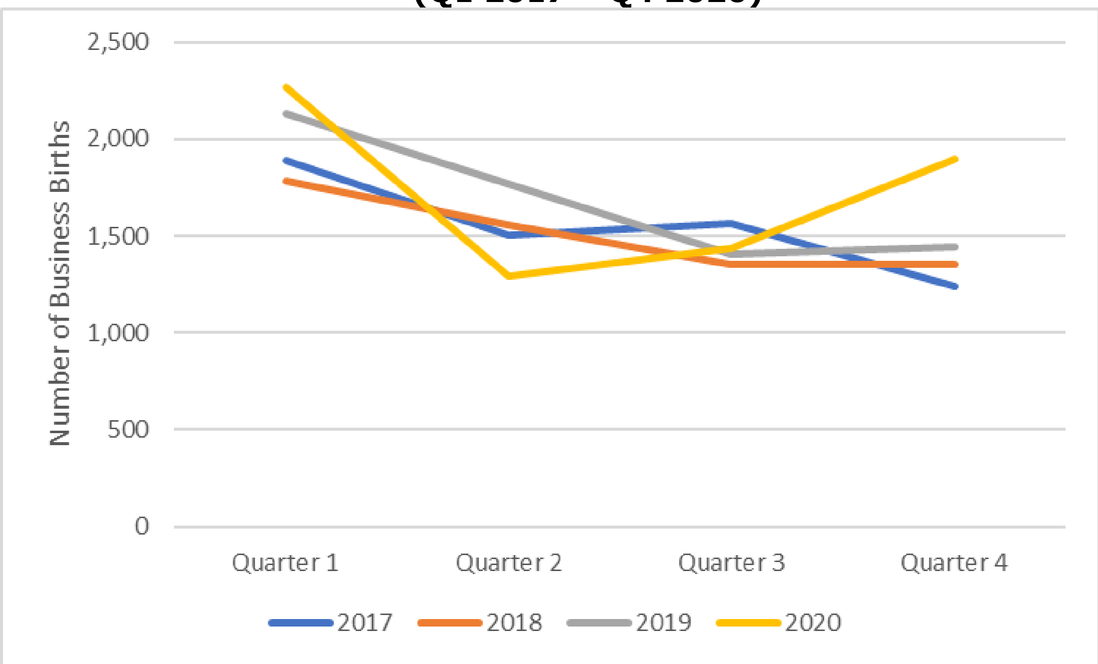
Business Births and Deaths

1. The process of firm entry and exit, which provides a sign of the dynamism of the economy, can be measured through business births and deaths. A dynamic economy is central to long run economic growth as new businesses replace the outdated, contributing towards the productive reallocation of resources.

2. **There were a total of 6,885 business births in NI in 2020, up 2% on 2019.** One third of those occurred in Q1 which saw 2,265 business births, a figure 6.3% higher than Q1 2019 and the highest number of start-ups in any quarter since 2017 (Figure 2.1).

3. Business births are typically higher in the first quarter of any year, with the number levelling off towards the end of the year. In 2020, however, the trend diverged. **There was a sharp decrease in the number of new starts in Q2, dropping by 43% to 1,290, representing the lowest number of Q2 business starts since 2017.** Unlike in previous years, the number of business starts continued to rise over Q3 and Q4 2020, with a record number of starts in Q4, 31% higher than the equivalent number of starts for the same quarter in 2019.

Figure 2.1: Number of Business Births NI (Q1 2017 – Q4 2020)



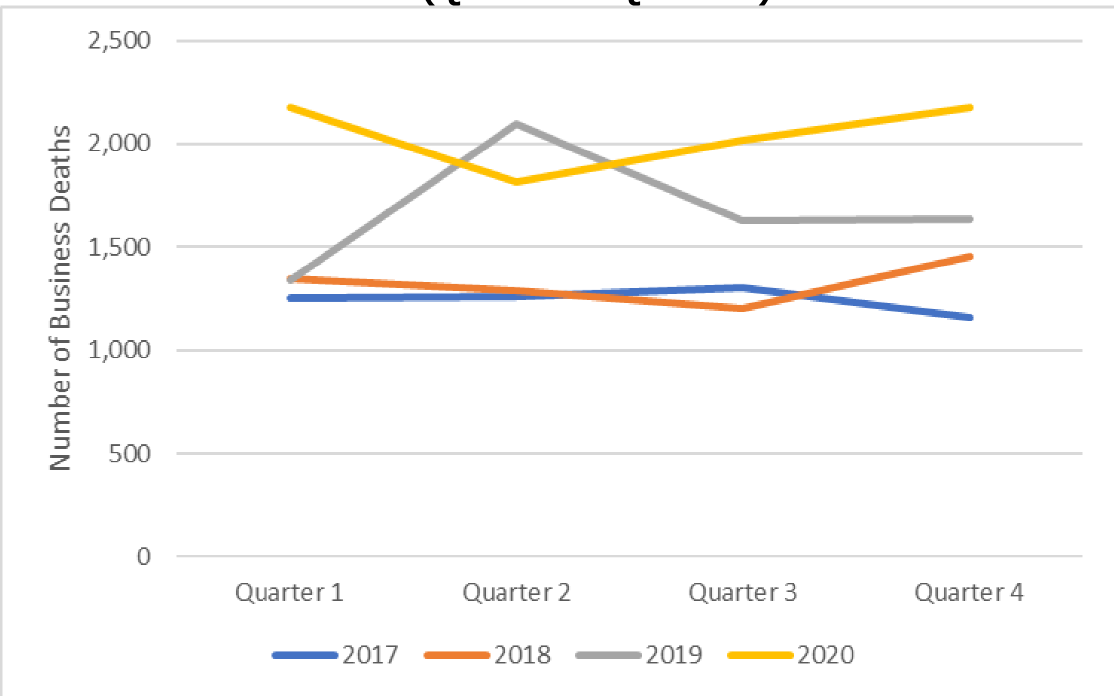
Source: ONS Business Demography Experimental Statistics

4. **Although the rise in business starts appears promising, particularly over the latter half of 2020, it was accompanied by an increased**

number of business deaths. In fact, there were a total of 8,185 business deaths in 2020, up 22% on 2019.

5. Figure 2.2 shows that for all quarters of 2020, except Q2, the number of business deaths exceeded 2,000. Business deaths in Q1 were 62% higher than Q1 2019 while the Q4 deaths exceeded those in Q4 2019 by one third.

Figure 2.2: Number of Business Deaths NI (Q1 2017 – Q4 2020)

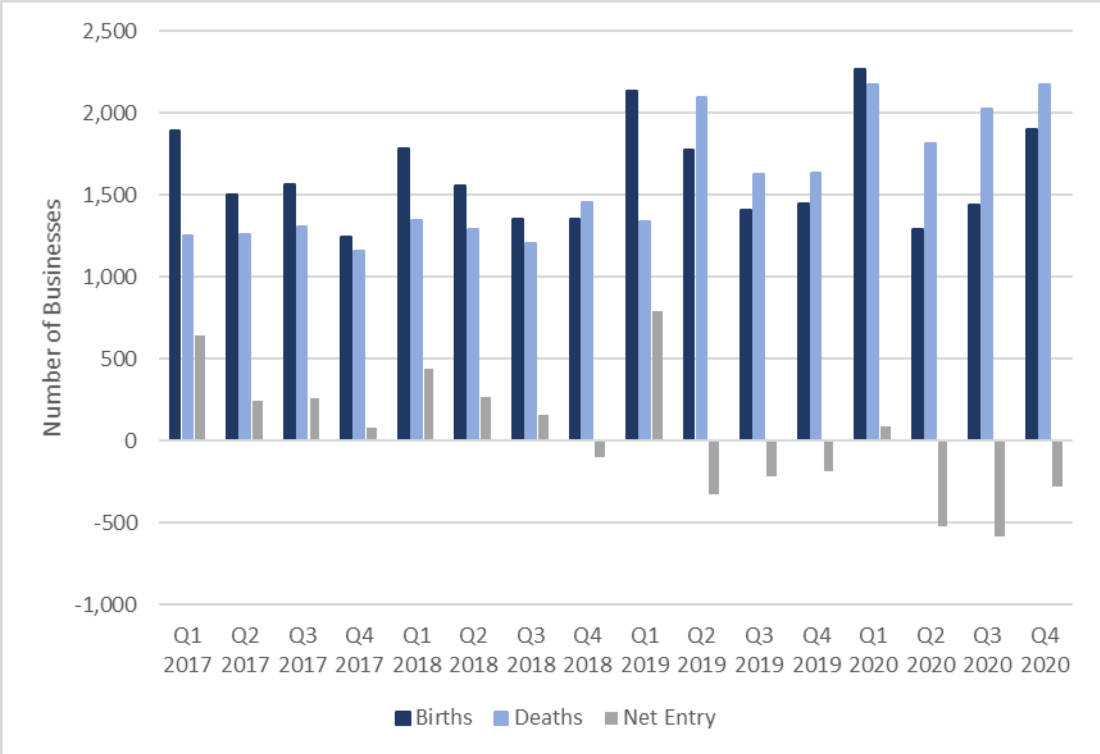


Source: ONS Business Demography Experimental Statistics

6. As a result of the increased number of business deaths during 2020, net change (births minus deaths) was negative for three of the four quarters (Figure 2.3). In fact, only Q1 2020 saw a positive net entry rate in NI due primarily to the record number of business births that quarter.

7. **Although the increased number of deaths can be attributed in part to the pandemic it is worth noting that 2019 also saw negative net business entry in three of the four quarters due to the excess of business deaths over births in NI.** The COVID-19 impact was to exacerbate the scale of these net losses, which totalled over 500 each in Q2 and Q3 2020, compared to net losses of around 200-300 in the same quarters for 2019.

Figure 2.3: Business Births, Deaths and Net Change NI (Q1 2017 – Q4 2020)



Source: ONS Business Demography Experimental Statistics

8. **Over the four quarters of 2020 NI experienced a net loss of 1,300 businesses** (Table 2.1). It was not unique in this aspect with Scotland also experiencing a net loss of 2,085 businesses. The UK had an overall net gain of 11,350 businesses in 2020, although this figure was down by more than 40,000 compared to both 2018 and 2019. Wales was the only region to see an increase in net entry during 2020, with the figure more than double that of 2017 and 2018.

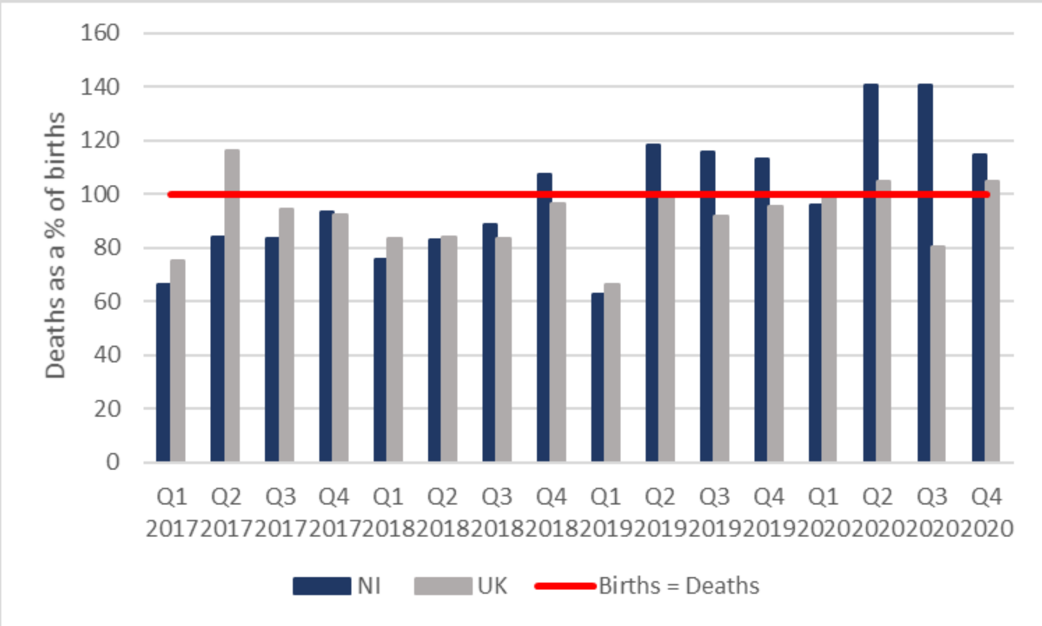
Table 2.1: Net Change in Registered Business Population 2017-20

	England	Wales	Scotland	NI	UK
2017	20,720	2,440	635	1,220	25,015
2018	47,295	2,445	1,075	755	51,570
2019	53,905	130	1,050	55	55,140
2020	9,570	5,165	-2,085	-1,300	11,350

Source: UUEPC estimates of ONS Business Demography Experimental Statistics

9. Although the UK had an overall net gain in the number of businesses in 2020, as in NI there were net losses in both Q2 and Q4 during which business deaths exceeded births (Figure 2.4). The number of business deaths in the UK was 5% higher than births in these two quarters. In comparison deaths exceeded births by 40% in Q2 and Q3 in NI.

Figure 2.4: Business Deaths as a % of Business Births NI & UK (Q1 2017 – Q4 2020)



Source: ONS Business Demography Experimental Statistics

Self-employment

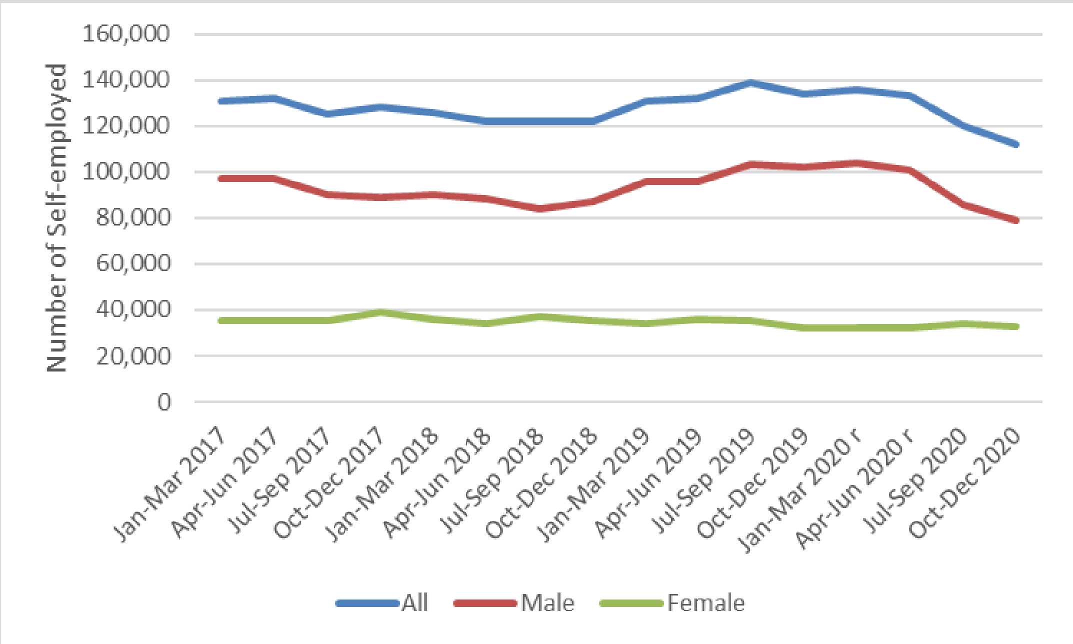
10. **In addition to the drop in net business numbers there was also a sharp decline in the number of self-employed in NI during 2020** (Figure 2.5). In fact, the largest fall in employment over the year has been within the self-employed group (UUEPC, 2021, pg.14). During 2020 the number of self-employed in NI fell from 136,000 in Q1 to 112,000 by Q4, an 18% decline. The largest drop in self-employed numbers occurred during Q3, with the decline in Q4 marking a return to figures last seen in 2016.

11. The decline was driven by the drop in male self-employment, with female numbers remaining relatively static. The trend in NI was at odds with the UK, in which both male and female self-employment declined by around 12% between Q1 and Q4 2020[4].

12. Due to small sample sizes in the Labour Force Survey it is difficult to estimate the impact of COVID-19 on the number of newly self-employed in NI. In the UK it is estimated that 3% of the self-employed in 2020 had become continuously self-employed since April 2019. As of yet the comparable figure to April 2021 is unknown.

[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/mgrq/lms

Figure 2.5: Number of Self-employed NI (Jan-March 2017 – Oct-Dec 2020)



Source: NISRA Labour Force Survey Historical Data Series

3 Evidence Review

Firm Entry and Exit

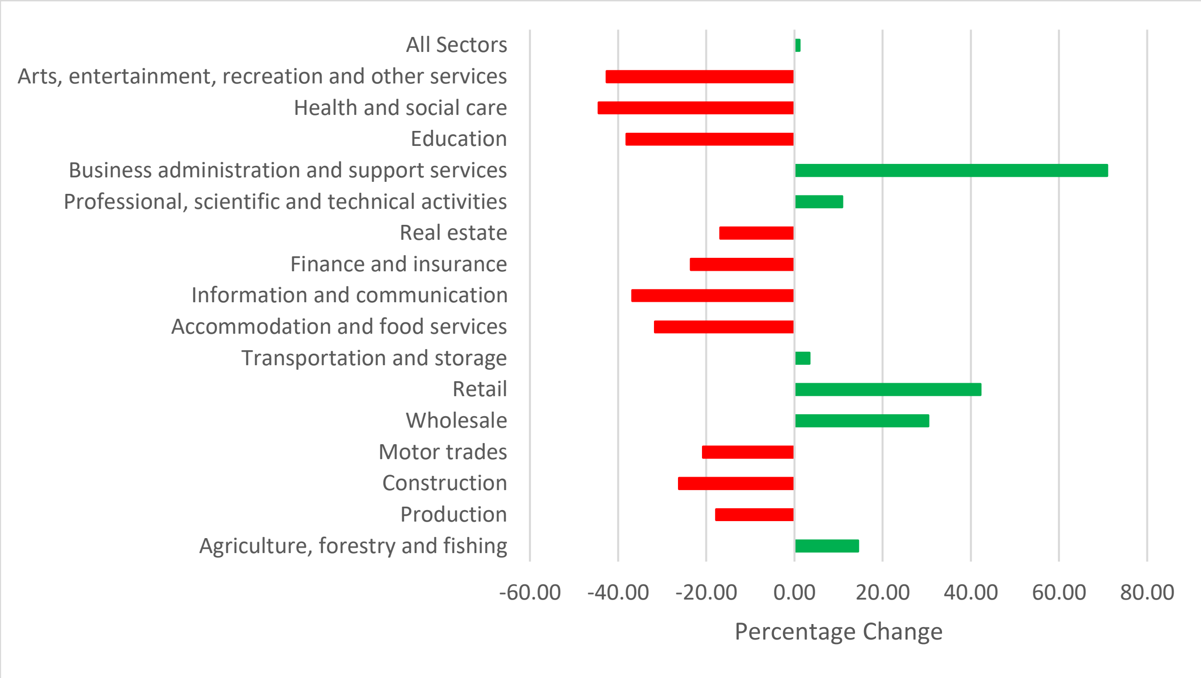
1. NI's v-shaped recovery in business births in 2020 was in line with a number of other economies, such as the UK, US, and Australia, although this experience was not universal, with other European countries encountering more of a U-shaped recovery (OECD, 2021). Factors explaining the differences include sectoral composition of the economy but also business support policies; the timing of the second wave of the pandemic, and other institutional factors.

2. The recovery, and in some cases, acceleration of business births in the latter half of 2020 can be attributed in part to responses to the pandemic, with people and companies devising new ideas to respond to existing or emerging needs (WEF, 2020). Alternatively, it has been suggested that some of the increase has been due to necessity entrepreneurship, with those laid off or furloughed setting up businesses in the absence of other paid employment opportunities (FT, 2020).

3. Sectors which have been most affected by the pandemic, such as hospitality, real estate and arts tended to also see the largest reductions in business births (OECD, 2021). Although not available for NI, evidence for the UK indicates a reduction in business births across most sectors (Figure 3.1) with the largest reductions, compared to 2019, in the health, arts, education and ICT sectors. The latter is somewhat surprising given the ease of remote working for this sector and the acceleration of digital adoption more widely which has the potential to generate new ICT business opportunities.

4. The move toward digital can perhaps be seen more clearly by the increase in retail business births, assumed to be a reflection of the move to online retailing. This in itself, driven by changing consumption patterns due to requirements to stay at home and the relatively low associated start-up costs (FT, 2020).

Figure 3.1: Percentage Change in Business Births by Sector UK (2019-2020)



Source: ONS Business Demography Experimental Statistics

5. Despite the rebound in business births in 2020, a recessionary-driven decline in firm entry can result from such a negative shock. When this occurs it has wide implications for the economy, increasing the scale of output losses through lost potential and slowing the pace of recovery (Clementi and Palazzo, 2016). Fairlie (2020) further suggests that over the longer-term the pandemic shock can lead to a permanent reduction in the rate of start-ups, the growth prospects of SMEs, and therefore jobs created and innovation.

6. Highlighting the impact of the previous recession, Naude (2020) states that start-up rates in the USA have to date not recovered to their 2006 levels. The OECD (2021, pg.4) further quantifies the employment effects arising from a recessionary reduction in the number of start-ups, suggesting that **a 25% annual decline in the number of new firms depresses aggregate employment by 0.85% three years after the shock. The effects are believed to be persistent, with 70% of the losses still being observed after 14 years**.

7. Along with the loss of the potential jobs that would have been created by new firms so entrepreneurial exits also impact the economy. Focusing on the negative impacts of business death Saez & Zucman (2020, p.1) point out "The death of a business has long-term costs: the links between entrepreneurs, workers, and customers are destroyed and often need to be rebuilt from scratch; laid off workers need to find new jobs".

8. The loss of innovative firms in particular has implications for the resilience of the economy to respond to future shocks. Innovativeness is regarded as a precondition of being resilient as such businesses tend to continuously

anticipate and adjust to a broad range of crises (Hamel and Valikangas, 2003; Linnenluecke, 2017).

9. There are also implications for productivity. Evidence from previous recessions suggests that surviving firms generally see a drop in productivity which initially stems from labour hoarding. However, similar to employment scarring effects, so productivity scarring in the economy can also occur, whereby otherwise productive, rather than unproductive, firms exit the market hindering the efficient reallocation of resources. In fact, evidence shows that many otherwise profitable firms exit during recessions with younger firms disproportionately affected. The latter may particularly impact long run productivity as young and innovative firms are prevented from reaching their full potential (Ouyang, 2009).

Impact on Start-up Businesses

10. In general, compared to large firms, Small and Medium-sized Enterprises (SMEs) are believed to have been worse affected by the pandemic, as they tend to be over-represented in those sectors that have been most restricted by lockdowns, such as hospitality, travel and personal services (OECD, 2020b).

11. Within the SME population **start-up businesses are regarded as particularly vulnerable due to the fact that they typically engage in more high risk activities; they face more barriers in terms of accessing traditional forms of finance; and they are in the early stages of their relationships with customers and suppliers** (OECD, 2020a).

12. Due to their newness start-up firms are also likely to have lower cash reserves to rely upon. This impacts on their ability to deal with any unforeseen additional costs such as the shift to remote working and/or infection prevention measures. Low levels of technology adoption and the costs of doing so may also hinder their flexibility in moving to alternative business or revenue models and hence further impact on their resilience and survivability.

13. The lack of cash reserves coupled with the drop in demand brought about by recurrent lockdowns means that new firms have a strong requirement for liquidity injections to support survival. Survey evidence from the Netherlands indicates that 42% of start-ups were at risk of running out of cash within 1-3 months of March 2020[5]. In Israel 65% of tech micro start-ups reported they wouldn't last more than 6 months without further support[6].

[5] https://issuu.com/techleap/docs/covid-19_report_march_finalfinal
[6] https://en.globes.co.il/en/article-coronavirus-could-decimate-small-israeli-startups-survey-1001330667

14. Despite the potential for negative impacts, the pandemic, as with any recessionary shock, also offers opportunities. The restrictions have thus far led to changes in consumption, working patterns and city centre footfall, amongst others. Persistence in such behavioural and work life changes for the longer term may therefore induce business opportunities for new start-ups. Indeed, **the rebound in business births in the latter half of 2020 in NI and other economies may suggest the emergence of new business opportunities** (OECD, 2021).

15. Young and start-ups firms' size and newness may also benefit them in the sense that they may be more agile and able to pivot to new opportunities more easily. They may also have a limited number of suppliers and may operate primarily within regional supply chains, sheltering them, to an extent, from the impacts to worldwide supply chain interruptions.

Impact on Self-Employment

16. **It has been suggested that the negative impact of COVID-19 has been greater for the self-employed than employees**, with larger reductions in working hours, earnings and in the share not working at all. These impacts have been found to be greater for women (Reuschke et al. 2021). Furthermore, more than 40% of those who were self-employed in January/February 2020 in the UK experienced a 100% drop in demand for their services and products in the first month of the lockdown (Reuschke et al., 2020).

17. Of course, the self-employed are a heterogenous group comprising a mixture of business owners, freelancers, contractors, and gig economy workers amongst others, and not all have been affected to the same degree. Those working in the 'gig economy', including parcel delivery and food delivery in particular, were more likely to report being busier than normal (Blundell et al., 2020). Those most affected were in the 'social consumption' sectors including personal service activities; arts and entertainment and production (Reuschke et al., 2020).

18. Due to small sample sizes it is difficult to quantify the impact on the newly self-employed however they are said to be particularly vulnerable due to their lack of ability to cushion negative shocks. Blundell et al. (2020) report that six months into the crisis in the UK, **the newly self-employed are more than twice as likely to report having trouble with basic expenses when compared to other self-employed workers**, their vulnerability exacerbated by their ineligibility to access the initial tranches of the Self-Employed Income Support Scheme (SEISS) grants.

19. Eligibility for SEISS for the estimated 200,000 newly self-employed in the UK was rectified for the fourth wave of SEISS, announced in March 2021. Four of the five categories of self-employed remained ineligible, namely those with profits of more than £50k; those with less than 50% of their income from self-employment; those making losses prior to the pandemic; and company owner-managers (Cribb et al. 2021).

20. Although partially addressed in NI, the exclusion of these categories, along with the delay in supporting the newly self-employed, may have longer term implications for the economy. Blundell et al. (2020) show that those indicating a higher likelihood of leaving self-employment in 2020 were the least risk averse, the young, those with higher incomes and the newly self-employed. Losing self-employed individuals with these characteristics points towards a lower propensity for risk-taking and for engaging in higher value-added activities. If this prevails, along with the reversal in the 11-year period of continuous growth of the self-employed (IPSE, 2020a), it suggests a further dampening of economic activity in the UK and a reduced capacity for entrepreneurship. Data on changes in the composition of the self-employed will be required to assess the wider economy implications of the decline.

Impact on Financing

21. It is accepted that start-ups typically face difficulties in accessing external finance due to their lack of track record and credit history, combined with difficulties in assessing their future potential (Cassar, 2004). This is particularly acute for more innovative firms whose riskier business models are more difficult to value (Freel, 2007).

22. Recessionary shocks, such as that induced by the pandemic, can further reduce the scope for accessing finance due to credit rationing by providers (Lee et al., 2015). Indeed, evidence from the Great Financial Crash indicates significant reductions in bank lending particularly for new and small firms. Some lenders left the market while others became more risk averse, with track records increasingly used in capital lending decisions (Cowling et al., 2012).

23. The pandemic represents a different type of economic shock, nevertheless early evidence on financing suggests a significant decrease in the levels of entrepreneurial finance equity deals in Q1 2020 compared with Q1 2019, although with an increased overall value (Brown et al., 2020). The decreases in volume were for seed and early-stage investments with the number of late-stage deals increasing over the period. The latter are associated with less risk as the investor already knows the firm, again highlighting that the newest firms, who are 'informationally opaque' have been most affected.

24. **A shortage of finance for such *de novo* ventures is of crucial importance because research shows that start-ups born during recessions not only start smaller, they tend to stay smaller in future years even when macroeconomic conditions improve** (Sedlaček and Sterk, 2017). Indeed, evidence from the ONS indicates that new business starts in 2020 were smaller than in previous years[7]. A reduction in equity deals, which are also associated with more innovative businesses, could also hinder wider innovation and productivity.

[7]https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/quarter42020

25. Credit rationing is also likely to disproportionately affect those entrepreneurs who already face financial barriers such as women and young people. The latter have on average less collateral than older people, and also lack experience and knowledge. The pandemic could further impact their entrepreneurial behaviour over the longer term by reducing their chances of gaining work experience, interrupting and delaying their education and limiting their labour market options (Naude, 2020).

26. Of wider concern is that countries with more young entrepreneurs are better able to deal with and recover from recessions (Pugsley & Sahin, 2015). Young entrepreneurs are also typically better at building new firms using high-tech (Braguinsky et al., 2012) which given the impetus and opportunities that the pandemic has created for digital entrepreneurship, will help countries to accelerate their digital transformation.

Start-Up Business Support

27. The policy responses to support SMEs during the pandemic have largely been in the form of grant aid and/or debt finance such as loan guarantees and direct subsidised loans (OECD, 2020). **While financial aid has been welcomed and a necessary support in the face of falling revenues and continuing costs there has been a recognition that start-ups have been largely neglected.**

28. Kuckertz et al. (2020) point out that only one quarter of 40 countries analysed had announced specific support measures for start-ups. Furthermore, despite the heightened requirement for liquidity support, start-ups' first response to the crisis was not founded on obtaining immediate governmental support. This was partly due to the bureaucratic requirements that were perceived to outweigh the benefits but also due to misalignments of the supports with start-up businesses and a lack of information and understanding of supports by the owners.

29. Rather, start-up firms' initial response has been through what's termed 'purposeful bricolage' combining available internal resources with external resources from their network, such as goodwill and mutual support (Kuckertz et al., 2020). It is arguable that this represents a short-term measure to help cope with the crisis with more fundamental support required as the crisis endures.

4 Survey Analysis

Introduction

1. An online survey was undertaken by UUEPC-UUBS during Dec 2020 – Jan 2021 to ascertain the views of start-up firms on the impact of COVID-19, and the related government business supports. The survey was aimed at the newly self-employed and those with businesses in NI up to 4 years old, and also those thinking of starting a business or becoming self-employed**.** Participation was voluntary and all responses were anonymous.

2. In total there were 97 valid responses achieved, of which more than two thirds were self-employed or sole traders and the remainder primarily limited companies. Of the total 71% were 1-employee businesses and the majority of the remainder micro-businesses (fewer than 10 employees). Just under half of the business were female owned, 43% were male owned and 10% of combined ownership. Responses were primarily from the service sector with one tenth in production. There were responses from all 11 District Council areas, predominantly Belfast (20%) and Ards and North down (19%). Due to the small sample size overall, results hereafter are provided at the aggregate level. No weighting has been undertaken therefore results should be considered indicative of the start-up population rather than statistically representative.

COVID-19 Impact

3. Unsurprisingly, the main COVID impact on new businesses was interruption to trading with two thirds of businesses affected (Figure 4.1), just over 40% had also experienced temporary closure since March. Despite these challenges fewer than one in ten perceived that it would result in permanent closure.

4. **Of the business activity impacts, innovation activities were most curtailed with more than two fifths of firms postponing the introduction of new products or services as a result of COVID and just under one fifth postponing the introduction of new processes**. Despite the negative impact, there were some prospects, with one fifth agreeing that the pandemic had created opportunities for new products or services and 16% having already introduced them.

5. Process innovation, which is more strongly associated with efficiency improvements than product innovation (Turner et al., 2020) had been postponed by 19% of businesses. The prospects for process innovation were also dampened, with only around one in ten having introduced new processes as a result of COVID, and a similar share seeing opportunities to do so.

6. The reduction in innovation activities appears at odds with a recent Enterprise Research Centre paper which suggested an increase in the prioritisation of adoption of new processes, by small firms, as a result of the

pandemic (Hopley, 2021). However, that paper also showed that cost reduction was of most importance. For new firms and the self-employed these cost reductions may therefore have manifested in other ways than innovation activity.

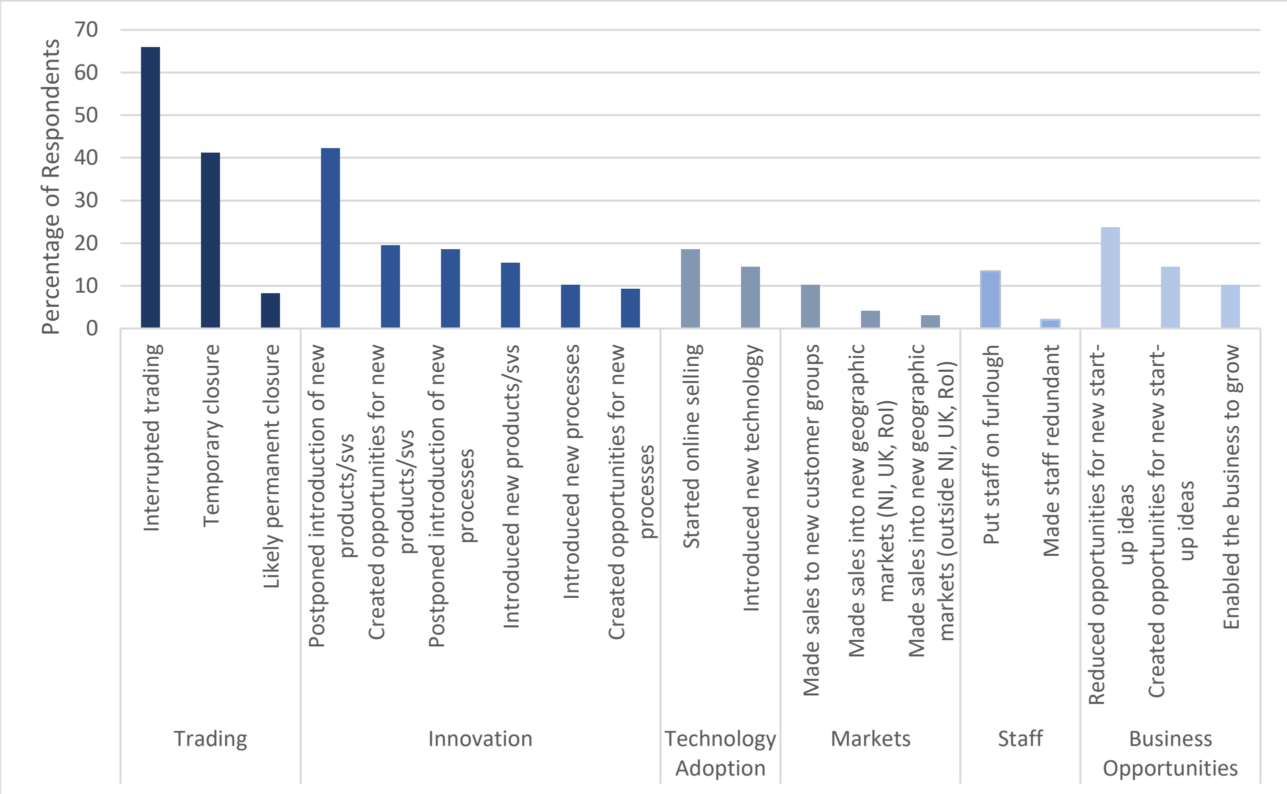
7. **The scope for further entrepreneurial activities, in the form of business start-up ideas, also appears to have been muted as a result of the pandemic with more than one fifth of respondents indicating that opportunities had been reduced.** Only 14% felt that it had created opportunities while just one in ten business owners indicated that the pandemic had enabled their business to grow. The results on growth are comparable to the Enterprise NI (ENI) Barometer (2020) which found that just 15% of micro-enterprises were reporting growth in 2020, compared with 51% in 2019.

8. The share of new businesses engaged in technology adoption was relatively low, with the survey showing less than 20% either starting to use online selling or introducing new technology. The pandemic further had little impact on sales to either new customer groups or new geographic markets.

9. Given that the majority of businesses in the sample were sole traders or the self-employed with no employees there was a limited need for furloughing of staff or redundancies. A more pressing issue raised was the operational difficulties related to new caring responsibilities during the pandemic. It corroborates findings from Blundell et al. (2020) who found that more than half of self-employed parents with young children had their work significantly affected when children were at home during lockdown.

10. When questioned about the likely duration of any changes that had been made to business activities as a result of the pandemic, just 15% indicated that these would be permanent; 37% said they would continue with some changes but not all. Just over one quarter reported they would be temporary, for the duration of the pandemic.

Figure 4.1: COVID-19 Impacts on Business Activity (% of respondents)



Source: UUEPC analysis

Impact of Recurring Restrictions

11. At the point the survey was undertaken (Dec – Jan 2021) businesses in NI had faced repeated restrictions in regard to trading, with localised restrictions effective from October and a more comprehensive lockdown in place from late December. To ascertain the resulting effect, respondents were asked to rate the impact of the recurring restrictions on a range of activities. Excluding employee retention, for which more than half indicated there was no change, at least 50% of respondents indicated that each of the individual impacts had been negative (Figure 4.2).

12. **More than four fifths of firms cited negative impacts on ability to trade, turnover and cash flow.** The latter is particularly pertinent as the ENI Barometer found that only 9% of micro-businesses in NI reported a strong or very strong cashflow position with 50% reporting a weak / very weak cashflow position (ENI, 2020). The Business Interruption Coronavirus Survey (BICS) also estimates that 29% of all businesses in NI have fewer than 3 months cash reserves as of mid-late December. The continuing restrictions into 2021 are therefore likely to exacerbate these already acute cashflow problems.

13. **The mental wellbeing of owners and of employees were also cited as being highly negatively impacted, the former rated as having a negative impact by 75% of respondents.** Notably, little there has been little evidence of the pandemic impacts on the mental health of business owners/the self-employed, the focus largely on employees to date. IPSE (2020b) did report on the impact on self-employed freelancers, finding that 26% rated their mental health as poor or very poor compared to 6% before the outbreak of COVID-19. The rise was associated with job-related stress while the increase in rates was higher for women and those aged 16-34.

14. **Of concern is also the negative impact on ability to grow the business, cited by 72% of business owners, and the negative productivity impacts, cited by 67%** (Figure 4.2). The former is important as growing businesses make a larger contribution to the economy, any barrier to that hindering economic growth. Negative productivity impacts also have additional implications; the creative destruction argument suggests that new entrant firms are more productive than those exiting the market. Such negative productivity impacts on new businesses arising from COVID-19 therefore have the potential to further exacerbate NI's longstanding poor productivity issues.

Figure 4.2: Negative Impacts on Business Activity from Recurring Restrictions (% of respondents)

Source: UUEPC analysis

COVID-19 Business Support

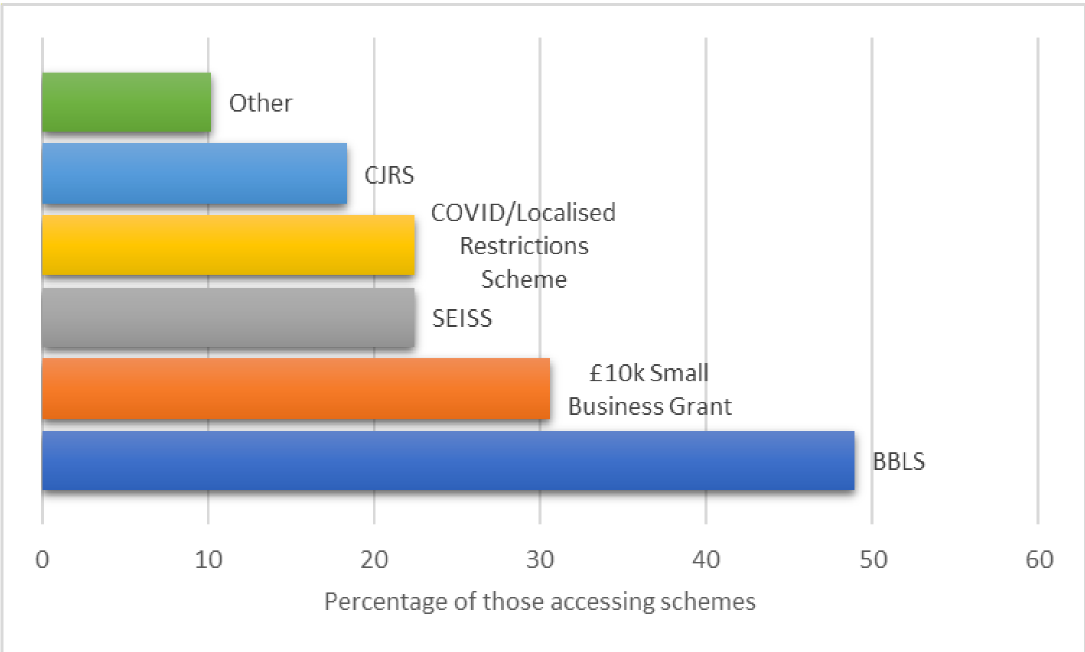
15. The survey respondents were divided in terms of accessing the business supports. Half accessed none of the grant or loan supports. This is lower

than the share identified in the ENI barometer (ENI, 2020) however they indicate that sole traders and new companies were among those least likely to access COVID-19 support. Blundell et al. (2020) support this, suggesting that the self-employed in the UK had limited awareness of schemes, and few accessed those other than the SEISS.

16. Of those survey respondents that did access support, 49% accessed the Bounceback Loan Scheme (BBLS) and 31% the £10k Small Business Grant (Figure 4.3). Although the majority of respondents identified as self-employed/sole traders just 22% accessed the SEISS, an identical share as the COVID/Localised Restrictions Business Support Schemes. Given the small firm size of most businesses in the survey it is unsurprising that the Coronavirus Job Retention Scheme (CJRS) was accessed by less than one fifth. Also, given that so few Future Fund (FF) loans have been awarded in NI, none of the respondents had accessed the scheme.

17. For those not accessing particular supports two thirds indicated the main reason was due to being ineligible to apply/excluded. A total of 16% indicated they were unaware of the support. Furthermore, one in ten had applied but were unsuccessful.

Figure 4.3: COVID-19 Business Supports Accessed (% of respondents)



Source: UUEPC analysis

18. All respondents were asked their views of the business supports available. There was a consensus that the supports were necessary to help cover business costs and that they were necessary for survival, with around 80% of respondents agreeing with these statements (Figure 4.4).

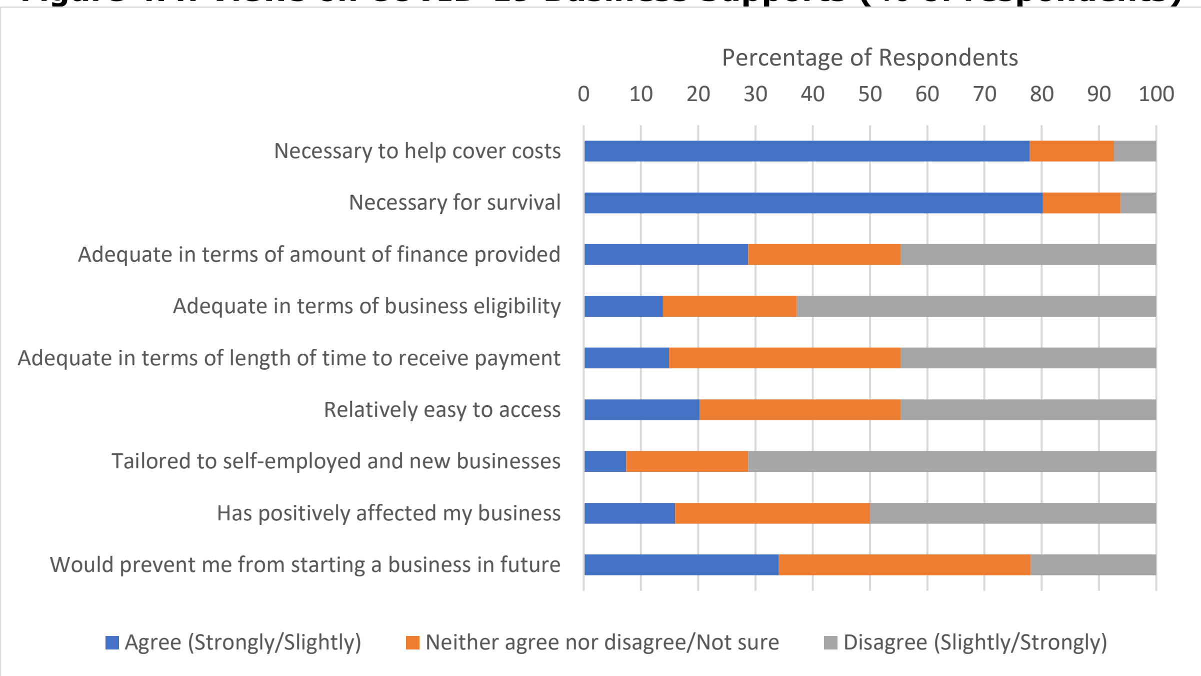
19. The adequacy of the financial supports was, however, more questionable with 45% of respondents disagreeing that the amount provided was adequate (29% agreeing); 63% disagreeing that the supports were adequate in terms of eligibility (14% agreeing) and 45% disagreeing that the length of time taken to receive payment was adequate (15% agreeing). Furthermore, just 20% felt that the supports were easy to access.

20. It is also noteworthy **that 71% of respondents disagreed that the supports were tailored to the newly self-employed/business owners**. Notably the two relevant supports tailored to those that had thus far been deemed part of the 'excluded', the Limited Company Directors Support Scheme and the Newly Self-Employed Support Scheme, were announced in late November/early December. It was perhaps too early for these to be considered by respondents to this survey.

21. While it is recognised that NI was ahead of the UK in acknowledging the need for these supports, in line with evidence from other countries, it suggests a lack of prioritisation for new businesses and the newly self-employed within the initial suite of assistance schemes. Indeed, it was suggested that the lack of assistance would have longer term impacts:

"To encourage new business starts but not assist is the wrong message and will stay in minds for a long time to come".

Figure 4.4: Views on COVID-19 Business Supports (% of respondents)

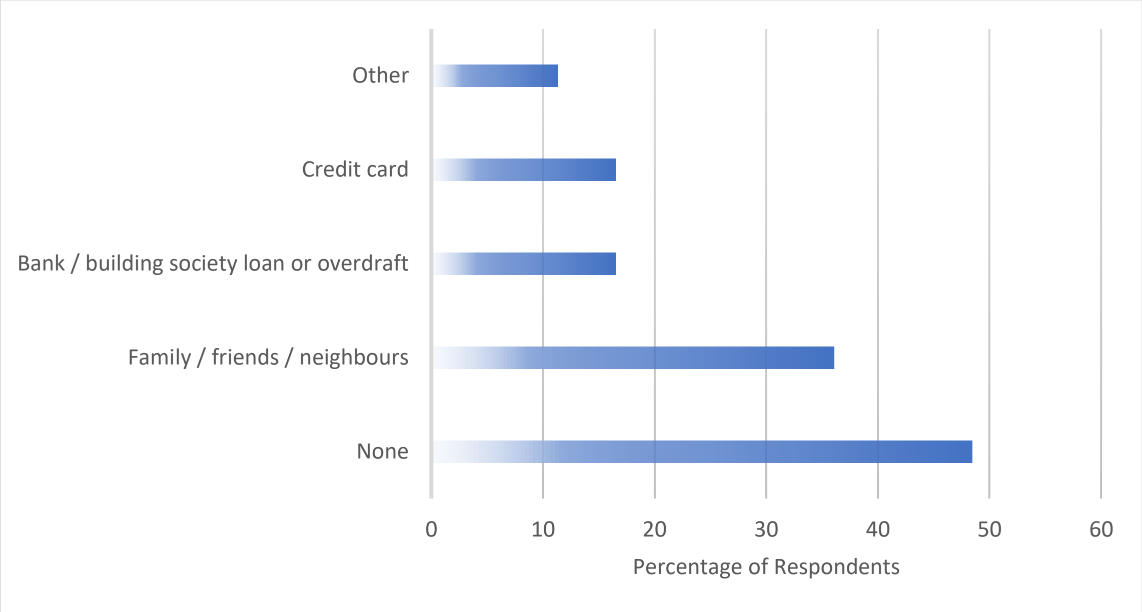


Source: UUEPC analysis

Alternative Finance

22. Respondents were asked about the other types of finance they had accessed during the pandemic. Almost half stated that they had accessed no other forms of finance (Figure 4.5). Of those that had, family, friends and neighbours were the main source, a similar finding for start-ups firms in general (Hart et al., 2020). Traditional types of lending in the form of credit cards and bank/building societies were also accessed by 17% each. Just over one in ten accessed other financing such as non-COVID government grants, business angel and VC investment, and savings.

Figure 4.5: Access to Finance (% of respondents)



Source: UUEPC analysis

23. Reinforcing the perceived inadequacies of the COVID funding, 36% of those accessing alternative financing stated that this was necessary as no other financial support was available. Just under one fifth stated that it was necessary even with other government support. Access to these alternative forms of finance was also thought to be more difficult than the pre-COVID period. This was particularly the case for bank financing with 56% of those who had accessed this form of finance stating that it was more difficult than in previous years.

Outlook for Business

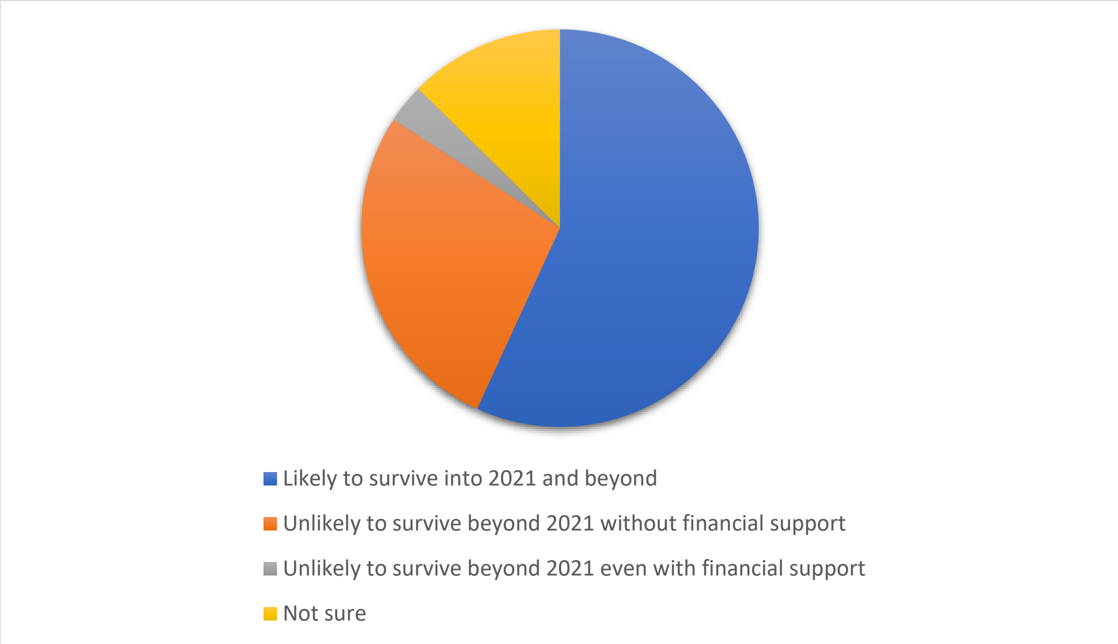
24. Despite the general negative impacts of the pandemic on new businesses, owners were somewhat optimistic about the chances of survival. Just over half indicated that they were likely to survive into 2021 and beyond (Figure 4.6). Just over one quarter did indicate that they would find survival difficult

without financial support while 13% were unsure. **The continuing restrictions and lack of certainty around re-opening are likely to influence business survival therefore without further clarity regarding the timescale for re-opening it is likely that such optimism may further reduce**.

25. Business owners were asked about their view of current conditions for starting a business compared to 2019. There was an overwhelming consensus, with 79% agreeing that conditions were more difficult than pre-pandemic and half of the remainder indicating they were unsure. Given the already relatively low business start-up rate in NI and typically lower business opportunity perceptions in NI (Hart et al., 2020) such barriers may point towards a further slowing down of business start-up activity.

26. Brexit was also thought to represent a largely negative impact on conditions for starting a business with 67% stating that it will make conditions more difficult. Given the timing of the survey, it is perhaps unsurprising that one quarter were unsure of the impact. Notably less than one tenth thought there would either be no change or that it would make start-up conditions easier. Since the implementation of the NI Protocol in January 2021 there have been indications that it offers NI a unique and advantageous position due to the regulatory alignment and free movement of goods to the EU market. The extent to which this will result in more domestic start-ups compared to inward FDI is as yet unknown.

Figure 4.6: Outlook for Survival (% of respondents)



Source: UUEPC analysis

5 Summary and Conclusions

1. Business start-up, or entrepreneurial activity, is regarded as a driver of economic growth. Initial evidence of the impact of the COVID-19 pandemic on entrepreneurial activity in NI indicates an increased number of business births and deaths during 2020. The increased birth rate in the second half of 2020 perhaps surprising given the context, but in line with the experience of other economies.

2. The overall trend in increased births may have reflected the unique circumstances of the year, with a combination of pandemic related opportunity-driven entrepreneurship, particularly in the online space, and necessity-driven start-up for those with limited employment options. Whether this trend will persist into 2021 and beyond is questionable. We may not yet have seen the full impact of the pandemic on the economy due to the 'holding pattern' brought about by government support for businesses and employees. Certainly, previous recessions have induced negative shocks to start-up rates with the impact persisting over the longer term.

3. Notably, despite the increased start-up activity, NI suffered a net loss of 1,300 businesses overall in 2020. While this is attributed in part to the crisis, 2019 also saw negative net entry in three of the four quarters due to the excess of business deaths over births, pointing perhaps to a more fundamental issue which the pandemic has only exacerbated.

Same Storm Different Boats

4. In general, Small and Medium-sized Enterprises (SMEs) are believed to have been worse affected by the pandemic, due to their over-representation in the most restricted sectors. Within this, start-up businesses are regarded as particularly vulnerable, not least due to their liquidity constraints, and lower ability and timeframe in which to build up cash reserves but also due to barriers in accessing finance.

5. Certainly, the survey evidence suggests that the majority of start-up businesses had interruptions to trading with significant impacts on turnover and cashflow as a result. Views on the adequacy of government business supports were predominantly negative with those accessing other forms of finance also reporting more difficulties than in previous years.

6. The self-employed have also been particularly affected, with numbers dropping significantly. Although difficult, as yet, to ascertain the impact on numbers of the newly self-employed, a more in-depth analysis of the categories of self-employed that have exited would help to inform policy. If, as suggested by other research, that those exiting are least risk-averse, younger and with higher incomes it suggests a potential different typology of the self-employed in the future.

7. Indeed, taking the view that self-employment is, in effect, an employment pathology would indicate a requirement for distinct policy objectives. That

is, the promotion of self-employment as a form of employment as distinct from entrepreneurship.

8. Beyond the business itself, the pandemic and recurrent restrictions have negatively impacted the mental health and well-being of business owners, entrepreneurs and the self-employed. The impact is found to be high across all constituencies with wider evidence suggesting a greater impact on women and younger people (aged 16-34). In addition to representing an important constituency in the development of health and well-being policy this is also, it is argued, of significance in economic terms given the potential impact on the willingness or ability of people to start and grow new businesses.

9. Overall, the results lend credence to the notion that start-ups have particular attributes and requirements which sets them apart from the wider SME population. Policy responses should take this into account as any hindrance to start-up activity will have longer-term knock-on effects on future innovation, productivity and economic resilience.

To the Future

10. While COVID-19 has been hugely significant in its impact, economic shocks themselves are not new and will occur again. The policy focus throughout the pandemic has been on protecting the present, with the future of economic activity receiving less attention. This is evidenced by the fact that the focus of government supports has been on existing businesses, with new business starts largely ineligible for support, or supported somewhat belatedly.

11. An overwhelming number of surveyed businesses believe that the conditions for start-up are now more challenging. This, combined with the already relatively low business start-up rate in NI and typically lower business opportunity perceptions, means that the time is ripe to revisit entrepreneurship policy and lay the foundations for a more sustainable pipeline of innovative and ambitious new entrant firms. Indeed, research has shown that regions that exhibit a high level of entrepreneurship pre-crisis are well positioned to deal with exogenous shocks (Williams and Vorley, 2015; Bishop, 2019); the resilience of the economy related to the entrepreneurial culture and ecosystem in curating innovative and adaptive behaviour.

12. Despite the potential for negative impacts, the pandemic, as with any recessionary shock, also offers opportunities. Survey respondents had identified ideas for new products or services with others adapting aspects of their business model and operations, some of which will be maintained in the longer term. Given the subsequent economic shifts of the UK's departure from the EU and the implementation of the NI protocol, these additional changes and uncertainties could result in further opportunities which should be harnessed, despite the challenges.

13. Overall, we now have a chance to address the long-standing challenges around business start-up in NI. A fundamental review of enterprise policies and a determined effort to shift the dial in developing an entrepreneurial culture can only be a positive, generating economic growth but also proofing NI's economy against inevitable future shocks.

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