

Is Youth Entrepreneurship a Necessity or an Opportunity?

A First Exploration of Household
and New Enterprise Surveys in Latin America

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Foreword

Young people who start new enterprises are creating jobs for themselves and reaching their personal goals. However, lack of experience and resources mean that a high percentage of these efforts fail during the first few months of operation. To reduce the failure rate of youth enterprises and address critical issues during the start-up process, the public and private sectors are increasing their efforts to support young people by providing training, technical assistance and small credits. To support these efforts, the Inter-American Development Bank has carried out various studies to gain a better understanding of entrepreneurship, and undertaken projects that seek new models to encourage entrepreneurship.

This paper highlights the importance of youth entrepreneurship in Latin America and the Caribbean, as well as the challenges and opportunities faced by young entrepreneurs. The authors estimate the current number of young entrepreneurs in the region and present indicators, such as education, gender and income. The study also reviews the scope and quality of policies and programs that governments, development agencies and civil society are implementing to support young entrepreneurs.

This paper represents a first step in what we hope will become an ongoing discussion about how to create a better regulatory environment and more cost-effective programs to encourage young people interested in becoming entrepreneurs. Given the various areas that require reforms (ranging from education and professional training to financing and other shortcomings), we expect that this discussion will become multidisciplinary. We invite the public and private organizations of the region to help us maintain an active debate by providing their thoughts, ideas and experiences on how to improve the scope and quality of initiatives to promote youth entrepreneurship. Send your comments to: mipyme@iadb.org

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Introduction

Entrepreneurial activity is an important source of income and employment and, as such, is the focus of policies whose aim is to provide alternative employment opportunities to remedy the lack of sufficient jobs to absorb young people into the labor market. But entrepreneurship is a heterogeneous phenomenon. Young entrepreneurs can be divided into two broad groups: those who become entrepreneurs by necessity because they are unable to find other forms of formal employment or continue their education, and what can be called “vocational entrepreneurs” who seize a business opportunity. This report looks at the social and educational background of both groups of entrepreneurs, the economic impact of their activities, and how current policies are able to assist them.

Thirteen percent of the working population between the ages of 16 and 24 are young entrepreneurs by necessity. Most of them are self-employed and only a few employ other people in their endeavors. Entrepreneurial activity is risky for them, whether or not they also employ others. Evidence shows that in a three-year period only a few are able to improve their situation. This poor overall performance means that they are highly vulnerable to business failure, most likely as a result of their lack of education, entrepreneurial skills, social capital and other resources. While the income that this group generates does not have a large impact on overall economic activity, it is basic to the survival of large number of young people.

Youths who are entrepreneurs out of vocation or because they have taken advantage of a business opportunity are a relatively small group. They tend to have the ability to identify good business opportunities, and have better skills to start up a new firm and make it grow over time. Young people are overrepresented in the total number of dynamic entrepreneurs, a group that is responsible for a large share of new and sustainable jobs. Usually, successful young entrepreneurs started thinking about creating a business

just after finishing secondary education, and most of them created the new venture during that period, frequently within a couple of years of finishing their university studies. Despite their success in creating dynamic ventures, young entrepreneurs in Latin America face less favorable conditions to start their companies and make them grow than their peers in other regions. This is true in terms of institutional support, access to production networks, finance, skilled workers and suitable equipment. All these factors have a negative impact on how their ventures perform, and this is reflected in the fact that they start smaller, later or with a relatively less sophisticated technology. These shortcomings are more limiting for young than for similarly dynamic adult entrepreneurs in other contexts.

Policies and programs to support young entrepreneurs are flourishing in Latin America. However, it is difficult to find information about the results of these efforts because they are relatively new and have yet to be evaluated. In spite of these limitations, some general trends can already be identified. Programs to support and assist young entrepreneurs have different features (such as operational instruments and institutional players) depending on the targeted population. For instance, programs that target young entrepreneurs who have gone into business for themselves out of economic necessity stress motivational activities and short training courses, while initiatives geared toward young entrepreneurs who have gone into business to exploit a business opportunity put more emphasis on mentoring, tutoring and networking methodologies. In both cases the programs are pilot initiatives that provide insufficient support to young entrepreneurs in the region, especially those who are trying to create jobs for themselves.

This report addresses both types of young entrepreneurs. We rely on household surveys to analyze the case of young entrepreneurs who start

their own businesses out of necessity. Given the limitations of the data available and the complex nature of entrepreneurial talent, we assume that self-employment is a good proxy to identify those entrepreneurs who are driven by necessity. The case of dynamic entrepreneurs who start their own business to exploit an economic opportunity is analyzed using information from the

IDB's Dynamic Entrepreneurship Database (IDB-DED). Main trends about policies and programs currently been implemented in the region are also discussed. Finally, the paper presents conclusions and policy recommendations on issues such as education, financing, business environment and institutional strengthening.

Framework and Methodology

This study focuses on the magnitude of the youth entrepreneurship phenomenon and the characteristics of young entrepreneurs (between 16 and 24 years of age). In a second stage, it analyzes the policies and programs that are being implemented to support this population segment and improve their current social and economic conditions.

The first step in the analysis was to estimate the magnitude the youth entrepreneurship phenomenon. The estimate is based on a database of household surveys for 14 Latin American and Caribbean countries covering 80 percent of the population in the region.¹ For the purpose of the study, young entrepreneurs are those who, at the time of the survey, were either self-employed or employers.

The second step involves a description of the characteristics of young entrepreneurs and an analysis of their impact on the economy. The target group is then divided into two categories, those youths who are driven by necessity to become self-employed, and those who are driven by business opportunities and personal initiative.² This paper relies on the classifications used by the Global Entrepreneurship Monitor to distinguish between entrepreneurs by necessity and opportunity (GEM, 2002). However, while the GEM uses these concepts to differentiate among youths who are planning to create a busi-

ness, we apply them to those who already are entrepreneurs.

The variables used to describe each group of young entrepreneurs and to ascertain their aggregate impact on the national economy are different because different databases were used. The household surveys database, was used for the entrepreneurs driven by necessity. Variables used in this case were gender and education, as well as income levels and changes in youth employment (which was only studied for Nicaragua and Peru). The IDB-Dynamic Entrepreneurship database (IDB-DED)³ was used for entrepreneurs driven by business opportunities or those who are employers. This database contains more comprehensive information that allows for an analysis of the characteristics of the entrepreneurs beyond their gender and education. The IDB-DED includes information such as whether their parents are employed or self-employed, how they gained their entrepreneurial skills and problems they encountered when trying to create a new enterprise. This database facilitates the economic impact analysis because it includes variables such as job creation and sales.

Policies and programs to support young entrepreneurs in the region were reviewed next. The goal of extracting lessons from previous experiences in this area, particularly in terms of their operational and institutional aspects. Finally, a series of conclusions and policy recommendations were drawn.

¹ The countries included in the study were Argentina, Bolivia, Brazil, Chile, Costa Rica, Colombia, Ecuador, El Salvador, Honduras, Guatemala, Mexico, Nicaragua, Uruguay and Peru.

² This second group is able to create an enterprise that provides employment for others. In this study, the capacity to employ others is considered an indicator of entrepreneurial success, talent and vocation. While we are aware that this is not a perfect indicator, we think that, given the complex nature of entrepreneurial talent and the nature of available data, the capacity to employ others is a good proxy for these variables. Results in this section of the study should be interpreted taking these caveats into consideration.

³ The IDB-DED is based on surveys of over 1,000 successful entrepreneurs and ventures (firms between three to 10 years old with at least one employee, but two-thirds more than 15) from Argentina, Brazil, Chile, Costa Rica, Mexico, Peru, El Salvador and Uruguay.

Young Entrepreneurs Driven by Necessity

Most young entrepreneurs are self-employed. Household data for a sample of 14 Latin American countries covering 89 percent of the total population show that 12.8 percent of workers between the ages of 16 and 24 are entrepreneurs. Most of them (11.9 percent) can be classified as self-employed by necessity, while the rest (0.9 percent) are employers (see table 1).

The relative importance of youth entrepreneurship as a source of employment varies from country to country. Mexico, Brazil and Chile have the lowest percentages of young entrepreneurs, while Colombia, Bolivia, Uruguay and Peru have the highest.

Young entrepreneurs are a small segment of the total universe of entrepreneurs. In Latin America, young entrepreneurs (between the ages of 16 and 24) represent 8.2 percent of the total number of entrepreneurs. In absolute terms, there are 5.1 million young entrepreneurs in the region (93 percent are self-employed). Most of them live in Brazil (2 million), Colombia (1 million), Mexico (530,000), Peru (446,000) and Argentina (304,000). Table 2 shows that most entrepreneurs are between 25 and 54 years of age. The youngest and oldest cohorts account for a relatively smaller share of the total.

Table 1: Entrepreneurs in the Work Force by Age (Percent)

Age	Employers	Self-employed + Employers
16-24	0.9	12.8
25-34	3.5	24.7
35-44	5.3	32.7
45-54	6.4	40.2
55-64	6.8	50.3
65-74	8.1	60.2

Source: Authors' calculations based on national household surveys.

Table 2: Percentage of Entrepreneurs by Age

Age	Employers	Self-employed + Employers
16-24	4.0	8.2
25-34	21.5	21.8
35-44	29.7	26.7
45-54	24.6	22.5
55-64	13.5	14.7
65-74	6.6	7.2

Source: Authors' calculations based on national household surveys.

The level of education of self-employed youths is low. Most young entrepreneurs have only completed the primary education cycle or part of the secondary cycle. University education is not common among young entrepreneurs, except in Mexico, Bolivia and Argentina. In addition, there are differences in the level of education between young self-employed persons and young employers; namely, young employers tend to have a university education.

Most of those who are self-employed are also poor. On average, 57.2 percent of young

entrepreneurs can be found in the two lowest income quintiles; while only 17.1 percent of employers are in the lowest income quintiles.⁴ The percentage of young entrepreneurs who are poor (that is, those in the lowest income quintile) is also higher (41.6 percent) than the share of poor in the total working population (32.5 percent; see table 4). At the other end of the income scale, only a small number of self-employed youths are in the upper income quintiles, in contrast with employers who tend to have higher incomes.

Table 3: The Educational Level of Young Entrepreneurs (Percent)

Number of years of education	Employers	Self-employed
1-5	11.7	20.7
6-10	31.5	42.4
11-15	42.8	33.6
16-20	13.8	3.3
21-25	0.1	0.0
+25	0.1	0.0

Source: Authors' calculations based on national household surveys

Table 4: Percentage of Entrepreneurs by Income Quintile (Percent)

Income	Employers (Total)	Self-employed (Total)	Employers (16-24 Years Old)	Self-employed (16-24 Years Old)
1	7.3	25.2	7.3	34.3
2	8.6	20.9	9.8	22.9
3	11.9	18.9	14.3	17.4
4	19.6	18.3	23.4	14.9
5	52.6	16.7	45.2	10.4

Source: Authors' calculations based on national household surveys.

⁴ These quintiles refer to income distribution among workers within a country; they do not represent a regional income distribution.

Most young entrepreneurs are male. Only 26.2 percent of working women in the region are entrepreneurs (2.5 percent are employers) compared to 32.4 percent of men (5.4 percent are employers). Women are also underrepresented among young entrepreneurs (see table 5). Three out of five young entrepreneurs are male, a feature that is even more pronounced among those who are also employers. Female entrepreneurs make up 36.7 percent of total young entrepreneurs and 27.5 percent of young employers.

Businesses created by youths tend to have a weak impact and uncertain evolution. Most of the businesses created by young people have a relatively small impact on job creation (95 percent of young employers have less than 10 employees compared to 90 percent of all employers), but provide jobs and a source of income for their owners. The creation of a new business in itself could help young people transition into paid employment or, in some circumstances, their first attempt at being an entrepreneur could eventually turn into a growing company.

Table 5: Entrepreneurs by Gender (Percent)

	Employers	Self-employed and Employers
Male	76.2	65.6
Female	23.8	35.5
Male (16-24)	72.5	64.4
Female (16-24)	27.5	36.7

Source: Authors' calculations based on national household surveys.

Table 6: Panel Estimate of Transition in Employment Status for Young People (1998 to 2001; Percent)

Status in 2001	Status in 1998			
	Unemployed / Inactive	Employee	Self-Employed	Employer
Peru				
Unemployed/Inactive	33	7	13	9
Employee	24	68	25	9
Self-Employed	18	13	52	55
Employer	2	1	1	27
Nicaragua				
Unemployed/Inactive	60.5	15.3	10.9	2.9
Employee	18.3	59.2	23.5	17.1
Self-Employed	6.6	11.2	45.3	40.0
Employer	0.3	1.4	9.3	31.4

Source: Authors' calculations based on national household surveys.

Notes: The excluded categories are students and unpaid family work. "Young people" includes those between 16 and 30 years old.

Evidence from panel data used to track entrepreneurs through time in Peru and Nicaragua indicates that transition into a larger company is not as common as initially thought.⁵

According to panel data estimates from Peru and Nicaragua (see table 6), the probability of being unemployed during a three-year period is high for young people (33 percent in Peru and 60.5 percent in Nicaragua). Paid employment also remained high between 1998 and 2001 (68 percent in Peru and 59.2 percent in Nicaragua). Those who started out as self-employed experienced significant mobility between 1998 and 2001. Only about half of them remained self-employed in Peru, 13 percent became unemployed or inactive (the worst situation), and a quarter of them found paid employment. On the other hand, only very few self-employed persons became employers. In the Nicaragua sample, only 45.3 percent of those who were self-employed maintained their status between 1998 and 2001, while 9.3 percent made the transition to employers, 23.5 percent became employees and 10.9 percent became unemployed.

The majority of those who start out as employers become either self-employed or paid employees. In Peru, just 27 percent were able to maintain their status in 2001. The majority (55 percent) suffered a downgrading to self-employed. Nine percent become employees and another 9

percent became unemployed. Young employers in Nicaragua were more able to maintain their status over the same period, 31.4 percent of employers maintained their status in 2001, with 40 percent becoming self-employed, 17.1 percent becoming employees and the rest going into unpaid labor or unemployment. Apparently, young employers are less vulnerable to unemployment than young people who are self-employed.

In terms of the contribution of entrepreneurship to job creation, the trends that emerge suggest that self-employment facilitates the transition of individuals to paid employment (compared to the transition from unemployment), but only a few self-employed individuals become employers and are able to create new jobs (1 percent in Peru and 9.3 percent in Nicaragua). Young employers have difficulties maintaining their status and are very likely to become either self-employed or paid employees within a three-year period. However, further research is needed to clarify and better understand how the transition takes place in the 16 to 24 age group, what the transition means in terms of income (or quality of the occupation), and what are the determinants of a better (or worse) outcome. Those determinants could include education, financing, economic conditions, cultural/family conditions and other business environment conditions.

⁵ Based on two sets of panel data from the National Household Surveys for Peru and Nicaragua for 1998 and 2001. We estimated a transition matrix of the changes in occupational category of the individuals in the sample using the categories included in the survey. Since the questions in the survey are not identical in the two countries, the results are not necessarily comparable and the panels are not necessarily representative at the national level. However, some of the results are consistent and indicative of the evolution of entrepreneurs in these countries. See table 6.

Young Entrepreneurs Driven by Business Opportunities and Personal Initiative

Opportunity-driven entrepreneurs are those who, despite being able to obtain employment choose instead to start their own business. According to the Global Entrepreneurship Monitor, about 5 percent of the young adult population (18 to 24 years) and 40 percent of the entrepreneurs interviewed worldwide in 2001 were driven by opportunity. In Latin America, 0.9 percent of the young adult population manages companies with more than one employee.

An interesting but small subsegment of opportunity-driven entrepreneurs is made up of individuals who aspire to create a growth oriented venture (defined as those who expect to have created more than 20 jobs 5 years later). According to GEM (2005), growth oriented entrepreneurs represented only a small minority of the entrepreneurial activity in 2004 (ranging from 3 to 17 percent depending on the country), but their economic potential is very high, representing 80 percent of the total expected jobs generated by all entrepreneurs. Moreover, young adult entrepreneurs (18-24 years old) are more likely to be found among high-expectation entrepreneurs than among low-expectation entrepreneurs (37.3 vs. 20.7 percent).⁶

High-growth entrepreneurs contribute significantly to job creation. A number of studies based on ex post information about performance, have shown that a small portion of the new ventures (about 6 to 10 percent) are responsible for at least half of the total jobs created by new firms that are still in operation 7 to 10 years after they were started (Storey, 1994; Birch, 1997). This seems to be true also in Latin America. In Argentina, for instance, statistics from the Ministry of Labor show that a small number of high growth small firms are created each year. Five years after their creation about 6 percent of the new firms are responsible for 60 percent of the

⁶ GEM recognizes that “while not all expectations are materialized, growth aspirations have been shown to be a good predictor of eventual growth.”

jobs in survivor firms from that cohort (Kantis et al., 2005).

An important share of high growth entrepreneurs in Latin America is made up of young adults. According to the IDB-Dynamic Entrepreneurship database (IDB-DED), which focuses mainly on successful opportunity-driven entrepreneurs and dynamic new ventures, the contribution of young people to dynamic entrepreneurship is significant in Latin America⁷. About 47 percent of entrepreneurs who have created dynamic companies began to think about doing so when they were between 17 and 24 years old (after they finished secondary school), and 2 out of 3 of them established the venture during this same period. The importance of dynamic young entrepreneurs is similar to that observed in southern Europe, but it is significantly higher than that in East Asia, where less than 10 percent of dynamic entrepreneurs are young.

Dynamic young entrepreneurs come from a specific social segment. Most dynamic young entrepreneurs (89 percent) are men, born in a middle class household where at least one parent is self-employed/professional (33.8 percent) or is an entrepreneur (almost 40 percent) (see table 7). This is a distinctive characteristic that differentiates younger entrepreneurs from the rest. However, this social profile contrasts with the broader origin of the small group of young dynamic entrepreneurs in East Asia, where they are more likely to stem from the low and mid-low classes and to have parents who are not entrepreneurs.⁸

⁷ To distinguish youth entrepreneurship attributes, entrepreneurs were divided in two groups: up to 25 years old (<25) and 30 or more years old (=>30).

⁸ About 61 percent of dynamic young entrepreneurs in East Asia come from low and mid-low classes compared to less than 25 percent in Latin America. In East Asia, 81 percent come from non-entrepreneurs families compared to 61 percent in Latin America.

Table 7: Parents' Occupation by Age of Entrepreneur (Percent)

Parents' occupation	<25	>=30
Entrepreneur	39.3 ^(*)	19.2 ^(*)
Executive/manager	8.3	9.2
Self-employed/ professional	24.1	26.2
Employee	33.8 ^(**)	39.3 ^(**)

Source: Authors' calculations based on the IDB-DED.

(*): Significant difference at 0.05 level

(**): Significant difference at 0.10 level.

Table 8: Learning Contexts and Entrepreneurial Skills by Age (Percent)

Entrepreneurial skills	Work Experience		Educational System (university)		Family	
	<25	>=30	<25	>=30	<25	>=30
Problem solving	66.0 ^(*)	77.5 ^(*)	43.0	44.8	36.3 ^(*)	27.9 ^(*)
Motivation	38.5 ^(*)	60.5 ^(*)	18.5	14.0	45.9 ^(*)	27.9 ^(*)
Social skills	49.2 ^(*)	68.0 ^(*)	36.4 ^(*)	28.0 ^(*)	41.6 ^(*)	33.1 ^(*)
Risk tolerance	55.3 ^(*)	63.8 ^(*)	19.3	15.2	37.7 ^(*)	27.9 ^(*)
Negotiation	72.1	74.9	15.8	12.8	25.6 ^(*)	15.2 ^(*)
Teamwork	59.4 ^(*)	75.4 ^(*)	45.9 ^(*)	33.6 ^(*)	16.4	12.7
Creativity	43.6	51.7	38.3 ^(*)	29.2 ^(*)	27.3	25.1
Technical knowledge	48.4 ^(*)	57.5 ^(*)	65.4	62.4	8.2 ^(**)	5.2 ^(**)
Marketing	46.5 ^(*)	60.2 ^(*)	42.7 ^(*)	25.6 ^(*)	5.5 ^(**)	2.8 ^(**)
Administration	58.4	67.4	41.2	37.6	17.0 ^(*)	9.4 ^(*)
Hard work	54.3 ^(*)	69.6 ^(*)	19.8	16.0	49.0 ^(*)	38.1 ^(*)
Planning skills	56.4 ^(*)	68.8 ^(*)	48.0 ^(**)	40.4 ^(**)	19.3 ^(*)	12.7 ^(*)
Communication	59.9 ^(*)	66.6 ^(*)	29.8	24.4	25.8	21.6

Source: Authors' calculations based IDB-DED.

(*): Significant difference at 0.05 level. (**): Significant difference at 0.10 level.

The education level of dynamic entrepreneurs is high. According to the IDB-DED, most young dynamic entrepreneurs driven by opportunity have finished secondary school (94 percent) and more than a half have a university degree. This high level of education is astonishing, especially when compared with East Asia where almost half of young dynamic entrepreneurs have only finished secondary school (43 vs. 21 percent).

Work experience is the main way in which young entrepreneurs learn. Comparing different learn-

ing contexts (family, secondary school, training courses, university and work experience), previous work experience is the most important way in which young entrepreneurs in Latin America and East Asia gain their expertise. Sixty-six percent of young entrepreneurs have previous work experience, mainly as employees of small and medium enterprises (SMEs). Before creating a successful dynamic venture, about half of Latin American entrepreneurs have established another firm. This demonstrates the importance of failure as a source of learning.

Family and university play a greater role for young entrepreneurs. One distinctive aspect of young dynamic entrepreneurs in Latin America is that university and family experience play a more important role than work experience as a learning context. This is not the case in East Asia, where it is more frequent for entrepreneurs to stem from nonentrepreneurial families and secondary school. The family plays a particularly important role in six entrepreneurial skills (vocation, problem solving, risk tolerance, social skills, negotiation and hard work) for young compared with more mature Latin American entrepreneurs. The vocation and social skills needed to become an entrepreneur are also mainly acquired within the family.

Reasons for becoming an entrepreneur are predominantly positive. Young people who established a dynamic business became entrepreneurs for the following positive reasons: to feel a sense of self-realization by working in their own venture and to apply their knowledge (79 percent), to increase their personal income (79 percent), to be independent (63 percent) and to contribute to society (55 percent). The desire to become independent is higher among the young (63 vs. 51 percent). The influence of role models (other entrepreneurs they admire) is also more important among relatively younger entrepreneurs (34 vs. 11 percent). In contrast, only a small group (less than 10 percent) started their own business as a means of no longer being unemployed. This motive was even lower than in the case of the older entrepreneurs (between 13 and 15 percent).

Young dynamic entrepreneurs face several obstacles to create and manage their ventures. Gaining access to financing, managing cash flow, purchasing the appropriate equipment and technology, finding and hiring skilled employees, and entering the market (finding reliable long-term customers) are among the main challenges for new entrepreneurs. The importance of obstacles faced by young businesspeople in

Latin America is considerably higher than in East Asia, especially when considering the difficulties they face in hiring skilled workers (68 vs. 50 percent), finding suitable suppliers (57 vs. 45 percent), buying equipment (57 vs. 41 percent) and balancing cash flow (71 vs. 45 percent). Young Latin American entrepreneurs face higher transaction costs related to their lack of experience and to the existence of market failures.

Difficulties in gaining access to financing are particularly onerous, as shown by their reliance (or lack thereof) on risk capital, bank loans and public financial support. Only 6 percent of Latin American businesses rely on risk capital, compared to 18 percent of East Asia firms, which rely mainly on business angels in Japan and Taiwan. Nineteen percent of enterprises in the region rely on bank loans, compared to 28 percent in East Asia and 43 percent in Taiwan. Finally, only 2 percent are able to obtain financial support from the government or other public institutions, compared to 20 percent in East Asia and 31 percent in Japan. This lack of access to commercial banks and investors makes them more dependent on bootstrapping, or obtaining financing from relatives and friends, which makes them more vulnerable, particularly during the early stages of their venture (table 9).

Most of the ventures created by young dynamic entrepreneurs overcome these obstacles with the support of their networks. Most of the young dynamic entrepreneurs face the challenges of the early development stages of their businesses by relying on their own capabilities as well as on production (clients and suppliers) and social (family and friends) networks (63 vs. 53 percent). This behavior is even more frequent in East Asia (73 percent) where production and institutional networks (i.e.: trade associations, universities and scientific institutions) provide more generalized support.

Table 9: Consequences of Limited or Lack of Access to Financing at Start-up, by Age (Percent)

Consequences	<25		>=30
The venture started smaller	58.6 ^(*)		50.7 ^(*)
The venture started later	35.9 ^(*)		28.4 ^(*)
The venture started with a lower level of technology	48.4		43.8

Source: Authors' calculations based IDB-DED.

(^{*}): Significant difference at 0.05 level (^{**}): Significant difference at 0.10 level.

Although the businesses started by young dynamic entrepreneurs in Latin America grow, their performance is lower than in other regions. Three years after start-up, Latin American entrepreneurs employed an average of 17 workers (the median is 9 workers). To this should be added 2 or 3 entrepreneurial or managerial jobs since the typical venture is started by a team rather than a solo entrepreneur. In addition, 2 out of 3 businesses increased the number of jobs created by more than 50 percent

during the second and third years of life of the venture. Sales strength is even higher. Almost half of the young entrepreneurs increased their sales by more than 100 percent between the first and third year of running the firm. Yet, performance is not as good as the experience in regions such as East Asia, reflecting the fact that constraints faced by young businesspeople have a negative impact on the development of their businesses.⁹

⁹ Three years after start-up they created an average of 34 jobs (vs. 17 jobs in Latin America) and more than 70 percent (vs. 49 percent) doubled their sales.

Programs to Support Young Entrepreneurs

Previous sections of this report presented an analysis of the important and heterogeneous youth entrepreneurship phenomenon. As will be shown, there also are a number of policies and programs to support young entrepreneurs. In addition to traditional programs to help the young population to generate and improve their incomes, or to create their own enterprises, new initiatives to promote the emergence and/or growth of new dynamic enterprises have in-

Youth entrepreneurship programs vary considerably in the way they target the beneficiary population and in the operational instruments that they use, as well as in the institutional players and scope. Table 10 shows a general taxonomy of youth entrepreneurship programs in Latin America.

One type of program seeks to increase the employability and income of low-income unemployed, underemployed or self-employed

Table 10: Taxonomy of Youth Entrepreneurship Programs in Latin America

Type/ Characteristics	Targeted population	Operational instruments	Institutional players
Employability and Income	Low-income youth	Basically motivation and training and in some cases technical assistance, micro-credits and grants.	Labor and education ministries, professional training institutes, SME support agencies, NGOs and private institutions.
Competitiveness, Innovation and Growth	Young, middle class people, university and advanced degree graduates, promising projects and young, high-growth start-ups.	High-level training, mentoring and tutoring, networking. Incubators and seed capital mechanisms.	Universities, incubators, NGOs and industry and economy ministries.

creased recently. As a consequence, programs to foster youth entrepreneurship in Latin America have become increasingly popular. However, it is difficult to find information about the outcomes of these programs because most are relatively new and yet to be evaluated.¹⁰ This section discusses main trends in entrepreneurship programs geared toward the younger cohorts.

It typically includes motivational activities and short training courses to help young people get a job or start a microenterprise. Sometimes these initiatives also facilitate access to microcredit or small grants (see box 1). Among these programs it is common to find mixed strategies, meaning that the ultimate goal is not just self-employment or the creation of a new enterprise, but also may be to help the young person to find paid employment or to reduce the risk of violence, drugs and other social problems among youth. In this regard, a study (Jaramillo, 2004) based on information from 37 youth entrepreneurship programs found that 21 were aimed at fostering youth self-employment and 16 also promoted employment and self-

¹⁰ Impact evaluations are problematic because beneficiaries who self-select into the programs are likely to have higher than average entrepreneurial talent and vocation. Based on these unobservable characteristics the task of finding an adequate control group to compare beneficiaries with a similar group of nonbeneficiaries for the evaluation is a difficult one.

Box 1: Youth Entrepreneurship and Microfinance in Honduras

Young, low-income entrepreneurs face obstacles in finding funding for the creation of new firms because of lack of collateral and credit records. Even in the microfinance industry, where informality is not an insurmountable problem, microfinance institutions generally exclude borrowers who lack at least one year of experience in their business activity. However, there are some experiences of financing schemes for young low-income entrepreneurs. Most of these are based on building social capital or on philanthropic giving to aspiring entrepreneurs. The experience of the Banhcafe Foundation in Honduras is an example of the types of activities that are needed in this area.

Since 1998, the Banhcafe Foundation, a Honduran NGO, has been developing activities to support young entrepreneurs. In 2005, Banhcafe received IDB support to create a guarantee fund to reduce the risk faced by financial institutions when providing loans to low-income young entrepreneurs who are in the process of starting new businesses. The fund was designed according to the best international practices. It offers a guarantee that will be paid when the financial institution begins delinquency collection proceedings. It is selective in its choice of beneficiaries, offering guarantees only to young people with good business plans. The fund covers only 50 percent of the value of the loan balance, sharing the risk with the financial institution, which assumes the other 50 percent. Private businesses participate by providing cash contributions to the fund as well as by acting as mentors to the young entrepreneurs.

employment and included components to help reduce the risk of social problems.

The scope of youth employability and income generation programs varies depending on the institutional players involved (IDB, 2004). On the one hand, public or semi-public institutions such as labor and education ministries and professional training institutes are or were running programs with massive outreach (thousands or tens of thousands young people per year). Some examples can be found in Brazil (First Employment Program, Labor Ministry), Chile (Chile Joven), Argentina (Argentina Joven), Peru (Pro-Joven) and Colombia (Fondo Emprender, Servicio Nacional de Aprendizaje), among other countries. On the other hand, NGOs and private sector organizations, which have a smaller, local and more focused target group (tens, hundreds or a thousand per year), seem to be more effective because they offer a more complete range of services, including information about business opportunities, technical assistance, mentoring and access to small-scale financing as well as training. This mix of services is more likely to produce better results in terms of creating microenterprises and improving their chance of survival. Three interesting examples are Colec-

tivo Integral de Desarrollo in Peru, Fundación Banhcafe in Honduras and Entra 21 in Colombia, the Dominican Republic and Bolivia, among other countries. These initiatives are still quite few and have a smaller scope. In addition, the evidence of their positive results is still weak. In this regard, more resources should be allocated to evaluating them in the hope that they can eventually be expanded and scaled up into larger, broader programs.

At the other end of the spectrum are more selective programs targeted to young entrepreneurs with high-growth potential. These are frequently middle class individuals whose objective is to create innovative, competitive firms that will make a contribution to overall economic growth. These firms are more likely to have high value added, quick growth in employment and sales, and higher financing needs (including equity as well as debt). The institutions involved in these programs in Latin America are typically universities, business schools, private foundations, business incubators, networks of angel investors and, more recently, some governments. They rely more on instruments such as direct support to the entrepreneur, networking, incubation, mentoring and financing. One example (that is

Box 2: The Dinámica.SE Project in Argentina

This IDB-MIF project was designed according to the recommendations made by IDB studies on dynamic entrepreneurship in Latin America, including: (i) to put the focus on growth-oriented ventures because they are the ones that can have a larger economic impact, (ii) to target the university population, to take advantage of their technical knowledge background, (iii) to deliver an integrated set of support services, including local capacity building, training to develop entrepreneurial skills, mentoring, networking and financing. The project is being implemented locally by a partnership of universities (General Sarmiento, San Andrés and Tecnológica Nacional-Pacheco), business associations (Unión Industrial Tigre), public institutions (Centro Metropolitano de Diseño del Gobierno de Buenos Aires) and local donors (Banco Río, Fundación Narvaez and Corporación Buenos Aires Sur). The main objective of the project is to demonstrate that the proposed strategic and institutional model works. Among projects goals is providing training to 1,500 entrepreneurs and to grow 300 new ventures in a three-year period.

currently being evaluated) is a program called Endeavor operating in Argentina, Chile, Uruguay, Brazil and Mexico, whose aim is to leverage young ventures facing a second round of growth mainly by networking (i.e. with private investors) and mentoring. The Inter-American Development Bank, through the Multilateral Investment Fund (MIF), has provided backing to various local initiatives of this type, which are aimed at providing support (training combined with technical assistance, networking and financing) to entrepreneurs whose business projects have growth potential. These types of activities have taken place in Colombia, Bolivia, Argentina (see box 2) and Costa Rica.

In some countries, the public sector is providing support to entrepreneurs whose projects are

close to the start-up stage or have been recently started. This is in contrast to the support offered by the Endeavor program, which reaches more developed young ventures. Various public entities in Brazil, Mexico, Colombia, Chile and Argentina are promoting incubator initiatives. For example, in Brazil, Softex targets university students interested in software development by providing training on entrepreneurship, as well as technical assistance and networking support for their projects. Softex interventions are designed from the bottom up, and are public-private partnerships implemented through institutional alliances among universities, private sector organizations and municipalities. More recently, Chile has created a seed capital program (currently under evaluation), which is led by CORFO (see box 3). The municipal govern-

Box 3: The Chilean Seed Capital Program

This program was created by CORFO in 2001 to finance the first development stages of new and innovative ventures. The support consists of a matching grant of up to US\$86,500, which is delivered in two tranches. The first one finances activities such as the commercial validation of the business idea, the creation of a business plan and the registration of the enterprise, with a maximum support of US\$11,500. The second tranche is for activities related to the start-up of the venture, including intellectual property protection, market studies, technical assistance, setting up the infrastructure, product development, and marketing. Support in this phase is up to US\$75,000. Between 2001 and 2005 the program provided support to over 130 projects.

ment of Buenos Aires has launched the Buenos Aires Emprende 1 program. Both programs provide financing and technical assistance to entrepreneurs and operate in a public-private partnership with intermediary specialized institutions (such as universities and incubators) selected by the program. These institutions are responsible for identifying and evaluating the most promising ventures, helping them to gain access to seed

capital offered by the program and providing technical assistance.¹¹ In Argentina, the Buenos Aires Emprende 2 program is attempting to increase the number of institutions fostering entrepreneurship (such as large public universities, software trade associations, etc.) as a means of enlarging the metropolitan area's entrepreneurial base and broadening the flow of projects for the Buenos Aires Emprender 1 program.

¹¹ While the CORFO program is very focused on innovative ventures, the initiative in Buenos Aires also targets promising projects with a high growth potential.

Conclusions and Recommendations

Entrepreneurship is less common among young persons than in the adult population. Only a minority of youths undertakes entrepreneurial activities as a means of self-employment or (even fewer) becoming employers or business owners. This outcome is not unexpected given that many young people are still in school, employed in their first job (where they are gaining labor market experience), saving to start a business or just exploring life.

Entrepreneurship by necessity, defined here as that undertaken by young persons who start their own business because they are unable to find other employment, is more generalized among the poor and those with lower levels of education, and their ventures tend to be very fragile. The majority of young entrepreneurs by necessity fail in their ventures because of the existence of barriers to business growth and to creating additional jobs and becoming employers. In addition, they lack vocation and entrepreneurial skills, as well as resources and networks. Those who succeed (survive) in this group are only able to generate very few jobs and do not have a significant impact on the economy in terms of creating sustainable jobs and income-generating opportunities. Thus, this type of self-employment works as a safety net and, in some cases, provides the needed experience to increase the likelihood that these young people will be able to find a job elsewhere.

Young entrepreneurs play a relatively larger role among high-growth entrepreneurs, who are generally well educated and belong to the middle or upper-middle class. Dynamic businesses are responsible for a significant share of the new sustainable jobs created, and contribute to the diversification of the industrial structure and to the enlargement of the small business sector. However, the existence of several constraints limits the impact of young dynamic entrepreneurs. An environment that is more conducive to entrepreneurship would foster the creation of a broader

group of dynamic young businesspeople and their ventures would perform even better.

This analysis suggests several policy recommendations to promote youth entrepreneurship. A two-pronged *education policy* is required to address the needs of these two distinct groups of young entrepreneurs (by necessity and by opportunity). Low-income entrepreneurs who go into business for themselves out of economic necessity require a *preventive and proactive policy*. Preventive measures include reinforcing secondary and tertiary education and improving its overall quality in order to reduce dropout rates among low-income youths. The aim is to reduce the number of low-income youths seeking self-employment because they lack better educational or job opportunities. Instead of simply providing job skills training, proactive measures should focus on developing their entrepreneurial vocation and skills when they are teenagers, or even earlier, in order to increase the quality and sustainability of their ventures, and reduce their vulnerability and failure rate.

Another policy option is to encourage technical and professional schools to join with private sector organizations (both educational agencies and private firms) and NGOs to develop programs to support young entrepreneurs once they have a project idea or have created their own business. The objective of these types of efforts would be to improve their ability to take advantage of additional support, such as technical assistance, more specific training, development networks and microfinance. Lessons learned from smaller, more focused programs can provide good practices on how to match training activities with technical assistance and financing in larger, more massive programs aimed at reducing the barriers to the creation of more promising ventures.

Programs to promote the emergence of dynamic, high-growth, young entrepreneurs must include innovative methodologies to develop entrepre-

neurial capabilities among students and graduates in the tertiary level of education (i.e. business, informatics and engineering schools) in entrepreneurship centers, business incubators and other specialized institutions that could provide technical assistance to budding entrepreneurs (such as tutoring and networking). There is also a need to reform educational systems to include entrepreneurship education (in addition to the teaching of informatics and foreign languages) in primary and secondary school.

The lack of *appropriate financing* is one of the major obstacles to the success and sustainability of new entrepreneurial activities. In addition to the difficulties faced by small businesses in gaining access to financing, young entrepreneurs have the added burden of lack of a credit history, which thwarts their efforts to get credit or raise equity financing from the banking system or elsewhere. This is a market failure that justifies government intervention. Those who are entrepreneurs by necessity face the highest obstacles in gaining access to financing, yet their need is relatively low in terms of amount of resources required. Innovative ways to assist this group include guarantee schemes that would allow young businesspeople to finance initial purchases of equipment and tools and provide working capital. Young, high-growth entrepreneurs could be eligible for seed capital and angel investors. There are promising joint public-private efforts and resources to develop and fine-tune this type of financial instrument.

Another set of policy recommendations that are applicable to both groups of young entrepreneurs is the creation of an enabling business *environment and a strong institutional setting*. A business environment that facilitates entrepre-

neurship should include low cost procedures for business registration, rule of law and easy access to factor markets such as skilled labor, technology and business development services. Young entrepreneurs may also need specialized support institutions to help them to develop networks, gain access to markets and solve business problems. In this regard, institutional building and/or strengthening is a critical issue to ensure that entrepreneurial development initiatives flourish and also because effectiveness and efficiency require specialized human resources and organizations. In addition, the involvement of socially responsible private sector organizations is key for the achievement of efficient and sustained results.

Lastly, adequate *evaluation methodologies* should be developed for interventions of different natures (Angelelli and Prats, 2004). The actual creation of new firms, their survival rate after a period of time, their rate of job creation, the growth of the firms, and the consolidation of support institutions could be useful indicators for specific programs. Special attention should be paid to the “selection bias” that is introduced in most of the entrepreneurship programs where eligibility is commonly related to the actual skill and ability of candidates. More complicated measurements and causality reasoning should be made for holistic policy objectives that include cultural changes.

Governments and international donors could play an important role as catalysts and promoters of institutional initiatives from different sectors and by fostering changes in the educational system. This would contribute to the development of human and institutional capital and entrepreneurial capabilities among young people.

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