Is Youth Entrepreneurship an Option and under What Conditions?
A Perspective from Latin America

BY JUAN LLISTERRI
AND PABLO ANGELELLI

Growing demographics and an unequal distribution of income are straining the capacity of the region's education systems to offer universal education and opportunities leading to productive professional lives. In spite of the advances achieved in the last few years, many students do not finish high school, and few finish college. It is also difficult for young people to enter the job market, and a large number start up new own informal businesses or microenterprises. If things do not go well, they end up unemployed and marginalized from society.

The first question we must ask is whether entrepreneurship is a valid activity for adolescents and under what conditions is it a realistic option. The next question is what can be done to help youth microenterprises be more sustainable?

This article will address such questions in an attempt to better understand youth businesses that are "by necessity" (that is, as strategies for survival) as opposed to "by opportunity." Then several successful support programs will be reviewed that help youth businesses from different approaches, and finally some conclusions and recommendations will be presented.
Youth businesses as a survival strategy

**SCHOOLING LEVELS IN LATIN AMERICA** are still low. The regional average, for the population over 15 years of age in 2002, was barely six years of schooling, in comparison with the average in OECD countries, which is 12. Although the regional average for completing elementary school is 95%, less than 65% graduate from high school. Experts recognize that disparities in the quantity and quality of high school education is a key variable in discrimination against the poor. High dropout rates are the main cause of these poor results in secondary education.¹

Youth from poor families face dilemmas as they grow up: How many years can they stay in school? When must they enter the work force? What other options are there if they need to generate income and cannot find paid employment?

Three important factors must be addressed to resolve these dilemmas. The first is the need for individual or family survival. The second is the opportunity cost of continuing to study, that is, possibilities of generating income by paid work. In situations of extreme poverty, any productive activity, while it may not generate much income, is an alternative to schooling. A third factor enters into play, which is the quality of teaching. If the quality is poor, it isn’t worth the youths’ effort to continue studying since employability and expectation of pay do not improve with longer schooling.

Trapped by these dilemmas, many young people find they cannot continue studying or find paid work. And as a result, they decide to begin a business or activity on their own. In Latin America, 12% of youth between 16 and 24 years old are self-employed, and 1% are microentrepreneurs who employ others.²

**Young entrepreneurs “by necessity”**

As predicted, most self-employed youth have dropped out of the education system early. Two-thirds have not completed high school, and one in five do not finish elementary school. However, of the young (thriving) entrepreneurs who end up hiring employees, more than half have 11 or more years of schooling.

The numbers are similar with respect to income level. Some 57% of self-employed youth are in the two lowest quintiles of income, while only 27% of entrepreneurs who generate employment are in this range of poverty. With respect to gender, only one quarter of young women working in the region are entrepreneurs, while only three of young males are.³

The types of economic activities that these youth choose are, understandably, basic. Most are commercial activities, usually retail commerce and services, requiring little more than some initial start-up capital; the value added of the activity is very low. The chosen activities have low entry barriers and are vulnerable to competition from new participants willing to do the same work for slightly less pay. Thus, the youths’ individual conditions, both in terms of income generated and coverage of social and health benefits, are extremely precarious.

Success or failure of the “by necessity” entrepreneurs

**RESEARCH ON THIS subject is scant.** However, available data show that approximately half of self-employed youth still have the same occupation three years later. One quarter have been employed by others (or are on salary) and the rest are mostly unemployed, although a very few have become entrepreneurs who employ others.⁴

The data show high instability in microenterprises started by poorly educated youth with scant economic resources who feel they have no choice but begin a business to generate income in order to survive.

Herein lies an answer to the question asked at the beginning of the article. Microenterprises are not a solution for personal and productive development if the youth who undertake them do possess basic skills. Although microenterprises may teeter along precariously, they seem to be unsustainable if the young entrepreneur has not completed an adequate level of schooling, which should include subjects on business management and entrepreneurship.

Counterpoint: Young “by-opportunity” entrepreneurs

Another kind of young entrepreneur exists, one who does have employment opportunities yet chooses to begin his/her own company.⁵ Some businesses started by these entrepreneurs have enjoyed rapid growth and compete successfully in the global market. A study by the Inter-American Development Bank (IDB) examined the characteristics of these young dynamic entrepreneurs. In contrast with young “by necessity” entrepreneurs, young “by opportunity” entrepreneurs come from middle- and upper middle-class families, most have graduated from high school and more than half have university degrees, professional experience in a previous job in some company, and are motivated not by survival but by personal realization and increased income. They may face problems such as getting necessary financing, recruiting qualified employees, applying technical resources and entering markets, but they can get help from networks of contacts and support institutions.⁶

Evaluation of these dynamic entrepreneurs reveals some key factors that help answer part of the early question referring to determining whether a youth’s new enterprise is a viable alternative to personal and productive development.

Support for youth entrepreneurship

**PROBLEMS OF UNEMPLOYMENT and lack of opportunity for youth have led many organizations in the region—from small municipalities and nongovernmental organizations to national-level government agencies—to develop special programs (some receive IDB support) to promote business culture and facilitate entrepreneurship among youth, especially those with scarce resources.** Figure 1 lists five IDB-supported initiatives, including name, country in which they are based, the year of project approval, and the responsible executing agency. These
efforts are a real learning experience for the region.

The programs listed in Figure 1 support innovative mechanisms to help young people (15 to 30 years of age) in the process of conceiving, establishing, and consolidating a business. The initiatives have modest budgets (between US$1-2 million), execution periods of three to four years, and local coverage (one or more cities in a country). For project implementation, the IDB has established ties with nongovernmental organizations such as the Corona Foundation in Colombia and Banhcafe Foundation in Honduras. These, in turn, have developed local networks with a wide range of participants, including technical schools and universities and even large companies, banks and microfinance institutions. In fact, one of the outstanding characteristics of these initiatives is their highly developed network of alliances.

Another characteristic of the IDB-supported programs is their comprehensive focus, which consists of offering youth a series of services and activities to help them develop their capacities and find solutions to different problems that occur during the long business-building process, its launch, and the first few years of operation. Thus, these alliances take on special importance, since the most efficient way to generate this supply of services is to develop collaborating networks that include technical schools and universities, chambers of commerce and labor unions, individual consultants and consulting firms, banks and private investors and public institutions that register, regulate and support the new businesses.

Differing promotional approaches

Although the initiatives presented here focus on youth, upon close examination of their goals and work approaches, two different categories are evident.

The first group of programs targets poor youth with little education (elementary/secondary) and difficulties finding employment. Included in this category are the cases of Peru, El Salvador and Honduras, where the main objective is to facilitate social inclusion of youth through formal or informal self-businesses. The programs' beneficiaries, around 1000 in each case, receive training, personalized technical assistance and, in the case of Honduras, guaranteed microcredit. However, few young people succeed in completing the full cycle of services and establishing a sustainable business. In the case of Peru, approximately one youth in ten entering the program succeeds in establishing and sustaining a business (with an investment in each successful case of US$500). These numbers reaffirm the challenge of helping poorly educated youth with little experience generate sustainable businesses.

The second group includes initiatives such as those in Colombia and Argentina, which target more-educated youth (with university degrees) who have some previous manual labor or business experience. The goal is to help the youth establish formal businesses with growth potential and additional work positions. Training courses (of 40 to 120 hours) are offered as well as assessment and guidance for one year. Specialized private consultants and businesses and agencies provide the assessment and mentoring. Experiences in Colombia and Argentina indicate that contact with consultants and businesses, together with events and gatherings for youth involved in the projects, are essential to accelerate formation of networks, critical to the success of new businesses. One aspect of these initiatives to improve is their financing. Efforts to connect entrepreneurs with private investors and banks have been made, yet these solutions are inadequate, and financial mechanisms specialized in this type of business are needed. Finally, the greater intensity and quality of services affects the investment needed for each company that successfully consolidates (approximately US$30,000).

Conclusions and Recommendations

While most experiences promoting youth businesses is relatively new, and its impact has yet to be examined in depth, some observations and ideas can be presented to stimulate policy debate. Below are five points for discussion:

1. Efforts should be balanced between programs for youth who begin a business from necessity and those who are taking advantage of an opportunity. Thus, urgent social...