

Avoiding a lost generation

Young entrepreneurs identify five imperatives for action

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“The current economic crisis is a structural one. Emerging industries require that young people possess new knowledge and entrepreneurial skills. Furthermore, tax and regulatory systems often inhibit business formation by young people. Systemic change is needed to help the new generation of young entrepreneurs to succeed in the innovative economy of the 21st century.”

Victor Sedov, President, Center for Entrepreneurship, a Founding Member of the G20 Young Entrepreneurs' Alliance from Russia, and Chairman, 2013 G20 Young Entrepreneurs' Alliance Summit in Moscow, Russia

“At a time when society’s biggest issue is youth unemployment, businesses and governments must work together to help young people develop an entrepreneurial mindset. That means fostering a culture which supports young people to take risks, set up businesses, create jobs and become masters of their own destiny. Whether it’s through finance, mentoring, incentives or training, we must all play our part so that this generation can achieve its full potential. The time to act is now.”

Welcome

Welcome to *Avoiding a lost generation*, a white paper from EY that analyzes the challenges and issues facing young entrepreneurs in the G20 markets.

As economic recovery remains fragile in many countries, concerns over low or negative growth are being compounded by rising levels of unemployment, especially among young people. Governments are increasingly looking to entrepreneurs and start-ups to both kick-start their economies and provide the jobs that will sustain growth.

Based on a 2013 survey of more than 1,500 entrepreneurs from across the G20 countries, a sample that included 1,000 entrepreneurs aged 40 and under, this report presents the views of young entrepreneurs on a wide range of possible policy and other initiatives that might boost their activities.

The findings show that young entrepreneurs are optimistic about their future and recognize that their businesses – and many more like them – have a crucial role to play in tackling the youth unemployment crisis.

Indeed, 50% say that promoting the role of entrepreneurs in job creation will have a high impact on entrepreneurship in their countries over the next three years.

But young entrepreneurs also warn they must get further support to fulfill their potential. While access to funding remains critical, they stress the need for more innovative funding models, and they consistently urge government agencies to play a more supportive role. They believe in boosting entrepreneurship through education, and they argue that a cultural shift is necessary for entrepreneurship to accelerate.

There is no one-size-fits-all approach, but our research suggests that many governments are beginning to develop some useful initiatives to support entrepreneurship and small and medium-sized enterprises (SMEs). In order to build and maintain momentum on job creation and youth unemployment, much more needs to be done. And in an age of austerity for many G20 nations, the private sector will have to play its role alongside the public sector.

Despite the payback in terms of potential job creation, investment in SMEs is scarce. Our 2012 report, *Funding the future*, highlights that total investment in SMEs across the G20 was just 6.2% of total investment.¹

We hope that this report and the perspectives it offers will be of use to entrepreneurs, governments, regulators and the investment community.

Together, we must confront these challenges. Quite simply, the social and economic costs of losing a generation of young people to joblessness are too high to contemplate. The time to act is now.

Maria Pinelli
Global Vice Chair,
Strategic Growth Markets,
EY

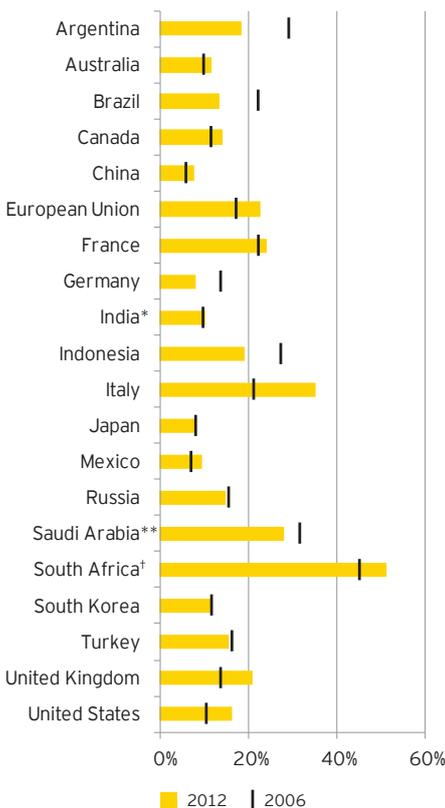
¹ EY, *Funding the future: access to finance for entrepreneurs across the G20* (Ernst & Young Global Limited, 2012).

“The answer lies in identifying the best-fit people to start and grow businesses. It is the job creation of those enterprises that is really going to make an impact on unemployment. Governments, businesses and civil society need to work together to understand more about the policies and types of support that best enable the start-up and growth of youth-led enterprises.”

Helen Gale, Director of Strategy and Performance at Youth Business International and member of the G20 Young Entrepreneurs' Alliance

Avoiding a lost generation

Youth unemployment across the G20 countries (ages 15 to 24)



* 2006 and 2012 estimate
 ** 2012 estimate
 † 2006 estimate

Source: ILO, Eurostat, United Nations, OECD, 2013

Youth unemployment has reached critical level in most G20 countries and is expected to rise over the next five years, threatening the global economic recovery and raising the specter of a “lost generation.”

The International Labour Organization (ILO) reports that almost 13% of the world’s youth – close to 75 million young people – are unemployed² and many are also underemployed relative to their training and capabilities. In the worst-hit countries, youth unemployment rates have risen well above 30%. *The Economist* thinks the real rate is much higher, with an estimated total of almost 290 million young people neither working nor studying.³

While developing nations suffer from the highest levels of people out of work, youth unemployment figures remain high across most of the globe. Under employment is also a concern with many young people in roles that fail to capitalize on their training or capabilities.

Entrepreneurs and SMEs are significant engines of both job creation and economic growth. Research by EY found that SMEs with fewer than 250 employees represented, on average, two-thirds of

G20 employment.⁴ These businesses also add jobs at about twice the rate of their larger rivals⁵ and are more likely than larger companies to recruit previously unemployed people.

Providing young entrepreneurs with the tools and support they need is therefore a critical component in tackling the youth unemployment crisis. Through greater understanding of the barriers and challenges that prevent entrepreneurs from starting and successfully growing their own business, governments will be better placed to create an environment that will effectively support both entrepreneurship and job creation.

Through our research, young entrepreneurs identify five key imperatives for action:

1. Expand the choice of funding alternatives
2. Increase mentoring and broader support
3. Change the culture to tolerate failure
4. Target and speed up incentives
5. Reduce red tape and excessive taxation

² ilo.org, *Global Employment Trends 2013: Recovering from a second jobs dip* (International Labour Organization, 2013) p. 3.

³ The Economist, *Generation jobless* (The Economist Newspaper Limited, 2013).

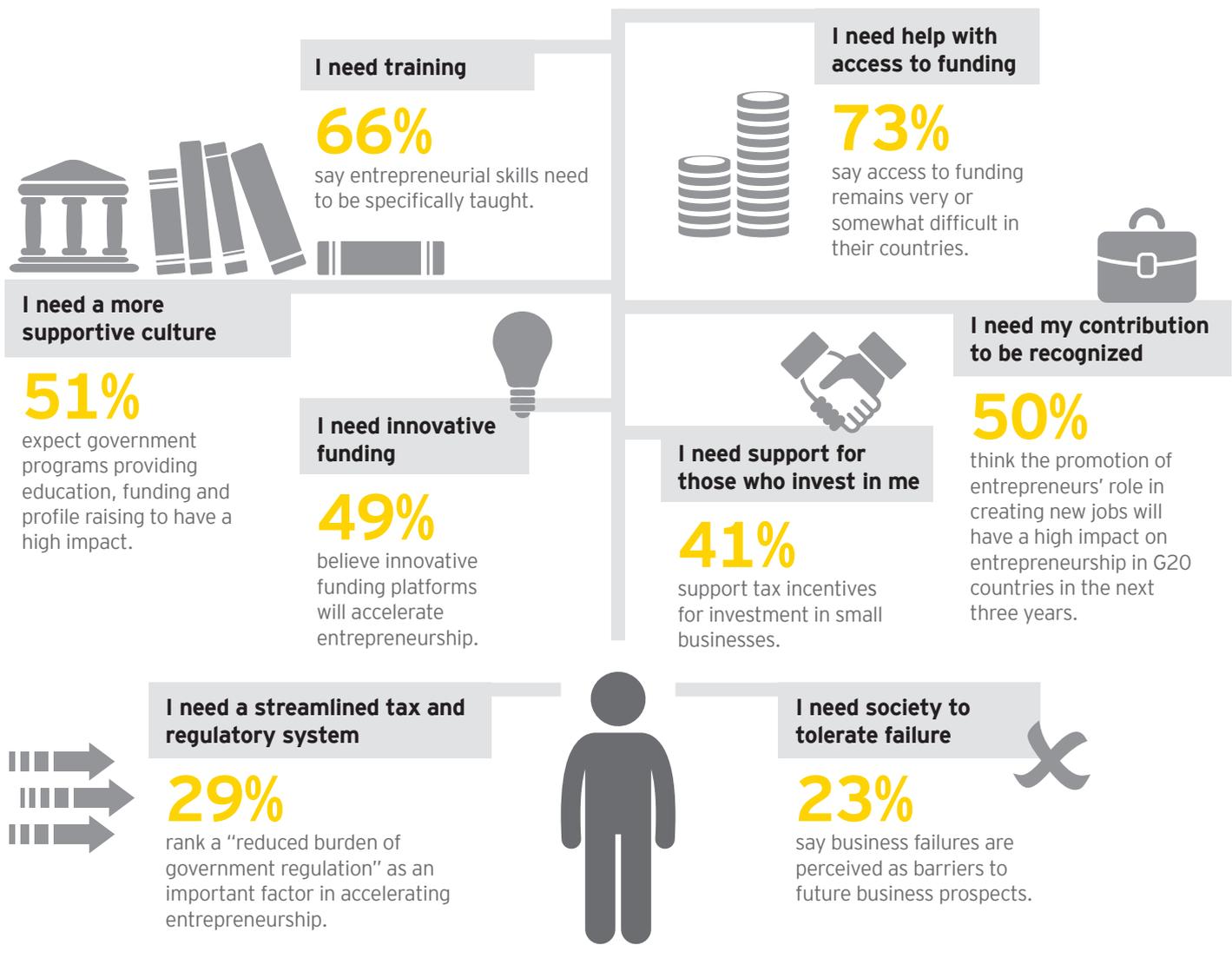
⁴ EY, *Entrepreneurs speak out: a call to action for G20 governments* (Ernst & Young Global Limited, 2011).

⁵ EIM, *Do SMEs create more and better jobs?* (EIM Business & Policy Research, 2011).

I am a young entrepreneur, and here's how you can help me

The young entrepreneurs of the G20 hold the key to solving our youth unemployment problem, but we must help them to achieve their potential. Their key concerns are as follows:

"I am innovative, I have a global mindset, I want to learn. I seek out advice and support when it is available. I make a significant impact on my community and bolster the economy by creating jobs. I am a young entrepreneur."



“Youth unemployment will create serious problems around the world unless we do something about it.”

Kofi Annan, former Secretary-General of the United Nations, 1997-2006

Five key imperatives for action:

1. Expand the choice of funding alternatives

It is no surprise that funding remains the biggest stumbling block for entrepreneurs looking to start their own businesses. Nearly three-quarters (73%) say access to funding remains very or somewhat difficult in their countries. This is especially true for those seeking to develop a new type of product or service, while traditional funding – such as business angels, private equity and venture capital – remains even more limited for the younger entrepreneur. Addressing the funding gap must be a key priority for G20 nations to support young entrepreneurs and help stimulate job creation.

“Young people simply don’t have the guarantees or the collateral for loans,” says Merten Sievers, who is responsible for value chain development at the Small Enterprise Development Program at the International Labour Organization. “They might have brilliant ideas, but the people they might get money from are typically their families and their own savings. Funding is a real issue and it’s one of the key constraints.”

It is unfortunate that the reliance on personal savings, friends and family in very early-stage ventures means that entrepreneurs from low-income backgrounds are particularly disadvantaged.

Young entrepreneurs are demanding more support in finding funding through nontraditional methods, such as crowdfunding. The survey found that almost one in two (49%) think improved access to funding through new innovative platforms will have the greatest impact on accelerating entrepreneurship over the next few years globally. This is especially noticeable for female entrepreneurs, with a greater proportion calling for strong improvements in access to both crowdfunding and microfinance. However, any such funding needs to be backed up with wider support and mentorship.

Addressing the funding gap

In the UK, the Young Enterprise Loan Scheme has so far provided US\$16m in cash advances for start-up businesses founded by 18- to 24-year-olds. Through the Enterprise Capital Funds scheme, the British Government hopes to channel more than US\$300m worth of equity investment into SMEs by the end of 2014. Elsewhere, Rusnano, Russia’s state-backed venture capital firm, has invested more than US\$6 billion in more than 100 niche businesses.



Networking

77%

already use or intend to use entrepreneurs' clubs and associations.

2. Increase mentoring and broader support

Providing the right support

A number of governments have introduced measures to help support entrepreneurs, beyond simply access to funding. South Korea's Small and medium Business Corporation has provided support, education and funding to more than 6,000 small and medium-sized manufacturers. Elsewhere, the Canadian Youth Business Foundation runs a scheme that offers young entrepreneurs financial support of up to CAD15,000, but crucially each entrepreneur also gets access to a personal mentor for two years. The government-supported program reflects young entrepreneurs' need for both financial and business support. To date, it has helped 5,600 entrepreneurs to create 23,000 jobs, resulting in CAD163 million in government tax revenues.

Providing financial support alone will not be enough to enable young entrepreneurs to fulfill their potential and serve as an engine of job creation; it may be wasted without additional resources. Research suggests that 88% of entrepreneurs with mentors survive in business, compared with a 50% failure rate for those without this support.⁶ Maria Pinelli, EY's Global Vice Chair for Strategic Growth Markets, puts this another way: "The danger is that capital without mentorship may prove to be capital lost, which governments cannot currently afford. The lack of mentoring and subsequent failure rate also means there is a greater chance those who don't succeed will find themselves one of the jobless in the future."

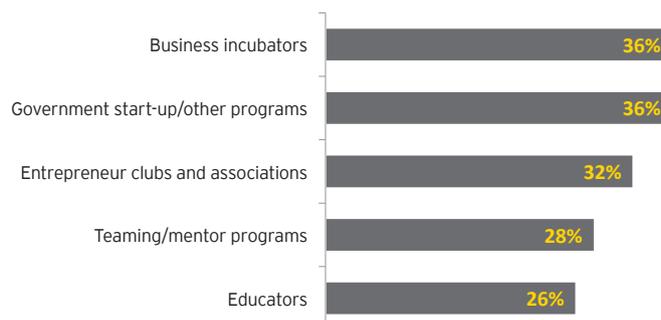
Younger entrepreneurs are also more likely to depend on a broader range of support mechanisms than their older peers. There is a pressing need to provide these growing businesses with a stronger support ecosystem: with business incubators especially, but also mentors,

start-up programs, entrepreneurs' clubs and associations – which help facilitate networking and the sharing of best practices – and more.

The creation of clusters or technology hubs should be considered to bring together all the disparate but essential components and players – including universities and corporates – of a successful entrepreneurial ecosystem, facilitating young entrepreneurs' access to knowledge, opportunities and resources.

Looked at objectively, it should be obvious that younger entrepreneurs need more of this broad-based support. They have limited experience in running businesses and fewer opportunities to build useful networks with peers and mentors. Unless young entrepreneurs get extra help, their efforts may not succeed even if they are able to attract funding.

What could most improve the long-term growth of entrepreneurship?



⁶ Réseau Entreprendre Paris, 2013.



Offer support through government programs



Promote the creation of new jobs



Communicate success stories

Factors that will have the highest impact on the culture of entrepreneurship over the next three years.

3. Change the culture to tolerate failure

Harnessing the power of diversity

Highlighting the role of female entrepreneurs is especially vital, and progress is being made. In the US, for every 10 male entrepreneurs, there are now eight females, well above the global average.⁷ Brazil does even better, with a one-to-one ratio, and in Australia 56% of all new business registrations are made by women, although many others still lag. The Global Entrepreneurship Monitor suggests this is a problem in both advanced and developing nations. Men are three times more likely to start a business in Japan than women, two times more likely in the UK, and two and a half times more likely in Turkey.⁸

The public must change their perception of start-ups and be more aware of the contributions they make to the broader economy. Having a supportive entrepreneurial culture that embraces SMEs will have a positive effect on their future growth. This can be done in a number of ways.

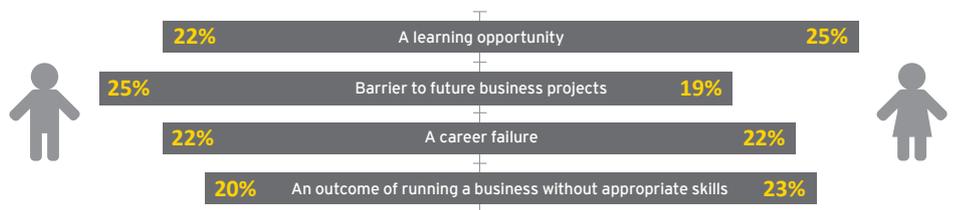
Governments need to promote entrepreneurs as crucial job creators. In fact, 50% of young entrepreneurs think this will have a high impact in supporting entrepreneurship in G20 countries over the next three years. Society in general also needs to be more tolerant of failure and recognize entrepreneurs as men and women who provide innovative products.

At a time when youth unemployment is reaching crisis levels, schools and universities can also help as students look to make career choices. Young entrepreneurs highlight the need for

success stories and role models; 51% of respondents believe government support for education, funding and profile-raising for entrepreneurs will have a significant impact on perception.

“The key is to start earlier and to really engage students in unlocking their entrepreneurial mindset, whether or not they are going to be going into large employment opportunities or starting their own business,” says Amy Rosen, President & CEO of the Network for Teaching Entrepreneurship (NFTE).

How business failure is perceived by entrepreneurs across the G20:



⁷ D J Kelley et al., *Global Entrepreneurship Monitor: United States Report 2011* (Global Entrepreneurship Research Association, 2011).

⁸ S R Xavier et al., *Global Entrepreneurship Monitor: 2012 Global Report* (Global Entrepreneurship Research Association, 2012).



Funding

41%

feel that governments could accelerate access to funding through tax incentives for investment in small businesses.

4. Target and speed up incentives

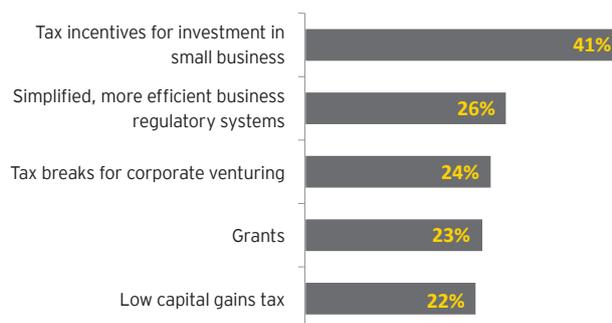
One consistent difference between younger and older entrepreneurs is that the new generation expects more support from governments. Young entrepreneurs report an urgent need for government-backed initiatives across areas such as funding, support services and education.

G20 nations have tried to provide this support. EY's analysis of government leading practices across the G20 identified more than 200 government-backed initiatives designed to boost SMEs. Young entrepreneurs recognize

the progress: 27% report improvements in tax incentives, and 38% in innovation incentives.

Governments also need to recognize differences between the needs of male and female entrepreneurs. For example, our survey shows that young men are far more likely to prioritize education-related initiatives and tax breaks, while young women focus more on grants and business incubators.

How could governments accelerate access to funding for entrepreneurs?





Regulation

33%

want a single government agency to help with regulation.

5. Reduce red tape and excessive taxation

Simplifying the system

A good example of such progress is the Small Business Jobs Act passed in 2010 in the US, which has offered SMEs a package of tax cuts and exemptions as well as greater parity when competing for government contracts. The legislation reflected recognition from policymakers that SMEs were struggling to create more jobs because of the tax and regulatory burdens they were bearing.

Young entrepreneurs will not succeed in greater numbers until governments create a simpler, SME-friendly business environment. More than one in two (53%) believe this would provide a crucial boost to their efforts.

Thirty-three percent say the development of a single government agency to help new businesses with regulation would do most to help, while 14% back the creation of a single government agency to help new businesses with tax filing requirements. This was also called for at the 2012 G20 Young Entrepreneurs' Alliance Summit in Mexico.⁹

On both regulation and tax, younger entrepreneurs are still more likely to report frustration as they struggle to come to grips with systems designed for older, more established businesses. However, some progress is being made. Young entrepreneurs view recent changes in regulatory, tax and innovation incentives more favorably than those who are over 40. They are also exploring government incentives for innovation at an appreciably higher rate than older entrepreneurs.

For more insights for entrepreneurs and the issues that matter to them, please visit the EY Global Center for Entrepreneurship and Innovation at ey.com/entrepreneurship.

⁹ EY, *Empowering entrepreneurial success: delegates recommendations at G20 YES* (Ernst & Young Global Limited, 2012).

“Youth unemployment is now a ticking bomb for all governments, both from developed countries and emerging countries. In the 21st century, the jobs we need to create will come neither from the big corporations nor from government, but they will come mainly from entrepreneurs who represent 66% of job creation within the OECD and 85% within the EU.”

Grégoire Sentilhes, President of NextStage and co-founder of the G20 Young Entrepreneurs' Alliance, representing the Journées de l'Entrepreneur (JDE) in France

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