

**REORIENTING ENTREPRENEURSHIP POLICY TO TACKLE CHILE'S ECONOMIC
AND SOCIAL CRISIS: A RAPID RESPONSE**

PABLO MUÑOZ Professor of
Entrepreneurship University of Liverpool
Management School Liverpool, United
Kingdom pmunoz@liverpool.ac.uk &
Universidad del Desarrollo Santiago,
Chile

WIM NAUDÉ Professor in Development Economics
and Entrepreneurship Maastricht School of
Management UNU-MERIT Maastricht, The
Netherlands naude@merit.unu.edu & RWTH Aachen
University Germany & IZA Institute of Labor
Economics Bonn, Germany.

NICK WILLIAMS Professor of
Entrepreneurship University of
Leeds Business School Leeds,
United Kingdom
N.E.Williams@leeds.ac.uk

TRENTON WILLIAMS Associate Professor of
Management and Entrepreneurship Kelley School of
Business, Indiana University Bloomington, USA
trenwill@iu.edu

RODRIGO FRIAS
Director of Early
Investment
Entrepreneurship Division
Corfo, Chile
rodrigo.frias@corfo.cl

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REORIENTING ENTREPRENEURSHIP POLICY TO TACKLE CHILE'S ECONOMIC AND SOCIAL CRISIS: A RAPID RESPONSE

Abstract

Chile is experiencing its worst economic and social crisis in decades, which is adversely impacting entrepreneurs and SMEs. Chile's Economic Development Agency is seeking to support recovery efforts by reorienting its entrepreneurship programs and ecosystem support capacity. What makes the reorientation especially challenging is the need to ensure all actions are sensitive to the causes of the social unrest, where arguably extant entrepreneurship policy has played a role. Theory and evidence in entrepreneurship literature seem insufficient to inform immediate actions. In this rapid response paper, we leverage and translate research on ecosystem democracy, spontaneous venturing and entrepreneurship-enabled social cohesion to inform decision-making and contribute to the development of policy solutions. We propose an entrepreneurship policy

reorientation model, including interventions during and post crisis, potentially capable of minimizing the effects of the crisis and changing the orientation of future support.

Keywords: entrepreneurship, crisis, entrepreneurship policy, rapid response, Chile.

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1 Research context and problems requiring rapid response

Chile is experiencing its worst crisis in decades. On 18th of October 2019 a rise in public transport

fares triggered country-wide protests, which is the worst civil unrest in the country in the last four

decades. While seemingly surprising, the crisis has been decades in the making (Pribble, 2019).

Specifically, the crisis is the consequence of a series of reforms unfolding since 1900s, which

resulted in rising costs of living, income inequality and over-privatization of social services. The

fast-growing market economy of the 1990s and 2000s had become a market society of pay-for-it-

yourself pensions, health care and education. With stagnating family incomes, inadequate

pensions, healthcare and education, historically high levels of inequality had become

glaringly

painful

The 2019 protests threw the Chilean economy into crisis. The Peso plummeted, becoming one of the worst-performing emerging market currencies (Mander, 2019). Prospects for employment and self-employment in now-barricaded cities rapidly deteriorated. The impact on micro/SMEs and entrepreneurship has been enormous. During the first 50 days of mass protests, over 15,000 micro/SMEs were directly damaged (Infobae 2019). Specifically, they experienced a dramatic loss in revenue as most of them have had to remain closed to avoid violence, protests and riots. In addition, 9,200 micro/SMEs reported damages to their physical infrastructure; 6,800 experienced looting or arson damage; and 10,000 shops and roadside vendors were robbed. To date, only 18% of Chile's micro/SMEs were not *directly* affected by the social unrest. The result of the crisis is that an estimated 100,000 micro/SMEs could eventually face closure, which would likely cause the additional unemployment of over 300,000 more people (Hausold, 2019). To make matters even worse, micro-SMEs face additional uncertainty due to impending constitutional reforms,

which,

along with macro-environmental changes, will likely have a profound impact on pensions, health

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care and education systems (Mander, 2019). The eruption of the COVID-19 virus is adding even

more uncertainty, as small businesses around the world are going bankrupt at unprecedented rates.

This comes as a shock for those who had begun to recover in Chile, and most likely a knockout

for those who were already in the verge of failure.

In response to the 2019 crisis, the Chilean government launched a US\$16.5MM rescue

package, which included flexible loans and subsidies with the objective of facilitating an economic

reconstruction. However, the loan package is very limited in direct impact, as the average amount

allocated for each of the affected micro-SMEs is only US\$9,000. To counteract the deficiencies in

the relief package, CORFO - Chile's Economic Development Agency - is meant to play a key role

in the recovery process. CORFO is the largest agency supporting entrepreneurship in the country

and is the primary financing engine behind Start-Up Chile, the first seed accelerator founded by a

public agency. CORFO also runs a number of programs and initiatives, including tax relief for

R&D activities, promotion of Venture Capital (VC) investment portfolios, subsidies for ecosystem

support services, prototyping, and direct funding for new ventures throughout their lifecycle.

Historically, it has also played an important role in times of crisis, supporting small businesses

after natural disasters.

In December 2019 CORFO launched “Arriba tu Pyme” (SME Raising), a public-private

platform initiative aimed at connecting crisis-affected SMEs with support, including funding,

expert advice, or online sales channel access. While these efforts are valuable, they are not taking

advantage of Chile’s unique entrepreneurial culture (Muñoz et al. 2020), the responsiveness of

local entrepreneurs facing disasters (Muñoz et al. 2019) and CORFO’s annual budget of

US\$30MM for entrepreneurship support. CORFO’s entrepreneurship division and the Department

of Economy are considering changes to the entrepreneurship support policy as a possible response

to the unfolding
crisis.

Despite numerous advancements in recent scholarship at the intersection of
entrepreneurship

and crisis, current entrepreneurship literature appears to be insufficiently organized and
consolidated to inform immediate actions facing these specific circumstances and
demands. In this

Rapid Response, we aim to provide evidence and insights to contribute to
decision-making and

the development of policy solutions. We bring together three streams of research on

entrepreneurship and crisis, translate evidence to the Chilean context, propose a model
for policy

reorientation in times of crisis and recommend interventions that can be implemented
during and

post-crisi
s.

2 Policy reorientation in times of crisis

Alongside providing seed funding for entrepreneurs directly, an important part of
CORFO's fund

is allocated to the entrepreneurial support industry, i.e. incubators, accelerators, mentor
networks

and alike. The ecosystem support industry is highly subsidized and, in light of evidence,
we believe

there is an opportunity to reorient entrepreneurship policy and steer Chile's entrepreneurial

ecosystem in pursuit of short- and long-term goals. In practical terms, this means 1. redirecting

entrepreneurial activities to facilitate a speedy recovery and 2. using the entrepreneurial support

industry to tackle the effects of economic downturn (e.g. raising unemployment, failure of small

businesses, etc.) in a way that is sensitive to the causes of the social unrest: inequality and

privatization. There is a hidden tension in this 2-sided solution, as it might require government

agencies to revisit what is desirable in terms of entrepreneurial outcomes (e.g., Welter et al.

2016; Lucas and Fuller, 2017) as urgent needs are addressed.

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To resolve the tension, we propose a model for policy reorientation in times of crisis that

brings together three emerging streams of entrepreneurship and crisis research, namely: ecosystem

democracy, spontaneous venturing and social cohesion. Our conceptualization stems from studies

looking at entrepreneurship in post-conflict countries in Africa, the Middle East and Latin

America (Brück et al., 2013), in post-crisis Greece and the Balkans (Williams and

Vorley, 2015;

2017), venturing in the aftermath of Hurricane Katrina (Grube and Storr, 2018),
bottom-up

responses after Australia's wildfires and Haiti's earthquake (Williams and Shepherd,
2016a;

2016b; 2018), and reflections on the failure of Europe's entrepreneurship policy after
the 2009

financial crisis and facing the ongoing situation with refugees (Naudé, 2016; Desai et
al., 2020).

In Figure 1, we introduce the model for policy reorientation in times of crisis,
comprising

three policy spaces that mirror the research streams (grey circles). Our collective view is
that

exploring the interaction between these three streams - as a cycle of policy decisions -
can shed

light on ways forward. Each space contains policy directives (boxes in dotted lines),
each of which

can inform concrete initiatives or
interventions.

---Insert Figure 1 about
here---

Following our model in Figure 1, governments have the opportunity to engage in a
reorientation

process and implement level-specific interventions, both during and post crisis. By doing
so, they

can potentially enable recovery in the short term and a transformation of their approach

to

entrepreneurship policymaking in the long term. In the following, we unpack the three spaces

structuring our model using evidence from the above research streams.

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2.1 Ecosystem democracy

Chile is a model of an “elite democracy”. It is characterized by a government that privatizes public

enterprises, enlarges the opportunities for overseas investors to control national resources, and at

the same time imposes controls over wages, union organization and strikes (Petras and Leiva,

2018). While entrepreneurship seems central to tackling Chile’s crisis, elite democracies tend to

have a detrimental impact on entrepreneurship due to increments in income inequality (e.g. Akcigit

and Ates, 2019; Decker et al., 2017). While moderate levels of income inequality can provide

incentives for entrepreneurship (Ragoubi and El Harbi, 2019), a high level of inequality can

constrain action, particularly so in the absence social mobility (Méndez-Errico, 2017).

When an economy is characterized by high income inequality, only a small share of (opportunity-based, growth-oriented) entrepreneurs at the top of the income distribution tend to

have to access disproportionate resources (Lippmann et al., 2005). As a result, income inequality,

uncertainty and social unrest are likely to escalate. The latter combination of factors can slow down

growth and investment and negatively change the incentives for the allocation of entrepreneurial

talent, whilst triggering crime and violence.

Empirical evidence suggests that Chile had become less entrepreneurial and that the country's

economic activity is not very innovative. Counterintuitively, more investment in opportunity-

based, growth-oriented entrepreneurs does not seem to be the most productive way out of the crisis.

Chile must move towards a new social contract: one where elite democracy makes space for

participative democracy, which for entrepreneurship entails *democratizing the entrepreneurial*

ecosystem. In essence, Chile democratized its political system in 1990, but not its entrepreneurial

ecosystem and the current crisis is offering the country an opportunity to move in that direction.

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Perhaps even more than short term support and solidarity for affected SMEs, what Chile now needs

is to break the negative hold of elitism on its entrepreneurship and innovativeness.

To nurture ecosystem democracy in times of crisis, governments should not directly target

particular firms or sectors, but rather focus on spatially located agglomerations of economic

activity, in a decentralized manner (GCF, 2017). For this to be ultimately sustainable, both

financially and socially, government agencies need to de-emphasize the use of top-down

instruments to promote entrepreneurship, and embrace instead ecosystems as “complex adaptive

systems” that emerge from the “uncoordinated, semi-autonomous actions of individual agents”

(Roundy et al., 2018:3). The decentralization of Chile’s entrepreneurial ecosystems is central to

its democratization, and the emergence of spontaneous and responsive venturing. A second

requirement for democratization involves *cultural values*. As the crisis unfolds, the

values

underpinning Chile's entrepreneurial ecosystems seem to remain anchored in the past. It is yet to

realize that the values underlying a new democratic era appear at odds with what previous

prescriptions for economic development tolerate. This is lack of inclusiveness, acceptance of high

levels of inequality, short-term focus on resource exploitation, and the absence of efforts to build

a resilient and diversified entrepreneurial ecosystems. Such values have proven insufficient to

prepare Chile's entrepreneurial ecosystems for the economic shock of 2019 and the health

emergencies of 2020.

Decentralizing entrepreneurial ecosystems and updating their cultural values facilitate a joint

understanding that a vital function of an ecosystem is to help entrepreneurs invest and believe in

the future, despite the inherent risks and uncertainty. Even in the face of social unrest and

pandemics. This in turn leads to a shared recognition that the provision of basic social security –

unemployment insurance, social welfare grants, access to education and other public services – are

particularly important for the vast majority of entrepreneurs. Against common belief, rolling back

privatization and extending social security coverage can encourage entrepreneurship and build

social cohesion, particularly amongst those excluded in the past.

2.2 The spontaneous emergence of responsive venturing

While seemingly extreme, crises are becoming increasingly common and provide challenges to

everyday life. Traditionally, many scholars and policy makers have sought to understand how

institutions can respond to and manage crises. Yet, bureaucratic organizations are often unable to

effectively respond to needs on the ground (Marcum et al. 2012). Consistent with the research

established in the next section, institutions vary in their effectiveness in supporting *general* efforts

for entrepreneurial emergence. This is true in post-crisis venturing as well, where ventures pursue

limited resources in either stable (e.g., Australia) or highly disrupted (e.g., Haiti) macroeconomic

contexts. However, despite the differences in institutional nesting, “bottom-up”

entrepreneurial

venturing can still provide productive benefits for victims of crises (Shepherd and Williams, 2019;

Williams and Shepherd, 2016a, 2016b).

Recently, entrepreneurship scholars have begun to document if/how *victim* actors can be a

resource in solving problems in the midst of a crisis (Williams et al., 2017; Shepherd and Williams,

2018). This scholarship builds on the disaster response literature in recognizing that local,

enterprising actors are *best positioned* to understand the needs in the impacted area and mobilize

a customized response (Williams and Shepherd, 2018). Given these observations, it would appear

to be critical for actors outside of the impacted areas in Chile to consider the following.

First, it is important to acknowledge the limitations of traditional organizations and institutional actors when considering an appropriate response. Post-disaster contexts can catch

communities and organizations off guard as the environment becomes “loosely connected, broken

down in bits and pieces ... and organization structure [can] become fragmented and erratic”

(Lanzara, 1983:76). Therefore, attempts to “control” the environment and decision-making within

the context will be limited. Indeed, the command-and-control approach to crisis management has

been widely criticized (Quarantelli and Dynes 1977; Tierney 2012) as it promotes rigidity and

inflexibility where flexibility and improvisation are critically needed for an effective response

(Shepherd and Williams 2014). Given the magnitude of disasters; command-and-control

organizations struggle to coordinate across diverse actor groups, e.g. medical professionals,

emergency responders, and government officials (Waugh and Streib 2006) and face substantial

challenges in identifying, organizing, and deploying various stakeholders (Drabek and McEntire

2003; Lanzara 1983).

Second, local individuals who are impacted by the crisis will be the most capable of generating

innovative solutions that *directly* address needs on the ground. In fact, crises often reveal local,

network-based resources that were perhaps under-utilized during periods of calm. Major crises

often trigger an explosion of meaning as individuals seek to make sense of the “new normal” and

try to “build back better” (Roux-Dufort 2007; Turner 1976). The extensive literature on disasters

has shown that emergent organizations (e.g., spontaneous ventures) *always* emerge after a crisis

to help address critical needs, when a “community feels it is necessary to respond to or resolve

their crisis situation” (Drabek and McEntire 2003: 99). Given that emergent organizations can and

will arrive to make a difference following the crisis, it is imperative that institutional actors (and

outside donors) find ways to support and enable these organizations who are on the ground. Indeed,

the tendency can be to do the opposite—to try and “tamp down” locally-organized efforts that are

not coordinated by a centralized body.

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Finally, emergent organizations will take part in altering, creating, and re-configuring

community actors. That is, disasters may disrupt the constitution of existing communities, but they

also shape the emergence of new collections of individuals who share a new interest—surviving

and thriving together despite the crisis. Emergent organizations are characterized by their ability

to draw together multiple and diverse community actors for a shared purpose (Christianson et al.,

2009; Majchrzak et al., 2007); introduce symbolic actions, trust, and coordination within a

community; ease physical, psychological, and financial suffering; and offer both flexible and

customized solutions despite the dynamic and uncertain post-disaster environment (Christianson

et al., 2009; Drabek and McEntire 2003; Majchrzak et al., 2007; Shepherd and Williams, 2014).

As individuals, organizations, and other stakeholders emerge to solve problems together, we

should expect both short and long-term organizational solutions to emerge. For example, some

may launch community-based ventures to address urgent needs, whereas others may emerge after

several months when secondary needs appear (e.g., psychological counseling). As with any form

of organizing, crisis-based organizing can change motivations. It is critical that actors involved in

post-crisis organizing be honest in this process by continually assessing if/how they are doing

good. As more money pours in from within and outside of Chile, there is an increasing likelihood

for waste and/or misuse of funds. In summary, doing good is not always easy, as the “needs”

evolve over time and the ability to define and execute “helpful” activities shifts as well.

2.3 Social cohesion enabled by entrepreneurial action

Countries experiencing crisis must balance short-term and long-term considerations, so that over

time the economy can become more resilient and thus better able to withstand shocks. Policy

making which supports entrepreneurship during a crisis is not easy. The first rule in such situations

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should be ‘do no harm’. That is to say that policy makers should avoid any actions which limit

entrepreneurial activity and its potential contribution to economic and social development. This

means, for example, avoiding adding further unnecessary bureaucratic burdens on business as well

as avoiding damaging tax increases. Often this is not easy advice for policy makers to take. For

example, post-crisis Greece was (and still is) in a fiscally parlous state and, under pressure to

generate revenue from its EU bailout benefactors, increased taxes on business sectors (Williams

and Vorley, 2015). If such decisions are made which ultimately stymie entrepreneurship, for

example through tax increases making some sectors less competitive, then long term recovery will

be damaged (Williams and Vorley, 2017).

At the same time as following the 'do no harm' principle, policy makers must also seek ways

to enable economies to become more diverse. Greater diversity in the economic base can lessen

the impact of a crisis (Williams and Vorley, 2017). Measures which seek to reduce unemployment,

for example through loans and subsidies to entrepreneurs and small businesses during the crisis,

must not simply consolidate the positions of dominant businesses, but must seek to encourage

competition and diversity. In this way, economies can become more resilient over time. As certain

sectors or supply chains may be vulnerable to a crisis (depending on its nature) others can

withstand it better.

Diversity can also enhance social cohesion by bringing a broader range of knowledge together.

Social cohesion acts to bind society's assets together, and where there is trust, human and financial

capital will be put to productive use. This is a challenge in the context of Chile, given the levels of

inequality which has meant that social strata do not mix (Davies, 2019). Such division undermines

the social cohesion which has important implications for resilience, as more homogenous and

cohesive societies enjoy higher levels of economic development (Huggins and Thompson, 2017).

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Entrepreneurial activity in the midst of crisis can make important contributions to social cohesion.

As research on the aftermath of Hurricane Katrina shows (Grube and Storr, 2018) entrepreneurs

can perform important community recovery roles.

Chile is aiming to respond positively to the crisis, with the Economic Development Agency

(CORFO) seeking new ways of supporting the entrepreneurial infrastructure and moving away

from previously inefficient investment strategies. To do so, CORFO must consider the social

cohesion element of entrepreneurship. In Chile's case, support can be given to entrepreneurs who

fill community roles, for example by contributing to employment programs or by linking

businesses in urban centers to rural areas where inequalities are most stark. This requires revisiting

what is considered productive in entrepreneurship. Fast-growing, innovative entrepreneurship is

important, but in post-crisis places productive entrepreneurship can be that which assists social

cohesion. It also requires re-thinking about the 'places' in which entrepreneurship is supported.

The ecosystem support industry is highly subsidized; however, this has mainly benefitted those

within the capital of Santiago, with the benefits not spreading more widely. Supporting

entrepreneurship in peripheral places can generate returns that enhance social cohesion. Over time,

entrepreneurial activity which contributes to social cohesion can have lasting impacts, improving

people's access to opportunities that they were previously excluded from and improving

knowledge flows between different social strata.

3 What now?: Considerations and interventions

While the causes of crises are better understood (Doern et al., 2018), resolving how economies can

bounce back from a crisis and what policy makers can do in the midst of a crisis still require

research (Williams and Vorley, 2017). As with other crisis-hit economies, the answers facing Chile

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are not simple, and contain a number of difficult trade-offs. Crises that have been decades in the

making, such as in Chile (Pribble, 2019), are not simple to resolve.

Restoring law and order and macroeconomic stability are normally seen as key priorities.

However, policymakers can find ways to support entrepreneurship and, through it, tackle the social

crisis. As seen in the presentation of our model, policymakers must balance short term with long

term considerations, as well as the many levels in which action and transformation can take place.

In the short term, Chile is exploring ways to support its entrepreneurs so that risks of closure and

the resultant unemployment associated with it can be minimized. Yet, in the long term the

entrepreneurship support infrastructure should work together to lessen the likelihood of future

crises and their severity. There is unfortunately no single, magic bullet for entrepreneurship

policymaking. Rather, complex trade-offs need to be made which ensure that the entrepreneurial

fabric of an economy is not damaged further, which in turn will enable the problem-solving

capacity of entrepreneurs during and post-crisis.

To move forward with the policy reorientation process, three considerations need to be taken

into account. A first consideration involves an examination of whether, how and to what extent

entrepreneurship policies are part of the problem. Also, a recognition that crises might uncover the

deficiencies in entrepreneurship policymaking, which might call into question what

entrepreneurship is useful for, and why it requires support. This creates opportunities for

policymakers to open up spaces for dialogue and thinking about value-driven ecosystems

(Robinson and Mazzucato, 2019), which can potentially allow for improving responsiveness today

and reducing inequalities as the crisis fades away.

A second consideration entails moving away from elite entrepreneurship and focusing on

using entrepreneurship to encourage participation and foster social cohesion. In doing so,

entrepreneurship policy can open pathways for uncoordinated, semi-autonomous

actions of

individual agents and spaces for responsive venturing to emerge. This, by means of decentralized

programs and the promotion of diversified place-based economic activity. If emergent

organizations are embraced and adequately nurtured, spontaneous responsive venturing can

naturally take care of urgent and secondary needs, enabling new forms of economic activity. These

are more likely to be embedded in and with the capacity of changing local communities (i.e.

reconfiguring actors and practices). This in turn equip communities and ventures with the

necessary tools to collectively respond to the crisis. As this happens, responsive venturing in

conjunction with ecosystem actors, can enable social cohesion at the local level, restoring human

and financial capital and potentially trust. We argue that if and when social cohesion takes center

stage, policy can further leverage its outcomes (i.e. recovery role of responsive ventures and

economic diversity) to visualize resilience pathways and, in turn, strengthen the renewed

participatory nature of a revamped entrepreneurial ecosystem. This cycle - ecosystem democracy,

emergent responsive venturing and social cohesion - is potentially capable of minimizing the

effects of the current crisis and changing the orientation of future support in a way that encourages

bottom-up innovation whilst removing entrepreneurship policy from the set of causes leading to

expanding inequality.

A final consideration involves the articulation of decisive actions. In Table 1, we recommend

a number of interventions to set the policy orientation model (Fig 1) in motion. The proposed

interventions are elaborated to be implemented during the crisis and in a post-crisis stage. This can

ensure continuity of efforts and increase the likelihood of a coherent policy transition.

---Insert Table 1 about here---

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Chilean entrepreneurs are facing the worst social and economic crisis in decades, and the COVID-

19 is further complicating a task that already seemed unattainable. While these crises are creating

a “perfect storm” of disruption for Chilean entrepreneurs, they also create opportunities to rethink

entrepreneurship policy in the face of crisis and in the dawn of a new normal, which can help to

“build back better” than before. We hope our rapid response can assist Chile’s efforts and support

their entrepreneurial community.

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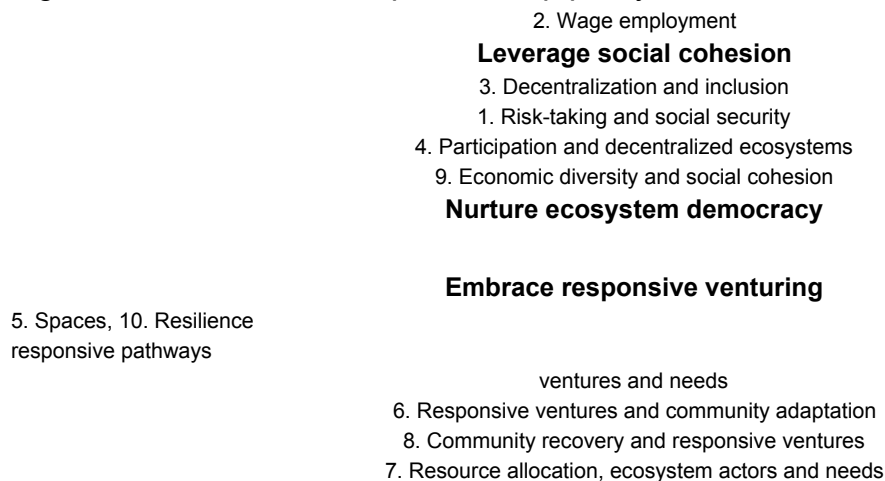
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5 Figure and Table

Figure 1. A model for entrepreneurship policy reorientation in times of crisis



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Table 1. Entrepreneurship & recovery: Interventions during and post-crisis

Focus During crisis / short term Post-crisis / long term Ecosystem democracy

Support entrepreneurial risk-taking through an encompassing and reliable social security system within entrepreneurial ecosystems

Develop an unemployment insurance mechanism for SMEs to prevent massive layoffs in the future when a new crisis arises

Prioritize quality wage employment within entrepreneurial ecosystems

Establish a minimum wage or salary range within support programs and subsidies for ecosystem actors

Identify new territories needing resources, tools and coordinated support with other entities, so that it facilitates and accelerates the emergence of entrepreneurial communities

Reduce emphasis on 'elite' entrepreneurship through decentralization and inclusion

Expand quotas within current support programs aimed at increasing participation of new or existing ventures from peripheral regions

Encourage participation across decentralized ecosystems

Strengthen bottom-up ecosystem roundtables, encouraging and valuing self-direction. Provide support by mean of flexible policy tools capable of matching purpose with local realities.

Provide long term support for roundtables and disseminate learning from ecosystems

Responsive venturing

Open spaces for emergence and coordination of diverse responsive ventures tackling urgent and secondary needs.

Embrace mission-oriented policy and promote long-term collaborations with responsive ventures focusing on the nature of recurring problems. Temporarily allow emerging responsive ventures to remain informal (when/if needed) throughout crisis and recovery.

Coordinate and identify needs across government agencies needing and supporting entrepreneurship, e.g. health, education, logistic. Encourage responsive ventures to create and re-configure community actors in the development of solutions; allocate resources to responsive ventures tackling urgent challenges

Develop greater ecosystem diversity through bottom-up ecosystem roundtables.

Mobilize and coordinate complementary actions of diverse groups of entrepreneurs, capable of tackling different urgent and secondary needs

Create long-term links between groups to establish knowledge spill overs

Social cohesion

Deploy the existing infrastructure and resources (e.g. subsidies, networking) to speed up the implementation of solutions generated by responsive ventures

Leverage long-term community recovery roles of responsive ventures

Deploy agencies to capture emergent entrepreneurial activity and industries and examine their growth potential

Promote greater economic diversity and emerging social cohesion

Deploy agencies to capture emergent entrepreneurial activity and industries and examine their potential as resilience mechanisms

Communicate successful strategies undertaken during crisis to create knowledge spillovers for other firms