

# Youth Entrepreneurship: Key Challenges for Inclusive Development

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**Abstract:** In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalizing world has attracted increasing policy and scholarly attention. However, despite this attention, there has been no systematic attempt to look at it from a youth angle. The tendency has been either to subsume the youth into the general adult population or to ignore their efforts to forge a livelihood through enterprise activities. This has resulted in the lack of an adequate understanding of the potential benefits of youth entrepreneurship as a means of improving youth livelihoods. Because entrepreneurial activity is a key source of economic growth, promoting youth entrepreneurship has become a priority for policymakers. Regrettably, problems of unemployment as experienced by the educated youths and even the uneducated but skilled youths have become more pathetic in many developing economies, despite the neo-liberal strategies in addressing the issue of enhancing human capital.

There is also very little research on the qualities and particular needs of youth who want to become self-employed in both developed and developing countries. Especially in developing countries, there is currently a dearth of empirical data on the informal sector, and on the participation of youth in the sector and the extent to which the existing policy and institutional framework impacts on youth entrepreneurship. **The aim of this paper is to obtain a clearer and more comprehensive picture of concrete barriers and specific constraints that impede young people from starting and running a business, and policy measures and strategies that can be initiated to support it for Inclusive Development .**

**KEY WORDS:** Micro entrepreneurship; inclusive growth; Micro-credit; Inclusive Development

## 1. Introduction

Youth Entrepreneurship development is a pet subject in the world today. The world's population is growing at a time when traditional, stable labour markets are shrinking. More than 1 billion people today are between 15 and 24 years of age and nearly 40 per cent of the world's population is below the age of 20. The ILO estimates that 47 per cent of all unemployed persons globally are young women and men and 660 million young people will either be working or looking for work in 2015. India has the largest youth population in the world that is poised to increase further in the coming decade. 70% of India's population is below the age of 35 years. This pool of youth population needs to be engaged in the mainstream development of India. According to the initial figures of the 2011 census, the youth population in the country including adolescents is around 550 million. This phenomenal rise in the youth population has made India the youngest nation with a demographic dividend appearing to be a reality. It is indeed vital to utilize this demographic dividend and channelize the youth and their creative energies for nation-building.

## 2. An avenue of opportunity

Entrepreneurship can be an important avenue of opportunity for young people. Within the framework of potential efforts to boost employment for young people, it is an additional innovative way of integrating youth into the labor market. In view of rising youth unemployment and the increasing lack of labor demand, promoting youth entrepreneurship can be a valuable additional strategy to create jobs and improve livelihoods and economic independence of young people. Furthermore, it has a multidimensional approach as it fights youth unemployment in two different ways: On the one hand, it creates employment opportunities for self-employed youth as well as for other young people being employed by young entrepreneurs. On the other hand, it provides youth with entrepreneurial skills and attitudes that are necessary to cope with the general shift from traditional 'job-for-life' careers towards 'portfolio careers'. Thus it improves young people's general employability for today's and tomorrow's labor markets.

Within the framework of potential efforts and strategies to boost employment and job creation for young people, entrepreneurship is increasingly accepted as an important means and a useful alternative for income generation in young people. As traditional job-for-life career paths become rarer, youth entrepreneurship is regarded as an additional way of integrating youth into the labor market and overcoming poverty. Supporting this shift in policy is the fact that in the last decade, most new formal employment has been created in small enterprises or as self-employment. Given global demographic trends, it is important that the social and economic contributions of young entrepreneurs are recognized. Entrepreneurship can unleash the economic potential of young people. Entrepreneurship and self-employment can be a source of new jobs and economic dynamism in developed countries, and can improve youth livelihoods and economic independence in developing countries. For young people in the informal economy, micro entrepreneurship is a bottom-up method for generating an income, self-reliance and a new Innovative path to earning a living and caring for oneself. *The purpose of the paper is to obtain a clearer and more comprehensive picture of concrete barriers and specific constraints that impede young people from starting and running a business, and policy measures and strategies that can be initiated to support it for Inclusive Development.*

### 3. The UN General Assembly Declaration

The UN General Assembly has declared 2011 as the International Year for Youth with the theme "Dialogue and Mutual Understanding". India is a signatory to the Millennium Development Goals and the youth of the country are the major stakeholders in the endeavor to achieve the Millennium Development Goals (MDGs) namely:

- Eradicating extreme poverty and hunger
- Achieving universal primary education
- Promoting gender equality and women empowerment
- Reducing child mortality
- Improving maternal health
- Combating HIV/AIDs, malaria and other diseases
- Ensuring environmental sustainability
- Develop a global partnership for development

The target date for achieving the MDGs is 2015, which is well within the 12th Five Year Plan.

### 4. Approach to the 12th Five Year Plan

The Approach to the 12th Five Year Plan focuses on inclusive growth. Inclusive growth should result in lower incidence of poverty, broad based and significant improvement in health outcomes, and universal access for children to school, increased access to higher education and

improved standards of education, including skill development. It should also be reflected in better opportunities for wage employment and livelihoods, and improvement of basic amenities like water, electricity, road, sanitation and housing. Adolescents and youth constitute a group which accounts for 70 percent of the population and deserves special attention in terms of the reach of relevant schemes in many sectors.

### 5. National Youth Commission

The Government of India, through a Resolution dated 15th March 2002, set up a National Commission for Youth, to recommend measures for the development of youth in the country. The Commission submitted its report on 5<sup>th</sup> July 2004. The main recommendations of the Commission were

- Creation of a high level Central Authority, at a level and with a stature akin to the Planning Commission, which can guide and direct Departments concerned with the requirements of youth;
- Creation of a National Youth Commission by an Act of Parliament;
- Establishment of an Inter-Departmental Committee on Youth Affairs under the Chairpersonship of the Union Minister for Youth Affairs and Sports to coordinate government programs;
- Setting up of State Youth Commissions as statutory bodies by each State Government, and a State level Standing Committee on Youth Affairs;
- Establishment of a Standing Committee on Youth Affairs in Panchayati Raj Institutions for engaging local youth organizations in developing programs and campaigns as per their local needs, and provision of financial assistance to youth clubs at the village level by Panchayats;
- Setting up of a National Bank for Youth to provide micro-finance to young men and women for self employment and entrepreneurship;
- Creation of a National Youth Development Fund to encourage and help State Governments to plan, design and implement youth developmental activities across the country;
- Setting up of a National Youth Centre to facilitate coordination and provision of technical and financial support to promote youth development activities at the national level and to provide a forum and platform at the national level for the

youth to express their views and suggestions on various issues and problems they confront.

## 6. Access to Micro-credit for Young People

A major constraint to the growth of Youth is lack of access to finance. While potential youth entrepreneurs and existing youth generally lack access to credit in LDCs, the problem is particularly acute in the latter. Not only are there few micro-finance institutions in many countries, but those specifically targeted at youth are even fewer. A review of 902 organizations in 96 countries listed under the Microcredit Summit's Council of Practitioners revealed only 21 organizations with 'youth' in their title. Admittedly, there are credit schemes directed at young people in the mainstream microcredit organizations, but surveys reveal that youth are an underrepresented group. Lack of sufficient collateral, experience and biases further disadvantage young people.

It is also important to note that many micro-credit schemes, especially youth credit schemes, have failed in many countries. The overall message from the failure of these schemes suggests that success or failure in terms of financial viability and servicing the poor, in this case young people largely depends on the design of the program.

The importance of promoting youth entrepreneurship lies in the following:

- Creating employment opportunities for both the self-employed youth and other young people
- Bringing back the alienated and marginalized youth into the economic mainstream
- Helping address some of the socio-psychological problems and delinquency that arise from joblessness
- Promoting innovation and resilience in youth
- Promoting the revitalization of the local community
- Young entrepreneurs may be particularly responsive to new economic opportunities and trends and
- Enterprise helps young women and men develop new skills and experiences that can be applied to many other challenges in life.

## 7. Key deficiencies and constraints

The following are some of the difficulties confronted by young people in the process of business assistance and support Entrepreneurial isolation, not knowing anyone in the business and the absence (or high entry barriers to) of business networks is a common obstacle to start-ups by young people. Business contacts are particularly crucial for young and inexperienced entrepreneurs. Young people with no business experience cannot fall back on a former customer base or on an already established supplier

network. Furthermore, they do not know where to look for it and what will be expected from them by professional purchasers.

- Young entrepreneurs often launch their businesses without carefully estimating the amount of capital (start-up and working capital) they will need to actually get started. Many insist that passion and enthusiasm will be enough to get them through the rough periods. Furthermore, young entrepreneurs are often not aware of all available types of finance, funding forms and special support programs. They often do not understand the concept, the benefits, the possibilities and the drawbacks of the numerous forms of debt and equity (venture capital) financing. Particularly in developing countries, young entrepreneurs do not make much use of government-funded advisory services. In many cases, they are either not aware of the variety of public (and private) business support services or simply confused over the service provision. In many other cases, these services are not used as they are not tailored to the particular needs of young people. In a few other cases, young entrepreneurs do not appreciate its value or they are simply not seeking advice as it goes against the entrepreneurial character. Due to the lack of self-sustaining resources, the absence of a substantive credit history, sufficient collateral or guarantees to secure loans or lines of credit, young people are often seen as particularly risky investments and therefore face difficulties in accessing finance. Furthermore, some potential entrepreneurs may be carrying student debts, which will make it even harder to secure financing for new ventures. In addition, funds requiring less or no collaterals (except a viable business plan) often charge significantly higher interest rates and fees.
- Another problem is the time needed to decide on an application for funding (minimum 30, 60 or 90 days), particularly from public support agencies and programs. In many cases, the time spent on preparing (entrepreneur) and processing (agency) an application can easily exceed 5 months, which is a very long time for a potential young entrepreneur. Young entrepreneurs, working in the informal sector, face particular difficulties to obtain start-up finance. As informal sector enterprises are not registered with the relevant jurisprudence as limited liability companies, there is no difference between enterprise assets and personal assets. A young entrepreneur is therefore directly and jointly held responsible for his/her liabilities. This lack of separation between ownership and control makes it quite difficult for investors to deal with entrepreneurs in the informal sector.

- Young entrepreneurs require tailor-made training and counseling pertinent to their particular start-up situation, their business and the sector it operates in. There is a lack of on-the-job training focusing on technical aspects of starting up a Business.
- In many countries, youth seems to be underrepresented as a target group of micro credit programs. In view of the numerous difficulties that young men and women face when it comes to obtaining start-up finance, many are required to use alternative financing. Various Ways (legal and illegal) are used by youth to finance their businesses.
- As to their age, limited life and work experience, young people demand different treatment in terms of training and counseling. Enterprise and support agencies are often not responsive to these circumstances. Moreover, as they have to be self-sustaining, they often design their services to serve the more mature SME companies rather than cash-poor youth business start-ups.
- Though arguably being one of the most beneficial support services that can be offered to young entrepreneurs, the provision of mentoring programs that match experienced entrepreneurs, business leaders and business professionals with young entrepreneurs remains insufficient. In many countries there is an overall lack of particular business support for young entrepreneurs seeking to expand and further develop their enterprise.

## 8. Major strategies

The following are major strategies, initiatives and tools for improving Business Assistance and Support for young people. Before targeting youth with particular strategies and initiatives, assessing and evaluating the real need for start-up finance and its accessibility for young entrepreneurs is crucial. In view of the various factors influencing youth entrepreneurship, every country or region has to carefully assess whether the lack of financial funds is indeed the major hindrance to an entrepreneurial career. Regarding the diverse sets of impediments to access to finance, it is furthermore important to know more about the real youth characteristic-related barriers to financing in order to decide appropriate methods and initiatives.

- The creation of one-stop-shops (physical and electronic) is a modern customer focused tool to streamline business registration, and lower registration costs. Under a "One-Stop Shop" system, entrepreneurs are able to complete all registration procedures at one location for a fixed fee. All the necessary forms, documentation and assistance – and in many cases Internet access and online information – is provided by the shop.
- Formal or informal mentoring is probably the most beneficial service and support that can be offered to a young entrepreneur. While informal mentoring relationships develop on their own between partners, formal mentoring, on the other hand, refers to assigned relationships, often associated with organizational mentoring programs designed to provide young entrepreneurs with informal advice and guidance from experienced professionals. Governments, NGOs and trade associations in different countries have launched various formal mentoring programs.
- In many countries, Youth Chambers of Commerce, trade associations and young entrepreneur clubs are dedicated to connect students or young entrepreneurs with other local entrepreneurs and support organizations. They try to help them to find the right business partners and to enter supply chains. In order to bring business people together, they organize speaker series meetings, business roundtables, business lunch/dinner discussions, mentor matching programs and on-site field trips to entrepreneurial companies. Moreover, they represent their interests by lobbying governments and commercial banks.
- Facilitating the access to trade fairs and exhibitions (e.g. through reduced charges) enables young people to present their product and services and to find clients, business partners and networks.
- Minimizing and simplifying regulatory and administrative procedures, as well as maximizing the support needed to comply with them, will make it easier for young people to start-up and run their business. To educate and assist young entrepreneurs on tax issues, for example, how to keep proper records. There should be briefings conducted for young entrepreneurs to acquire an overview of tax issues affecting their businesses.
- Furthermore, tax relief or differentiated tax rates are a means facilitating the start-up process for young people. Two methods are possible: either lowering the rates or granting a period of tax exemptions for young entrepreneurs and other underrepresented groups
- Bankruptcy rules should be reviewed in ways to make them more tolerant to risk taking and business failure of young people and reduce the administration costs of the process. There is a need for a more effective balance between a litigation / financial driven bankruptcy process that

discourages fraud and policies that encourage young people to set up a business.

- Providing pupils and students with entrepreneurial skills, attributes and behaviors has a positive effect on a young person's decision to engage in entrepreneurial activity. Thus it increases the number of so-called "Pre entrepreneurs" (potential or would-be entrepreneurs). Enterprise education interventions therefore have probably the biggest impact on the generation of potential future young entrepreneurs
- The private sector must open the door for Youth Entrepreneurship. The involvement of the private sector in youth enterprise policies and programs can be significant. Promoting entrepreneurship among young people can be in the self-interest of many bank companies and trade associations to obtain future customers, suppliers, members or innovative services and products being valuable for their own development. Major potential lies in the area of Corporate Social Responsibility, where interests and benefits are predominantly seen in the areas of corporate culture, public affairs and public relations.

## 9. Conclusion

In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalising world has attracted increasing policy and scholarly attention. However, despite this attention, there has been no systematic attempt to look at it from a youth angle. The tendency has been either to subsume the youth into the general adult population or to ignore their efforts to forge a livelihood through enterprise activities. This has resulted in the lack of an adequate understanding of the potential benefits of youth entrepreneurship as a means of improving youth livelihoods. Entrepreneurship is a slow process which demands amongst other factors calculated risk-taking, patience and above all commitment by all parties concerned. Although the crucial role played by entrepreneurship in driving economic development and job creation is increasingly understood, there has been little effort to look at it from a youth perspective. Young people are mostly treated as part of the general adult population, while their specific needs and particular entrepreneurial potential as well as their critical contribution to economic and social progress are underestimated. Investing in rural youth - who often leave for opportunities in cities - by providing them with technology and entrepreneurial skills to grow local businesses and develop professional careers locally will undoubtedly, promotes Inclusive Development.

## 10. Suggested Research areas

There is very little research on the qualities and particular needs of youth who want to become self-employed in both developed and developing countries. Especially in developing countries, there is currently a dearth of empirical data on the informal sector, and on the participation of youth in the sector and the extent to which the existing policy and institutional framework impacts on youth entrepreneurship. Topics suggested for study include.

- ▶ Indirect effects of macro- and sectoral policies and regulatory and legal environments on the promotion of youth's enterprises.
- ▶ Situation-specific demand studies to establish youth's need for credit and the structure of credit programs.
- ▶ Institutional development needs and diagnosis of a variety of institutions in the public and private sectors, emphasizing youth-oriented agencies in the governmental and non-governmental sectors that can assist youth.
- ▶ The characteristics and determinants of youth participation in entrepreneurship, and the relationship between this participation and young people's economic independence.
- ▶ The characteristics and constraints of youth-led micro enterprises, differentiating those of micro-producers from those of micro vendors and distinguishing survival from micro-enterprise activities.

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## Vitae



**Dr. P. Malyadri** has got **27** years of experience of Teaching, Research, Administration, Training and consultancy. A prolific writer; **Dr. Malyadri** has authored **4** Books and **64** research papers on Banking, Rural and economic development issues in various National and International journals of repute. He has presented several research papers in around **80** National and International seminars and conferences. He is on the International Editorial advisory boards as a Member in **71** International Peer reviewed journals published from *Canada, USA, U K ,Taiwan, Czech Republic, Italy, Turkey, Dubai, Philippines, Australia ,Bangladesh, Romania, Pakistan. Iran, Africa and many others*; and **25** national journals of repute. **Dr.Malyadri** carried out two Major Research Projects sponsored by the UGC, New Delhi. He is

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