

# NOTES YOUTH DEVELOPMENT



## Youth Entrepreneurship

### *Measures to overcome the barriers facing youth<sup>1</sup>*

As traditional job-for-life career paths become scarce, youth entrepreneurship provides an additional way of integrating youth into today's changing labor markets and improving their economic independence. For some young people around the world, self-employment provides income, self-reliance and a dynamic path for growth and the development of human capital. In addition, young entrepreneurs may be more responsive to new economic opportunities and trends. However, entrepreneurship is not a panacea: it is not for everyone, and those young people who wish to enter self-employment face obstacles to starting and running a successful business. This note highlights some of the barriers to and opportunities for youth entrepreneurship and suggests policies that may help to overcome these barriers.



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*Today's youth (15–24) constitute the largest cohort ever to enter the transition to adulthood. Nearly 90% live in developing countries and the challenges they face—low quality education, lack of marketable skills, high rates of unemployment, crime, early pregnancy, social exclusion, and the highest rates of new HIV/AIDS infections—are costly to themselves and to society at large. Client demand for policy advice on how to tap the enormous potential of youth is large and growing. This series aims to share research findings and lessons from the field to address these important cross-sectoral topics.*

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## Youth entrepreneurship – an avenue of opportunity

Entrepreneurship can unleash the economic potential of young people and be a source of new jobs and growth, while improving their economic independence. Young people can no longer expect to find ‘job-for-life’ careers but rather ‘portfolio careers’ (contract employment, freelancing, periods of self-employment, etc.). Entrepreneurial experience and/or education help youth develop new skills that can be applied to other challenges in life. Non-cognitive skills, such as opportunity recognition, innovation, critical thinking, resilience, decision making, teamwork, and leadership will benefit all youth whether or not they intend to become or continue as entrepreneurs.

However, youth entrepreneurship is not by itself a solution to the problem of youth unemployment; it should be seen as an important complement *within* broader youth employment and investment climate policies. Markets in developing countries are often weak and volatile, and while informal activities especially present relatively few barriers to entry, further research is required to understand the specific needs of young entrepreneurs.

## Crucial factors for entrepreneurial engagement

### Factor 1: Promoting an entrepreneurial culture among young people

Promoting an entrepreneurial culture is one of the most essential and neglected components of entrepreneurship development.<sup>2</sup> Changing cultural practices and beliefs around entrepreneurship is a long-term process. These efforts generally focus on four issues:

- *Understanding cultural influences on entrepreneurship and assessing the attitude of young people.* Before launching policy measures and initiatives for youth entrepreneurship, it is essential to know more about the attitudes, awareness and aspirations towards entrepreneurship among young people. Attitude surveys such as the Youth Entrepreneurship Barometer (Bertelsmann Stiftung) have become a useful research tool in this regard.
- *Promoting role models.* Successful entrepreneurs are excellent ambassadors for promoting entrepreneurship. Against this backdrop, various initiatives focus on establishing and strengthening direct contacts between young people and “role-model” entrepreneurs.
- *Youth business fairs, expositions and competitions.* These are useful initiatives for introducing entrepreneurship to youth whilst simultaneously tapping into youth culture.
- *Public relations campaigns, internet and media coverage.* The internet is an ideal medium for the transmission of entrepreneurial values and technical skills.

### Factor 2: Improving entrepreneurial education

Entrepreneurship education equips youth “to be innovative and to identify, create, initiate and successfully manage personal, community, business and work opportunities, including working for themselves.”<sup>3</sup> Entrepreneurial education can also

foster greater personal responsibility, flexibility and creativity necessary to cope with today’s uncertain employment paths.

Entrepreneurship education has expanded dramatically over the past five years. In 2004, the European Commission proposed that all EU member states introduce entrepreneurship education into the national curriculum, from primary school to university.<sup>4</sup> Organizations such as Aflatoun promote the integration of financial and business education in school curricula around the world to children as young as six years old.<sup>5</sup> Yet even in countries that do have active enterprise education programs, the topic still faces numerous constraints:<sup>6</sup>

- *Inadequate and poorly integrated curricula.* Teaching entrepreneurial skills and behaviors is often not properly integrated into school curricula and may not teach students to think and act independently, to be self-reliant and take risks.
- *Outdated learning methods.* Most education systems still lack practical, experiential and teamwork learning.
- *Inadequately trained teachers.*
- *Insufficient career information and assistance.*
- *Weak links between schools and businesses.*
- *Inadequate ICT infrastructure/capability.*

### Factor 3: Improving access to financing

Lack of adequate start-up capital is a dilemma that faces entrepreneurs of all ages, but it is particularly difficult for young people due to their lack of security (substantive credit history, sufficient collateral or guarantees) and of credibility (lack of experience). Before targeting youth with particular credit strategies and initiatives, it is important to understand the nature of the problem. Do young people present a higher risk to lenders? Is there a price at which lenders are willing to provide financing to young entrepreneurs (in which case the difference between that price and the “market” price can be thought of as the risk premium)? If young people are no more likely to default than older borrowers, but still cannot find financing, then the market is failing for other, nontransparent reasons. It is also important to understand and evaluate the need for start-up finance among young entrepreneurs. The financing requirements can be fulfilled by various types of funding mechanisms, which may present some advantages over relatively short-run credit. These are explained below:

#### Grant financing

- Grant-based schemes are a common approach to stimulate entrepreneurship and start-up activity. It can be an important source of finance for people who lack access to bank loans. It has been argued that programs should deal with the constraints to access to commercial finance rather than providing free money, and these programs may be fraught with “moral hazard”: that is, when the recipient is not entirely liable for the money or for the full consequences of her actions.<sup>7</sup>

#### Debt financing

- *Soft loans* involve the provision of credit at no or very low-interest terms. There are generally no collateral requirements, although there may be eligibility criteria such as having a business plan, demonstrating commitment, ability to repay the loan and having reasonable equity participation. Some



programs may include business training or assistance as part of their lending to young entrepreneurs.<sup>8</sup>

- *Micro loans* are small loans, mostly offered by micro finance institutions such as credit unions and NGOs. The demand for micro-credit still vastly exceeds supply, especially for young entrepreneurs in developing countries.
- *Loan guarantee schemes*. The government assumes some or all of the credit risk involved in lending to young entrepreneurs. This is potentially an efficient means to facilitate young people's access to conventional financing, however, loan guarantee schemes must be designed carefully to minimize the likelihood of "moral hazard".

### Equity financing

- *Own and family resources*. Most emerging small businesses of young people are launched with personal savings or financing provided by friends and family. This kind of funding can be further strengthened through tax incentives or a general reduction of administrative and regulatory costs.
- *Angels and venture-capital investors' networks*. Private sources are more common in developed countries where considerable research is conducted before choosing a start-up with high-growth potential. This will probably not become the main source of financing for youth enterprises in developing countries, but may grow in importance in the globalizing world, as investors begin to search more widely for high-return opportunities.

### Improving the regulatory environment for start-up finance

- *Rating procedures, risk assessments and credit scoring systems* should be as transparent as possible.
- *Shortening and simplification of documentation procedures*. Financial institutions could streamline their administrative procedures, which would also reduce the processing time of loan applications.
- *Tax relief*. Complex tax codes and regulations can present obstacles to investment among all entrepreneurs. There may be an "infant industry" argument for providing young entrepreneurs with tax incentives. High tax rates can deter lenders, and tax relief or incentives can encourage the use of personal savings and strengthen young entrepreneurs' capacity for self-financing.
- *Information and mentoring*. A mentor can assist young entrepreneurs in preparing business plans, understanding complex regulations, calculating the amount of capital they will need, and in securing financing.

### Factor 4: Improving the administrative and regulatory framework

Administrative burdens are particularly time-consuming and expensive for young entrepreneurs with little or no experience. Administrative costs and high tax levels can become an insuperable barrier to setting up a business. Policy initiatives and instruments can effectively reduce these barriers:

- *Supportive taxation regulations*. Simpler tax filing and accounting requirements and the provision of assistance for small micro-enterprises (SMEs) in general and for young entrepreneurs in particular.

- *Reform of bankruptcy laws*.
- *Wider dissemination of information about changes to business regulations*.

### Factor 5: Improving business assistance and development services

The more assistance an entrepreneur obtains during the start-up the better are her chances of creating a successful and sustainable business. However, young entrepreneurs often lack the support services that are key to transforming fragile one-person start-ups into successful small- and medium-sized businesses. Support services can take many forms:

#### Business skills training, guidance and counseling services

- *One-stop shops*. Physical or electronic online portals to assist with registrations, financing applications etc. Some governments and NGOs have set up websites and portals providing online information, advice and even online training for young entrepreneurs.
- *On-the-job training and workshops*. Enterprise support agencies and NGOs can provide accessible on-the-job training focusing on start-up issues as well as business expansion support.
- *Mentor support and business coaching*. Formal mentoring involves assigned relationships designed to provide young entrepreneurs with advice and guidance from experienced professionals. Governments, NGOs and trade associations in many countries have launched formal mentoring programs.

#### Box 1: A few critical questions

There will always be creative young people who do become entrepreneurs—out of necessity, or out of interest. However, far from all succeed. In designing or recommending policies to assist young entrepreneurs, we must try to answer a number of important questions:

- Very few youth entrepreneurship programs have been rigorously tested. More research and evaluations are required. How many businesses have been started through these programs? At what cost? How many of these businesses survive? What distinguishes successful training programs?
- How effective are school-based entrepreneurship programs? Should they begin in primary school, or focus on secondary school?
- How do the conditions facing young entrepreneurs differ across countries? What is the link between the overall investment climate and the likelihood of young entrepreneurial success?
- How do successful young entrepreneurs differ from unsuccessful ones? Is this something that can be influenced by policy?
- Evidence shows that those with high growth potential are more likely to succeed. But how can we support the many poor and disadvantaged young people who are driven by necessity into self-employment in low-return activities?
- Should we address the obstacles facing young people that are due to their limited life and work experience? Presumably, these barriers will be overcome by time.
- All entrepreneurs—regardless of age—face obstacles in starting a business. Why should we intervene specifically on behalf of younger entrepreneurs?
- Do young entrepreneurs differ from older ones in the processes of starting up and the probability that their enterprises will survive?

Source: Semlali, A. (2008).



## Working infrastructure

- *Business incubators.* Incubators can be a powerful tool for young innovative start-up companies. Besides the provision of physical working space, they may provide a wide range of resources and services for a limited time period.
- *Shared workspace, start-up factories and 'garage incs.'* These provide physical workspace, equipment, and ICT infrastructure.

## Enterprise integration and business linkages

- *Youth chambers of commerce, trade associations, entrepreneur clubs.* These networks help young entrepreneurs find the right partners to enter supply chains, and organize speaker series, meetings, mentor matching programs and on-site field trips.
- *Online business networks and virtual meeting places* can create information and relationship platforms that are easy and inexpensive to access, always available and up-to-date.
- *Trade fairs and exhibitions.* Facilitating access to trade fairs and exhibitions may encourage young people to present their products and services to potential clients, facilitating the development of partnerships and networks.
- *Media support.* Regional and local media support in the form of advertising can be highly valuable in developing a client base as well as finding partners during start-up or expansion.

## Factor 6: Improving youth entrepreneurship policy measures

Effective youth entrepreneurship policies must identify the binding constraints facing young entrepreneurs and to

develop a combination of interventions to address them. These interventions are usually multisectoral, involving education and social policies as well as private sector governance and regulation. Collaboration among different line ministries, and promoting private investment and growth are essential.<sup>9</sup> Efforts to support youth entrepreneurship – or any entrepreneurial activities – will be less likely to succeed in the absence of a vibrant economy.<sup>10</sup> Given the disparity of local and national conditions there is no single best solution, but there are a few general principles:

- *Learn from experience.* Investments in research and evaluation are vital. Very few interventions to promote youth entrepreneurship have been rigorously tested. More research is required to understand the specific problems and needs of young entrepreneurs.
- *Develop an individual, tailor-made approach.* Policies must reflect varying economic, social and cultural situations. Successful programs and best practices from other countries can rarely be adopted and replicated without adaptation.
- *Balance speed with scale of impact and cost of implementation.* The interventions and tools to promote youth entrepreneurship differ highly in terms of their cost-benefit ratio and their potential impact.
- *Share best practices.* International organizations should continue to focus on innovative pilot projects, programs and schemes, the establishing and expanding of international partnerships, and benchmark activities to identify best practices. The development of monitoring and evaluation tools is crucial as evidence on what works is still weak.

## References and Recommended Reading

- (1) This YDN draws on Schoof, U. (2006): "Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people." ILO, Geneva. Note: an annex of various projects and initiatives related to each entrepreneurship factor is presented at the end of the report.
- (2) Lundström, A.; Stevenson, L. (2001): "Entrepreneurship Policy for the Future." Swedish Foundation for Small Business Research, Stockholm.
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- (4) European Commission (2004): Flash Eurobarometer (2004) "Entrepreneurship" – Press Memo, Brussels, [http://europa.eu.int/comm/enterprise/entrepreneurship/coop/consultation/doc\\_en.pdf](http://europa.eu.int/comm/enterprise/entrepreneurship/coop/consultation/doc_en.pdf)
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- (10) OECD (2000): Small and Medium Enterprise Outlook, Paris.

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