

YOUTH ENTREPRENEURSHIP

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Section 1: Introduction

Many young people in the OECD and the EU cannot find employment. This has become particularly acute since the onset of the financial crisis in 2008. EU figures suggest that around one-in-five young people in the EU were unemployed in 2011 whilst youth unemployment in countries such as Greece and Spain was over 40 per cent (Eurostat, 2011). In very many OECD countries, youth unemployment is either at, or close to the maximum level, ever experienced (OECD, 2010: 29)¹. The OECD also notes that the NEET population (those not in education, employment or training) has grown, on average, by more than 2 per cent across the OECD over 2008-2010 so that NEETs constitute around one in eight of young adults (OECD, 2010: 42)².

These outcomes are both inefficient and inequitable. Evidence shows that the unemployed are unhappier, more likely to experience a range of health issues, and face difficulties in integrating back into the labour market place (Bell and Blanchflower, 2009). For young people, the effects of unemployment may be particularly scarring. Evidence suggests that a spell of youth unemployment increases the likelihood of poorer wages and unemployment in later life (Blanchflower and Oswald, 1998).

Such outcomes also have pronounced social costs. It represents a loss of potential output and leads to increased costs to the taxpayer. For example, estimates of the costs of NEETs in the EU suggest that they cost, per annum, €101 billion (Eurofound, 2011).

One potential way of integrating young people into the labour market is to increase youth entrepreneurship³. Becoming an entrepreneur potentially offers benefits to the young

¹ Figures for 'maximum ever' are from 1985.

² There is no agreed definition of 'youth'. For example, youth unemployment is usually measured amongst those who are 16-24 year olds whilst the EU (2009) defines young people as being 15-29 year olds. In Japan and Korea, 'youth' extends to the under 35 years olds. In terms of youth self-employment (a proxy for youth entrepreneurship), there is also no agreed definition. One disadvantage of equating youth entrepreneurship with being under 30 rather than being under 21 or under 25 is that, because self-employment increases with working age (at least up until around 50 years of age), it potentially inflates the youth entrepreneurship rate. Equally, although the advantage of the NEET acronym for understanding the experiences of some groups of young people is potentially advantageous as – unlike youth unemployment measures – it is more likely to include those inactive in the labour market (e.g. single mothers, the disabled), Furlong (2006) has questioned the efficacy of NEETs because it does not fully characterise the increasingly complex and fractured work histories of young people. Whilst cognisant of all of these issues, this report defines youth as being under 30.

³ In this paper, entrepreneurship and self-employment are used interchangeably. Whilst self-employment is often seen as a limited proxy for entrepreneurship, self-employment is used because much of the data on the entrepreneurial choices of young people relates to self-employment.

person through deepening their human capital attributes (self-reliance, skill development) and increasing their levels of happiness (Blanchflower and Oswald, 1998)⁴.

It also offers societal benefits. Entrepreneurs create jobs, increase innovation, raise competition and are responsive to changing economic opportunities and trends. Entrepreneurship offers other positive externalities. A young person setting up a new business may provide ‘demonstration’ or learning externalities in that they may act as a role model for other young people. This may be particularly advantageous in deprived communities because setting up a new business – especially if it goes on to be successful – may signal that entrepreneurship is a mechanism for helping disadvantaged people break out of social exclusion. Indeed, one of the reasons why youth entrepreneurship is so attractive is that it offers an indigenous solution to economic disadvantage (De Clercq and Honig, 2011; Greene et al, 2008). For example, if 10 per cent of NEETs were integrated more fully in the EU labour market, estimates suggest that this could save EU taxpayers €10 billion per annum (Eurofound, 2011).

Youth entrepreneurship is also attractive to policy makers because of the high rates of latent entrepreneurship amongst young people. Euro Flashbarometer data suggests that two-in-five young people in the EU would like to set up their business, confirming previous evidence that latent entrepreneurship is particularly pronounced amongst young people (Euro Flashbarometer, 2011).

Against this background, this report examines the evidence base on youth entrepreneurship. It examines five main areas. First, it outlines the main ‘stylised’ features of youth entrepreneurship in the EU: that entrepreneurship (self-employment) rates are low relative to the adult population and latent rates of youth entrepreneurship; and that males and ‘older’ young people are more likely to be in entrepreneurship.

Second, using prior studies of youth entrepreneurship, it examines the types of young people who set up in business, evidence on the characteristics of their businesses and evidence on how such businesses typically perform. It then identifies reasons for the entrepreneurial outcomes experienced by young people. These outcomes are often explained by the presence of market failures, push and pull factors and a lack of human, social and financial capital.

⁴ There is now strong evidence from studies such as Benz and Frey (2008) that self-employment increases the happiness of individuals. This is not because they earn more. Indeed, Hamilton (2000) suggests that they earn less. Instead, it is because the self-employed derive non-pecuniary benefits (e.g. greater latitude in work tasks) relative to those in employment.

The paper then turns to examining individual programmes designed to provide assistance to particular groups of young entrepreneurs both pre and post start up. Evidence of the effectiveness of these interventions is presented.

The paper then considers the impact of public sector youth entrepreneurship interventions. This section shows that there are two main problems in evaluating these impacts: first, it is often difficult to disentangle the aims and objectives of particular enterprise programmes; second, that evaluations of such schemes are ‘light touch’ and provide little in the way of an assessment of the additionality of the programme (OECD, 2007). The paper then goes on to contrast particular examples of successful and unsuccessful policy interventions before presenting the evidence on the overall impact of such assistance. The paper concludes with the lessons learnt and recommendations.

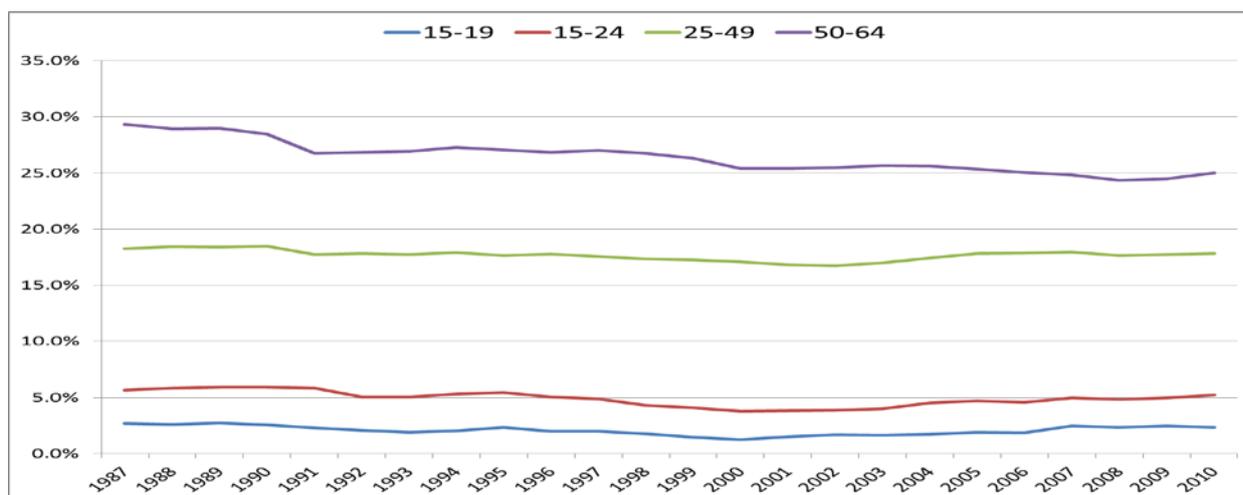
Section 2: The incidence of youth self-employment

Figures 1 and 2 present EU self-employment rates for males and females, respectively, by age over the period 1987-2010. These data demonstrate two central features of youth entrepreneurship. First, older rather than younger individuals are more likely to be self-employed. In Figure 1, older males (aged 50-64) are approximately five times more likely than younger people (aged 15-24) to be self-employed⁵ and ‘older’ young people (aged 15-24) are more likely to be self-employed than younger young people (15-19)⁶. These figures are also in stark contrast to EU latent youth entrepreneurship rates. The Euro Flashbarometer (2011) indicates that about 40 per cent of young people would like to become an entrepreneur.

⁵ This evidence is in contrast to studies that suggest that the relationship between age and self-employment rates follows an inverted U shape pattern with young and older people being less likely than ‘prime age’ individuals (aged 30-50) to be self-employed (Storey and Greene, 2010; Parker, 2009). This inverted U shape pattern is typically derived from the age and age squared (usually taken as a proxy for ‘experience’) of the individual and shows a positive sign for age but a negative sign for age squared. The relationship, however, between age and self-employment may be changing as there is increasing evidence that older people are much more likely to have taken up self-employed (Storey and Greene, 2010; Greene, 2002).

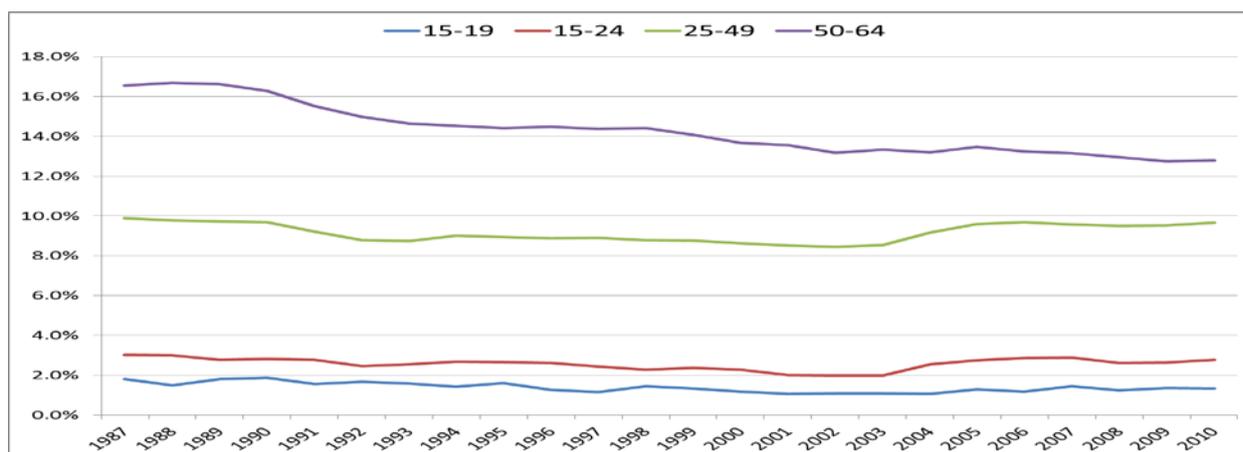
⁶ LListerri et al (2006) indicates that the rate of Latin American youth self-employment (16-24) is much higher at around one-in-eight of young people of the working population. This is in line with other evidence that suggests that self-employment is higher in developing countries (Shane, 2008).

Figure 1: EU male self-employment rates by age, 1987-2011⁷



Source: Eurostat Labour Force Survey.

Figure 2: EU Female self-employment rates by age, 1987-2011



Source: Eurostat Labour Force Survey.

The second feature of the data is that males are more likely than females to be self-employed. Young males (aged 15-24) have a rate of self-employment of around 5 per cent: amongst females it is broadly 2.5 per cent.

Section 3: Youth entrepreneurs, types of business and business performance

⁷ These figures are computed by dividing male self-employment by male employment. If the denominator is total population, the percentage of male self-employed amongst young males (15-24 year olds) is about 1 per cent across the period 1987-2010.

In this section, the paper focuses on specific youth employment studies that investigate the characteristics of youth entrepreneurs, the characteristics of their business and the performance of their businesses. This evidence base is summarised in Table 1. Table reports only those factors that were statistically significant (either positive (+) or negative (-)) in the studies. These studies typically used self-employment as a proxy for entrepreneurship⁸.

The Characteristics of Youth Entrepreneurs

Table 1 shows, again, that ‘older’ young people and males are more likely to be self-employed. It also indicates that self-employment is inter-generationally transmitted. This fits in with strong international evidence which suggests that parents act as role models influencing the self-employment propensity of their children⁹. One reason why this may matter is that there is evidence that, for example, amongst NEET groups that social exclusion is, itself, inter-generationally transmitted so that children of parents who are socially excluded are, themselves, more likely to face social exclusion¹⁰.

What is less clear from Table 1 is the relationship between a youth unemployment and self-employment. Although young people are more likely to be unemployed, there is little actual evidence of any relationship between unemployment and youth self-employment¹¹. More general evidence on the wider adult population, however, increasingly suggests that there is likely to be a positive relationship between unemployment and self-employment¹².

⁸ Table 1 does not consider studies that examine shifts in entrepreneurial perceptions. Thomas (2009) found that higher levels of education depressed entrepreneurial aspirations but being Asian, male and having financial resources increased such aspirations. Such studies are not considered because nascent entrepreneurship is a limited proxy for actual entrepreneurship (van Stel et al, 2005).

⁹ See: Fairlie and Robb (2007); Mungai and Velamuri (2011); Lu and Tao (2010); Taylor (2001); Andersson and Hammarstedt (2010); and Colombier and Masclet (2008).

¹⁰ Bynner and Parsons (2002) examined UK longitudinal data on NEETs and found that multiple forms of disadvantage in childhood increase the likelihood of NEET outcomes.

¹¹ Greene’s (2002) descriptive evidence that young males in the UK were more likely to become self-employed in recessionary periods.

¹² See: Storey and Greene (2010). Nonetheless, the relationship between unemployment and self-employment is complex (see: Thurik et al (2008) using OECD data). For example, cross-sectional data have tended to show a negative relationship between unemployment and self-employment whilst time series and panel data have been more – perhaps because of better controls for endogeneity issues – likely to identify a positive relationship. Evidence by Congregado et al (2010) suggests that any relationship between unemployment and self-employment is influenced by the business cycle. They find that in economic downturns more unemployed individuals are attracted to self-employment than in economic upturns suggesting that recession push effect is more important (see also Buchmann et al, 2009). Moreover, what actually may matter is the duration of the unemployment spell (see Alba-Ramirez, 1994; and Cowling and Mitchell, 1997).

There is also limited evidence on what other characteristics of young people influence their propensity towards self-employment. Table 1 shows little evidence that education is related to youth self-employment. This ambiguity perhaps reflects that more highly educated young people are likely to have the requisite skills necessary to set up and run a new business, but that they are also more attractive to employers¹³.

Table 1: Studies of Youth Enterprise

	Focus	Approach	Results
Dolton and Makepeace, 1990	Graduates/Self-employment decision	Probit analysis	Older (+), Children (+), Social Class (+), Male (+)
Blanchflower and Meyer, 1994	Young people/Self-employment decision	Probit analysis	Australia: Male (+), Older (+), Apprenticeship (+), location (+) sector (+), Parental Influence (+); US: Male (+), Older (+), Skilled manual workers (+), years of Schooling (+), Sector (+)
Tackey, 1999	Graduates/Self-employment decision	Interviews and survey	Unemployment (-), independence (+), financial rewards (+), family background (+), work experience (+)
Blackburn, 1997	Young Business Owners	Interviews	Male (+), employed (+), education (+)
Belfield, 1999	Graduates' views of SMEs	Survey	Wages (-), fringe benefits (-), training (-), work environment (+)
van Praag, 2003	Young people/business survival	Regression analysis	Age (+), experience (+), motivation (+)
Shutt and Sutherland, 2003	Disadvantaged young people	Probit analysis	Male (+), prior industry experience (+), unemployment (+), previously self-employed (-), family help (+)
Meager et al, 2003	Disadvantaged young people	Probit (sample selection) analysis	male (+), white (+), age (+), family background (+) intermediate qualifications (+), risk averse attitudes (+), sector (+), local markets (-)
Rosa, 2003	Graduates/ Graduate Enterprise	Longitudinal Surveys	Degree course (+), earnings (-)
Williams, 2004	Young people/self-employment decision & outcomes	Probit analysis	White (+), older (+), sector (+)
Greene and Storey, 2004	Young people	Ordered Probit analysis	Self-employed characteristics: older (+), male (+). Outcomes: mentoring (+), self-employment (-)
Greene and Saridakis, 2008	UK Graduates	Probit analysis	Older (+), males (+), parental self-employment (+)

The evidence base on the relationship between ethnicity/immigration and youth self-employment is also thin. This reflects that it is often difficult to disentangle the impact of

¹³ Wider evidence of the link between education and self-employment tends to reflect this theoretical (Lucas, 1978) and empirical ambiguity (Storey and Greene, 2010; and Parker, 2009). However, van der Sluis et al, (2005) and Astebro and Bernhardt (2005) have indicated that amongst the general population that the better educated are less likely to choose self-employment. Italian evidence (Castagnetti and Rosti, (2011) shows that better qualified young graduates in Italy are more likely to choose employment over self-employment.

ethnicity from immigration. Baycan-Levent and Nijkamp (2009) examine the characteristics of migrants in Europe. They show that the biggest groups of immigrants are not necessarily the most likely to be entrepreneurial, suggesting that immigration is not synonymous with ethnicity and that ethnicity/immigration reflects differing push and pull factors.

This is also illustrated by differences between first and second generations of immigrants from particular ethnic groups. Clark and Drinkwater (2007) identify that particular ethnic groups (e.g. Chinese, Pakistani) are more likely to have higher self-employment rates than the 'native' population, but rates of self-employment amongst second generation immigrants are lower than first generation immigrants. In contrast, Dutch data indicates a reverse pattern: self-employment is higher amongst second generation than first generation immigrants (CBS, 2005)¹⁴.

There is also little evidence that young people who have a criminal record are more likely to go on to self-employment (Fletcher, 2005). Fairlie (2001), however, examined the propensities of young people with a criminal background in drug dealing to become self-employed later in life. He found that those with a background in drug dealing were 11-21 per cent more likely than equivalent individuals to become self-employed in adulthood. Similarly, Lindsay (2011) is perhaps one of the few studies that have looked at the relationship between disability and youth self-employment. She finds that younger disabled people, relative to non-disabled people, are more likely to be in self-employment¹⁵.

Overall, this sub-section has identified that older young males are more likely to be self-employed. It also examined if self-employment propensities are likely to differ amongst differing groups of young people (e.g. unemployed, graduates, immigrants, the disabled). However, there is limited evidence to identify if these characteristics - either on their own or in combination with other characteristics - actually influence youth self-employment rates.

¹⁴ This suggests that there are likely to be country level differences in the self-employment patterns of particular ethnic groups and immigrants. Baycan-Levent and Nijkamp (2009) review of migrant entrepreneurship in EU OECD countries suggest that differential structural factors (e.g. a large informal economy, unemployment rates and the status of self-employment) impact on the probability of self-employment in differing countries.

¹⁵ This is reflected in wider evidence on the nature of the relationship between disability and self-employment. The descriptive results of Boyan and Burchardt (2002), Pagan (2009) and Jones and Latreille (2011) suggest that disabled individuals are more likely to be self-employed than the non-disabled; that older rather than younger disabled individuals are more likely to be self-employed; and that self-employment is attractive to disabled people because it provides them with flexibility.

Youth business characteristics

Because the labour market experiences of young people have become increasingly delayed and fractured (Bradley and Devadason, 2008), one expectation might be that young people have increasingly adopted differing forms of work and business activity. In terms of entrepreneurship, this may have led to the adoption of differing ‘business models’ such as part-time self-employment; some form of co-operative or social enterprise; or a focus on a particular (innovative) sector.

Again, however, there is limited evidence on the adoption of new business models by young entrepreneurs. For example, although Strohmeier and Tonoyan (2007) show that the self-employed in the EU often combine this work with paid employment, Folta et al (2010) found that this ‘hybrid entrepreneurship’ was largely confined to older individuals¹⁶.

van Ryzin et al (2010) for the US and Harding (2006) for the UK, however, suggested that younger people were more likely to set up social enterprises than older people. van Ryzin et al (2010) indicate that social entrepreneurship is unlikely to appeal to all young people. They suggest that the typical profile of a social entrepreneur is: “...social entrepreneurs are happy people, interested in politics, giving to charities, extroverted, and more liberal in their political ideology” (p.136).

There is clearer evidence on the business sector chosen by young people. This largely follows the patterns of businesses set up by older individuals. On average, the typical new business is focused on sectors in which the entrepreneur has prior experience of; tend to be service rather than manufacturing orientated; and have relatively low entry barriers and low capital requirements (Shane, 2008; Parker, 2009)¹⁷.

Businesses set up by younger people seem largely to follow this pattern. In Table 1, Rosa (2003) finds that the graduate businesses “were not imaginative ‘cutting edge’ businesses” (p. 452). This also applied to other groups of young people such as the

¹⁶ It is difficult to reliably know how many young people who may be running a full-time or part-time business whilst studying. This is largely because the statistics on students typically focus on post study work outcomes rather than work outcomes in education. Indicative data from the US Department of education, though, suggests that around 5.5 per cent of US young people in post-secondary education are using self-employment to support their education

(<http://www.acenet.edu/AM/Template.cfm?template=/CM/ContentDisplay.cfm&ContentFileID=1618>, Table 4).

¹⁷ Schreiner and Woller (2003) suggest that “Most US microenterprises produce nontraded services such as childcare, haircuts, retail sales, transport, or home, car, or office maintenance. What little manufacturing there is involves custom work such as cabinets, crafts, or clothes.” (p. 1568-69).

unemployed (see Meager et al, 2003 in Table 1). Moreover, MacDonald and Coffield (1991) and MacDonald's (1994, 1996) studies of young unemployed people who entered self-employment indicate that they tended to set up businesses that were in easy to enter service sectors, consequently faced stiff competition and, subsequently, remained – if they survived – marginal businesses¹⁸.

This sub-section indicates that there are some differences in the business models adopted by young people, particularly in terms of social enterprise. However, whilst there will always be notable exceptions, young people on the whole seem to conform to the pattern of setting up businesses in service sectors that are easy to enter and require limited capital.

The performance of youth businesses

Given the typical sectoral profile of the business, it is perhaps unsurprising that studies indicate that the performance of young people's business is limited. For example, youth businesses do not necessarily grow, survive or provide sustainable incomes. This reflects the wider difficulties that face most small-scale businesses – whatever the age of the entrepreneur – has in growing¹⁹, surviving²⁰ or transferring their skills from self-employment into employment²¹. There is some evidence, however, that if socially disadvantaged individuals do become self-employed that they are more likely to have better outcomes. This evidence is summarised in Box 1.

¹⁸ Schreiner and Woller (2003) also suggest that “poor, low-skill people [in the US] are more likely to succeed in such survival-and-maintenance activities. These simple businesses require low levels of financial and human capital, but they also have low returns” (p. 1569).

¹⁹ Hull and Arnold (2008) show, using official New Zealand data, that only a tiny percentage of businesses grow. Further OECD (2011) evidence suggests that only a small proportion of small businesses (‘gazelles’) – typically between 3.5 and 6 per cent – are likely to experience annualised employment growth over a three year period of more than 20 per cent.

²⁰ Prior to 2008, US evidence suggested that only about 4 out of 10 US businesses last five years (Knaup and Piazza, 2007; and Headd and Kirchhoff, 2009) whilst one year survival rates, again prior to the economic downturn in 2008, varied between 75-90 per cent in OECD countries (OECD, 2011). Since the onset of the financial crisis, OECD evidence that start up rates slowed in 2011 across major international economies such as the UK, Germany and the US (http://www.oecd.org/document/0/0,3746,en_2649_33715_49026758_1_1_1_1,00.html). See also Box (2008) who examined seven birth cohorts of Swedish firms over the period 1899 to 1950 and found that survival was less likely to occur in recessionary periods.

²¹ Bruce and Schuetze (2004) show that those who have brief spells of self-employment experience reductions in average hourly earnings when they return to wage employment. The self-employed also find it more difficult to return to employment (see also the Swedish evidence by Andersson and Wadensjo (2007)). However, Hyytinen and Rouvinen (2008) using EU data suggests that what may also influence earnings outcomes is the underlying human capital attributes of individuals (see similar results for young self-employed individuals (Williams, 2004)).

Box 1: Fairlie RW. (2005) Entrepreneurship and earnings among young adults from disadvantaged families. Small Business Economics 25: 223-236.

This study uses longitudinal US data and examines if young self-employed men and women whose family background is disadvantaged (defined as both parents having dropped out of high school) earn more than equivalent employed young men and women. The evidence suggests that young self-employed men – who come from disadvantaged backgrounds - are more likely to earn more than equivalent employed men. In contrast, however, young self-employed women earn less than their equivalents in employment²².

Overall, the evidence in this section suggests that self-employment rates amongst young people are modest, particularly when contrasted with their latent entrepreneurial rates. The evidence – although limited – points to ‘older’ young men and those with a family background in entrepreneurship being more likely to be self-employed. There is likely to be heterogeneity in terms of the characteristics of young people (e.g. unemployed, disabled, ethnicity/immigration). The performance of these businesses, though, suggests that young people tend to set up service sector businesses which, because they face stiff competition, are likely to prove transitory.

Section 4: Explanations for youth entrepreneurship outcomes

This section focuses on examining the two main explanations for the pre and post entrepreneurial outcomes experienced by young people. The first of these is that market failures exist, making it more difficult for young people to realise their entrepreneurial aspirations. Second, because young people lack human, social and financial capital, these constraints again make it difficult for young people to achieve their entrepreneurial goals. This section also identifies that even without these barriers, not all young people will seek out entrepreneurial opportunities. This reflects that there are both ‘push’ (e.g. self-employment was the only viable route out of unemployment) and ‘pull’ (e.g. saw a profit opportunity) motivations underlying the decision to become an entrepreneur.

In terms of market failure, this perspective suggests that young people face information imperfections both pre and post start up. Young people may simply be unaware

²² One criticism of this study is the limited definition of social disadvantage. Evidence suggests that although the educational attainment of parents is important in determining their children’s outcomes, NEETs are likely to experience multiple deprivation (Brynnner and Parson, 2002). Blackburn and Ram (2006) suggest that the multi-dimensional nature of social exclusion is likely to limit that contribution small businesses can make to social exclusion.

of the potential of entrepreneurship, their entrepreneurial aptitude or the skills need needed to be an entrepreneur. These information imperfections may help explain the gulf between latent and actual youth self-employment rates²³.

Market failures in the provision of information may also impede starting and growing the business. Young entrepreneurs may, for example, be unaware of the provision of expert advice and assistance. This may hamper their attempts to set up or run their business. Financiers may also find it difficult to judge the viability of a young entrepreneur and their business. Typically, young people have a limited credit history. Financiers may judge that they cannot adequately judge the quality of their new or existing business proposition and, therefore, decide not to fund their business proposition.

The second explanation offered used to explain youth entrepreneurial outcomes is that young people typically lack human, financial and social capital necessary both to set up and successfully run a new business. Relative to older individuals, younger people are less likely to have sectoral, managerial or prior business experience but are more likely to be unemployed. They may, therefore, lack the skills needed to set up or run their business.

Young people are also likely to have less access to financial capital from inheritances or, more typically, from capital accumulated in house ownership or from personal savings. This may be important, particularly as the average cost of a start-up in 2004 was estimated at US\$54,000 (GEM, 2004). Hence, if young entrepreneurs are financially constrained, the result might be that the business is not sustainable because under-capitalised businesses are more likely to fail (Storey and Greene, 2010).

Young people may also have limited networks (e.g. business contacts), leading to them having limited social capital. This may have consequences for the setting up and running any business because, without adequate levels of social capital, young people may struggle to build 'legitimacy' amongst key stakeholders (e.g. financiers, customers, suppliers).

²³ The alternative explanation for the gulf between latent and actual self-employment rates is that young people are only too aware of the costs and benefits of entrepreneurship. This view suggests that young people judge that the balance between the risks and rewards of entrepreneurship is more likely to tilt in their favour when they are older and have accrued the necessary capital to start and successfully run their business. Hence, whilst entrepreneurship is attractive, it only becomes feasible when they have the required resources. Moreover, young people may also recognise that they need a greater range of skills (e.g. attract customers, find suppliers, deal with regulation) (Lazear, 2005) to successfully set up and operate a new business when compared to the range of skills required to be an employee. If they recognise that they currently do not have these skills, young people may be less likely to become self-employed.

These two explanations of youth entrepreneurship outcomes are not mutually exclusive. The limited capital available to young people may, for example, increase the prevalence of information imperfections or ‘push’ them towards self-employment.

The impact of market failure and limited capital may also have differential impacts on different groups of young people. Some groups, such as NEETs or the disabled, face multiple sources of disadvantage in their attempts to become self-employed (Blackburn and Ram, 2006). Illustrative of this is Marlow (2006) who argues that single mothers are less likely to set up in business because they lack human, social and finance capital necessary to set up in business. This undercapitalisation also makes it more difficult for these businesses to be sustainable. Rouse and Kitching (2008) also document that young self-employed mothers faced complex problems in both trying to run their business and cope with wider difficulties in, for example, providing childcare for their children.

Moreover, the push and pull motivations underlying setting up a new business are likely to be complex. For example, certain groups of young people (e.g. those that have a disability, a criminal record, low or limited educational attainment levels, those that are immigrants or from particular ethnic groups) may experience - or perceive that they experience - discrimination in waged employment which pushes them towards self-employment. Other groups in society may also be ‘pulled’ towards self-employment because it allows them flexibility; offers them a chance to realise an opportunity; or because it fits in within prevailing cultural norms in their community²⁴.

Although some groups of young people may turn to entrepreneurship out of necessity and other groups are attracted to entrepreneurship by opportunities, there are likely to be a range of both push and pull factors at work in the decision to become self-employed. This reflects that not all individuals in particular groups (e.g. graduates, NEETs) are attracted to self-employment.

²⁴ See earlier evidence on the suggested flexibility advantages of self-employment to disabled individuals. In terms of opportunity entrepreneurship (e.g. seeking to exploit a profit opportunity) is not the usual motivation for setting up a business (Birley and Westhead, 1994), Wiklund et al (2005) suggest that those with an entrepreneurial orientation are more likely to grow their businesses. One alternative explanation as to why self-employment rates are higher in some ethnic minorities and not others is because there may be a cultural bias in particular communities towards entrepreneurship (Basu and Altinay, 2002).

Section 5: Examples of youth entrepreneurship assistance

This section considers examples of policy tools designed to alleviate market failures and overcome limitations in the human, financial and social and financial capital of young people.

These examples are disaggregated into three types of assistance: enterprise education, ‘soft’ support (e.g. signposting, advice and assistance, skill development) and ‘hard’ support (e.g. micro-finance loans and grants). For each of these forms of assistance, the section identifies its focus and rationale. It then goes on to describe an example or examples of particular interventions²⁵. Typically, these examples are from voluntary sector providers. It concludes by examining evidence of the effectiveness of each form of assistance.

Enterprise education

The aims of enterprise education are to make young people aware of the importance of entrepreneurship; allow them to investigate if it is a desirable option; and equip them with entrepreneurial skills (e.g. opportunity recognition, business planning, running pilot businesses) that will allow them to develop entrepreneurial competencies which, in turn, might be beneficial for their own (future) business or for working as an employee. The rationale for these interventions is that there are market failures present and young people have not developed the necessary knowledge, skills or abilities to make judgements about the desirability and feasibility of entrepreneurship²⁶.

It is very difficult to estimate the quantity and quality of enterprise education. This reflects the range of enterprise education providers (e.g. schools, universities, colleges, voluntary organisations) across the EU and the OECD. It also reflects the different aims and objectives of such programmes (e.g. the increased awareness, desirability or feasibility of entrepreneurship or a focus on employability)²⁷. It also reflects that enterprise education

²⁵ Overall, it is difficult to estimate the extent of youth entrepreneurship programmes. Greene (2005) estimated there were 75 major youth enterprise programmes in the EU. This is likely to severely underestimate such provision, particularly if local, regional and voluntary sector schemes are included.

²⁶ Some education providers also see a role for themselves in actually providing support to those interested in setting up and successfully running their own business. Typically, one way this is achieved is through business plan competitions which offer a package of resources (e.g. mentoring, a cash prize) to successful entrants (see: OECD (2009) for examples).

²⁷ One tension in enterprise education is between those who see it as a mechanism for increasing the awareness, uptake and performance of businesses set up by young people. An alternative view is that enterprise education

tends to be 'lightly evaluated' in that few evaluation studies compare those who receive enterprise education with a control group of students who do not receive such support.

Nonetheless, estimates of enterprise education do suggest that it is now become an established feature of primary, secondary and tertiary education²⁸. Moreover, there are a few studies of enterprise education that make use of more robust evaluation methodologies. These evaluations tend to suggest that enterprise education is efficacious. Athayde's (2009) evaluation of the *Young Enterprise Company* programme (based on the *Junior Achievement* programme) found that the programme increased the entrepreneurial potential of young people. Peterman and Kennedy (2003) also found that participants on *Young Achievement Australia* were more likely than a control group to see entrepreneurship as desirable and feasible. Souitaris et al (2007) study of French and UK engineering and science university students also identified that those who undertook enterprise education had increased entrepreneurial intentions, relative to a control group.

In contrast, Oosterbeek et al (2010) found that students who participated in the Dutch *Association Jong Ondernemen* (part of *Junior Achievement* programme) were more likely to form negative intentions towards entrepreneurship and have lower self-assessed enterprise skills²⁹.

This body of evidence broadly suggests that enterprise education plays a role in developing entrepreneurial intentions amongst young people (Pittaway and Cope, 2007). How efficacious, though, such programmes are in actually translating this development of latent propensities into actual increased levels of youth entrepreneurship remains difficult to establish. This is principally because the effect of enterprise education is only likely to become apparent when individuals become self-employed and this is most likely to occur when they are over 30 years of age³⁰.

is much broader and should equip young people with entrepreneurial attributes (e.g. flexibility, risk-taking) that are perceived to be demanded by employers.

²⁸ Daniel and Kent (2005) estimate that there are more than 100 established enterprise education programmes for secondary level students. Estimates of the growth of enterprise education in tertiary education suggest that it has grown markedly over the last 50 years (Kuratko, 2005).

²⁹ This negative finding, however, might still be seen as positive. Potentially one aim of enterprise education is to dissuade unsuitable individuals into entrepreneurship. Hence, even if this is not the intention of the particular programme, it may still be beneficial to society if it succeeds in dissuading individuals who are unsuited to entrepreneurship.

³⁰ Greene (2002) descriptive evidence charts the development of youth enterprise programmes and self-employment rates amongst young people over the period 1975-2000. He finds that enterprise education became

Soft support

The rationale soft support (e.g. signposting, advice, assistance) is that young people - both pre and post start up – face information imperfections and gaps in their human and social capital³¹. Hence, soft support such as signposting information may be provided to guide young prospective or actual entrepreneurs towards specialist sources of support. The focus may also be on providing advice and assistance. This may be delivered through the internet, through social networks of young people or by older mentors who may signpost sources of support or use their own social capital to leverage resources for aspiring or actual entrepreneurs. Such assistance may also extend to the provision of particular skills (e.g. opportunity recognition, business planning, financial management, sales and marketing), delivered either informally (e.g. a mentoring scheme) or more formally by attending a course. Typically, the provision of such assistance is designed to help young people make an effective transition into self-employment and increase the sustainability of their business.

Again, it is difficult to estimate the quantity and quality of soft support, partly because very many youth entrepreneurship programmes either seek to ration their services (e.g. screening potential participants by asking them provide a business plan) or provide ‘hard’ (finance) support. It is also because such support tends to be infrequently robustly evaluated. One programme that focuses largely on the provision of soft support is the Shell Livewire programme which has provided information, advice and signposting to all young people since 1982. It currently operates in more than 20 countries. Evaluations of these types of programme are also limited. Greene and Storey (2004) examined this programme. They found that mentoring assistance increased the likelihood that young people would enter self-employment but that those already in self-employment were less likely to be satisfied with the services provided by Shell Livewire.

embedded in the UK over this period but that there was limited evidence of a dramatic increase in youth self-employment. Figures 1 and 2 also demonstrate stable rates of self-employment over the period 1987-2010.

³¹ Another type of soft support not considered here is programmes that attempt to make working in a small business more attractive. Fraser et al (2006) review such a programme – the Shell STEP programme – which provides placements in small businesses for prospective graduates. They find that, those with a preference for employment in small businesses are, post-graduation, more likely to take up employment in such firms. Graduates who prefer working in a large firm and how participate in the programme are not more likely to shift their employment preferences to smaller businesses post-graduation.

Hard support

Policy tools that offer micro-finance in the form of loans, grants or funding of their day-to-day living expenses (e.g. replacing or augmenting existing unemployment benefits) to young people are the third policy tool. As with soft support, they are designed to support young people both pre and post start up. The rationale for these programmes is that one of the principal limitations faced by young potential or actual entrepreneurs is that they lack the necessary financial capital to develop or sustain their business. This may be because they have not had, as with human or social capital, sufficient time to build up their financial resources or because they have been not been able to access external finance.

Again, it is difficult to establish the number or efficacy of such programmes. One reason for this is that the amounts and types of funding vary in the EU from country to country. For example, in France, a young person's living expenses are supported; in Belgium preferential loans (up to €4,500) are provided; whilst Greece offered funding up to €29,000 to young people (source: EEOR, 2010)).

It is also difficult to assess these programmes because different micro-finance programmes use different mechanisms to screen potential participants. They may ration support based upon a young person belonging to a particular qualifying group (e.g. the unemployed, offenders, disabled); by ensuring that they meet a selection criteria (e.g. submitting and gaining approval for a business plan); or by requiring young person to commit resources – if they have any – to the new business.

One clear example of a micro-finance programme – that also seeks to ration its provision as well as provide soft support (e.g. mentoring) – is the Prince's Trust, which is a scheme focused upon young unemployed people and specific groups in society (e.g. offenders, the disabled). This programme has also been robustly evaluated (Meager et al, 2003). This evaluation suggested that micro-finance support was important in increasing earnings in self-employment but that soft support (mentoring) was negatively associated with self-employment earnings. Meager et al (2003), however, also suggested that the provision of both soft and hard support did little to increase the employability or earnings of participants once they left the programme.

Overall, this section has examined three types of policy tools: enterprise education, soft and hard support. It is difficult to establish the extent of such provision, if only because

there exists a wide range of providers. It is also difficult to establish the efficacy of these interventions because there are few robust evaluation studies. Nonetheless, of the three policy tools, the evidence does suggest that enterprise education plays a role in developing young people's entrepreneurial intentions. There is less evidence that either soft or hard support increases their likelihood of young people starting or running a successful new business.

Section 6: The impact of public policy

In this section, the focus is on mainstream public policy interventions – typically called active labour market policies (ALMPs). ALMPs are attractive to public policy makers (and voluntary sector providers) because of the market failures experienced by young people and because of the positive externalities of youth entrepreneurship (job creation, innovation, social inclusion). This section begins by identifying that the ALMPs often face two problems: fuzzy objectives; and poor evaluation methodologies. It then goes on to identify examples of successful and unsuccessful policy interventions before examining whether these interventions are cost effective.

Fuzzy objectives and limited evaluation methodologies

ALMPs tend to suffer from two main problems. First, the aims and objectives of interventions are often fuzzy. Particular ALMPs may have a range of objectives. These may be complementary or competing (e.g. social inclusion, increased numbers of young people setting up, growing or surviving in business, deepening the human capital of young entrepreneurs so that they are more likely to be employable after a spell in self-employment). Further adding to these difficulties is that policy makers face a range of choices in designing and implementing ALMPs (Mole and Bramley, 2006).

A second difficulty is that evaluations of particular programmes are patchy and do not fully consider the economic outcomes of a programme by using experimental (random assignment into treated and control groups) or quasi-experimental (matching the treated with the control group) methods (OECD, 2007). The difficulty, therefore, even when evaluations are conducted, is that what is often measured is the subjective views of programme recipients

rather than the economic additionality either to recipients or, more broadly, to society of the programme³².

Gu et al (2008), for instance, in their review of evaluations of enterprise policies in the US suggest that very many evaluations of enterprise programmes were under-developed, particularly due to the lack of experimental designs. This is problematic because it undermines the legitimacy of such programmes. It also means that programme benefits are likely to be over-estimated (Greene, 2008). Betcherman et al's (2007) review of 289 current and past youth employment programmes across 84 countries found that only 10 per cent of these programmes were appropriately evaluated³³. They note that the consequence of this is that, without proper evaluation, "...policy-makers are likely to overestimate the benefit of their interventions and, as a result, allocate resources inefficiently" (p.ii).

Examples of positive and negative evaluations of ALMPs.

Much of the negative evaluation evidence on youth entrepreneurship programmes derives from the UK where a series of public and voluntary sector initiatives (Prince's Trust, Shell Livewire) were set up in the early 1980s to support young unemployed people into self-employment. As Table 1 and Section 5 indicated, the evidence tended to suggest that these types of interventions had a limited impact. Another negative example of an ALMP is shown in Box 2. Box 2 shows that the nearly one million adults participated in the UK's Enterprise Allowance Scheme (1982-1991) before it was replaced by similar but smaller scale initiatives in the 1990s and 2000s. Evaluations of this ALMP suggested that it was prone to high failure rates, and deadweight and displacement effects.

Box 3: The Enterprise Allowance Scheme (EAS)

The EAS ran from 1982-1991. It provided unemployed people with a payment of £40 a week for a year. This was subject to EAS participants having access to £1,000 in capital; working full-time on the business; and being between 18-59. After the end of the year, the EAS-

³² Illustrative of this is that the EERO (2010) current review of EU self-employment ALMPs does not identify one single example of a robust evaluation.

³³ Betcherman et al (2007) indicate that youth entrepreneurship programmes form a minority of youth employment programmes. They make up 10 per cent of the 289 interventions they investigate. More common are skill training programmes (39 per cent of programmes) and multiple service interventions (e.g. combinations of vocational assistance, job assistance, job subsidies) (32 per cent).

supported business was meant to be self-sustaining. Over its lifetime, nearly a million people participated in the EAS.

From a public policy perspective, the EAS was beneficial because it brought previously informal activity into the formal sector; cost little or no more than unemployment benefit; meant that EAS individuals were not part of the unemployment count; and that there was the chance that the business may take off and create further employment (Greene, 2002).

There were four main criticisms of the EAS (Storey, 1994). First, failure rates of EAS businesses were very high, particularly after the end of the subsidy. Second, deadweight effects were pronounced. Third, because very many of the businesses were under-capitalized, EAS businesses were heavily concentrated in low value added and easy to enter sectors. The effect of the new entrants was to temporarily displace the existing providers - as a result of having the benefit of the public subsidy - and to be displaced themselves when the subsidy expired by new subsidised entrants. In effect, taxpayer's money was used to help business start, but without any obvious net economic impact.

Finally, evidence suggested that supporting unemployed individuals into self-employment was difficult in areas of high unemployment. This is because individuals in these areas either lack the skills to successfully run a business and/or because the local markets into which they sold lacked buoyancy. These marginal businesses were more likely to fail once the EAS subsidy was over, potentially leaving former EAS recipients with significant debts³⁴.

Box 3 also examines a more recent experimental demonstration programme that was run in the United States. The evaluation found that “self-employment training programs are not effective for individuals who are employed, self-employed or not in the labour force” (Benus and Michaelides, 2011: 24) but that the programme did increase the self-employment propensity of unemployed individuals.

Box 3: Project GATE

In 2002, the US Department of Labor and the Small Business Administration sponsored Project GATE which is an experimental design demonstration programme that offered free training and counseling services to individuals interested in self-employment. The programme ran from 2002-2005 in three US states (Pennsylvania, Maine and Minnesota). Participants in the programme were not just those who were unemployed but also were not active in the labour force. Individuals were randomly assigned into a treated (Project GATE participants) and a control group. The results suggested that the unemployed in the programme were more likely to subsequently become self-employed. However, these individuals were not more likely to earn more in self-employment. The evidence also suggested that for those not previously active in the labour force, there was no increased likelihood of becoming self-employed³⁵. Young people (less than 25 years) were also no more likely to become self-employed from the training provided by Project GATE.

³⁴ See MacDonald and Coffield (1991); MacDonald (1994, 1996) for further details of the direct impact of the EAS. See also Mueller et al (2008) for the impacts of new business on high and low entrepreneurial regions.

³⁵ These results are in contrast to the earlier work of Benus (1994) who conducted a randomised trial on two self-employment assistance programmes in Washington and Massachusetts. To achieve this, unemployed individuals interested in becoming self-employed were randomly assigned to a treatment group (that received programme services) or a control group (who only received unemployment benefit). The conclusion based on this was that “...self-employment assistance programs [in the US] are viable policy tools to promote the rapid

In contrast to these two examples, recent German (Box 4) and New Zealand (Box 5) evidence finds that self-employment ALMPs can provide positive benefits to formerly unemployed individuals. These ALMPs highlight that if a programme has some way of rationing assistance (screening applicants through them writing a business plan), micro-finance schemes can be efficacious in supporting the self-employment outcome of unemployed individuals. These ALMPs, however, are not targeted at young unemployed people. Their focus is on the general population of unemployed individuals.

Box 4: Germany's 'Bridging Allowance' (Überbrückungsgeld) and the Start Up Subsidy programme (Ich-AG)

Up until 2002, Germany's only programme to support unemployed individuals into self-employment was their 'Bridging Allowance' (Überbrückungsgeld). Subject to the approval of a business plan, unemployed participants (unemployed for a minimum of 4 weeks) were provided equivalent unemployment benefits, social security contributions and a lump sum of 68.5 per cent of unemployment benefits. The second scheme – the Start up Subsidy (Ich-AG) - was introduced in 2003. It also required an approved business plan. Participants on the programme were given, in their first year, a monthly allowance of €600. In the second and third years, respectively, participants were given €360 and €240 per month. Only businesses that earned less than €25,000 were eligible to apply.³⁶

Baumgartner and Caliendo (2008) and Caliendo and Kunn (2011) have conducted evaluations using propensity score matching of both these ALMPs. Their findings are extremely positive. They find that participants are less likely to be subsequently registered as unemployed; more likely to be integrated into the labour market (self-employed or employed); and more likely to earn more compared to non-participants in the programmes. In terms of particular groups, Caliendo and Kunn (2011) also show that the less well educated benefit from the programmes whilst their results suggest that younger people (aged under 30) derive greater benefits from the Bridging Allowance rather than the Start Up Subsidy.³⁷

re-employment of unemployed workers.” (Benus, 1994: 73). However, Heckman and Smith (1999) evaluation of the Job Training Partnership Act in the US suggested that there were limited earning effects from this programme for young or disadvantaged young individuals. This is in line with other evidence on the limited efficacy of such general employment support for young people (Bell and Blanchflower, 2011). Nonetheless, Caliendo et al (2011) suggests that German ALMPs designed to help integrate young people into the labour market are effective. However, they note that these policies are less effective for disadvantaged young people who do not participate or gain as much as other young people from these programmes.

³⁶ These programmes were replaced in 2006 by the 'start up premium' (*Gründungszuschuss*) which, subject to having a business plan assessed, unemployed individuals were provided with their unemployment benefit plus a lump sum social security insurance contribution.

³⁷ One difficulty with these evaluations is that they do not consider general equilibrium effects. Eurofound (<http://www.eurofound.europa.eu/areas/labourmarket/tackling/cases/de002.htm>) suggests that the data suggest that the programme costs outweighed savings although these costs were moderate in the light of on-going unemployment payments.

Box 5: New Zealand's Enterprise Allowance programme.

This programme was set up in 1990 and was designed to help unemployed individuals into self-employment. The benefits of the scheme to the unemployed were that they were given a grant to subsidise the start-up costs of their businesses and continued income support. Whilst all unemployed individuals were eligible, the programme selected individuals for whom "self-employment was a realistic option" (Perry, 2006: 4); who had been unemployed for at least 26 weeks; and who agreed to go on a business feasibility course. Perry (2006), using difference-in-differences matching on the propensity score approach, examined the outcomes of the Enterprise Allowance programme between 1993-1995. He found that participants were less likely to return to unemployment. The Enterprise Allowance Programme is still being run by the New Zealand government³⁸.

The impact of youth enterprise ALMPs

It is difficult to gain a clear unequivocal assessment of the impact of youth enterprise ALMPs. Part of the reason for this is that an ALMP may be sensitive to when, where and how it was introduced. There is also limited overall evidence of the efficacy of such programmes. The wider evidence on youth employment programmes is generally pessimistic on their efficacy³⁹.

Wider enterprise policy programmes have also been questioned⁴⁰. Looking at entrepreneurship programmes in the round, Bennett (2009), Davidsson (2008) and Bill et al (2009) echo the conclusions of Bridge et al (2009) that "There appears to be no strong body of evidence to say that intervention has worked and a number of studies which suggest that so far intervention has failed".

Shane (2009), again echoing similar views (e.g. Storey, 1994), have also questioned whether supporting unemployed or marginal groups into entrepreneurship represents a useful

³⁸ The subsidy consists of an allowance of up to \$380 per participant, per week. This is available for up to a year but must not exceed \$11,000. Enterprise Allowance grants are also available up to \$5,000. This can be used in combination with the subsidy but, if combined, must not again exceed \$11,000. (Source: http://www.workandincome.govt.nz/manuals-and-procedures/employment_and_training/programmes_and_services/enterprise_allowance/enterprise_allowance-13.htm).

³⁹ Card et al (2009) meta-analysis of youth programmes suggests that "In both the short and medium runs a clear finding is that youth programs are relatively unsuccessful" (p. 19).

⁴⁰ In terms of enterprise support, Bennett (2009) summarises, pessimistically, his research over more than a twenty year period which suggests that public support has had little in the way of actual penetration or impact. Greene et al (2008) also investigate the role of enterprise support and find that there is little evidence to suggest that it has proved efficacious over a thirty year period in shifting the economic fortunes of deprived regions.

use of public resources⁴¹ given the high churn rate of small businesses and the limited quality of employment in very many small businesses.

Moreover, the opportunity cost of using scarce public resources to support the unemployed into self-employment may mean that there are fewer resources available to support high growth businesses which have been shown to be more likely to generate jobs. This has been forcibly expressed by Shane (2009):

“Alternatively, consider the active labor market policy in Germany, which seeks to turn unemployed people into entrepreneurs. The German government spends around €12 billion per year on this program (Baumgartner and Caliendo 2007). This figure is not far off the \$20 billion or so per year that U.S. venture capital firms invest in start-up companies. But what does the German government get for its investment? Certainly not companies that go public, grow their sales, and create jobs the way that the companies backed by U.S. venture capitalists do. Instead, what they get is marginal businesses that create few jobs and have high failure rates.” (p. 146).

If this is the benchmark to be used to judge youth entrepreneurship programmes, the conclusion, therefore, might be that there is little value in supporting youth entrepreneurship ALMPs.

However, such a conclusion ignores that the choice faced by the public policy maker is often not between funding the unemployed person seeking support for their self-employment ambitions and the high growth small business. Instead, policy makers are often faced with either supporting the living expenses of the unemployed or supporting them, whilst funding their living expenses, into employment or self-employment. Arguably, therefore, the benchmark is not the difference between choosing between two types of business but, instead, choosing between two different labour market states.

These opportunity costs are brought into sharper relief when particular groups of young people are considered. For example, the longer a young person is a NEET, the higher the probability that they will experience multiple deprivation and the greater the likelihood that they will represent substantial and on-going costs to the taxpayer. Cole et al (2010) suggests that, conservatively, the lifetime public finance costs (i.e. lost taxes, benefit payments, health

⁴¹ The actual expenditure on active labour market policies in the OECD was 0.6 per cent of GDP but ranged from around 1 per cent in countries such as Germany to 0.2 per cent in countries such as the UK and the US (source: http://www.oecd-ilibrary.org/employment/public-expenditure-on-active-labour-market-policies_20752342-table9). The OECD (2004) suggests that around €1.3 billion were spent annually on youth active labour market policies between 1999-2002.

and justice costs) of the 0.2 million NEETs in the UK are £12 billion (upper estimate of £32.5 billion) whilst their lifetime resource costs (loss to economy, welfare loss to individual and family, societal opportunity costs) are, conservatively, £22 billion (upper estimate of £77 billion). In the EU, Eurofound (2011) estimate that there are currently 7.5 million NEETs.

Overall, whilst there is limited evidence of the actual impact of youth entrepreneurship ALMPs on the activities of young people, German and New Zealand evidence on the efficacy of adult self-employment ALMPs does provide some justification for exploring how a youth entrepreneurship may prove beneficial, particularly given the extent and costs of failing to integrate young people into the labour market.

Section 7: Conclusions, lessons learnt and recommendations

This background briefing paper has identified that, despite high latent rates, actual youth self-employment rates are low. Moreover, the available evidence suggests that younger women whose parents have no experience of self-employed are perhaps the group least likely to be self-employed. The low rates of self-employment amongst the young may also be attributed to differing, and perhaps contradictory, influences such as market failure, the presence of capital barriers and, in contrast, the desire for a flexibility in work.

The paper also identified that there are three main types of assistance offered to young people: enterprise education, soft and hard support. Despite the paucity of evaluation evidence, available evidence does suggest that enterprise education plays a role in increasing the legitimacy of entrepreneurship amongst the young. There is less evidence from voluntary sector initiatives that soft and hard support is efficacious. Public ALMPs also have mixed evaluation results, making it difficult to fully assess the impact of such interventions.

However, given the results from evaluations of general German and New Zealand self-employment ALMPs, dedicated youth entrepreneurship ALMPs may prove attractive to policy makers in EU and OECD countries. If so, there are number of lessons that may be gleaned from this briefing paper:

- Youth entrepreneurship programmes are not a panacea for all young people. The self-employment decision by young people tends to reflect a complex mix of push and pull factors.

- Young people are heterogeneous. This paper suggests that there are likely to be different levels of human, financial and social capital that young people can draw on (e.g. graduates, NEETs); different motivations for self-employment (opportunity and necessity); and different knowledge of sources of information and support.
- Evidence (e.g. Project GATE) indicates that soft sources of support (e.g. training) on their own are unlikely to support entrepreneurial outcomes. Nonetheless, if individuals cannot develop the necessary human capital to run a business, it is difficult to see how they can successfully run a business. The German and New Zealand evidence suggests that some form of screening is important (e.g. selecting individuals based on their ability to complete a business plan). So, too, is the provision of micro-finance to help meet the costs of starting and developing a business.
- The evidence is inconclusive whether a particular type of micro-finance improves a young person's entrepreneurial outcomes. Various mechanisms have been used to financially support young people into business. Typically, these are: 'soft' loans (e.g. loans at interest rates close to zero); grants (one-off payments to fund the set up and capital costs of the business); and/or payments to replace or augment unemployment benefits. Of these, grants are more often favoured because 'soft' loans can lead to young people being saddled with debt, given the likelihood that a significant proportion of businesses set up by young people will fail. One advantage of loans, however, is that risk is shared (e.g. between the programme provider and the entrepreneur). This could provide stronger incentives for the young person to assess the worth of their business proposal. Either replacing or augmenting unemployment benefit payments (e.g. by providing standard unemployment benefit but allowing the participant to retain the money they earn in self-employment whilst on the programme) is also often attractive. This is because it comes at very little additional costs to the taxpayer. One problem, however, is that businesses often need significant start-up capital to become mature and sustainable.
- Without start up capital, young people are similar to older individuals in that they typically enter easy to enter service sectors that are open to stiff competition. If they survive this usually leads to a displacement effect (Box 2).
- Evaluation of youth entrepreneurship programmes remains immature and remains focused upon benchmarking based upon the private benefits to individuals. This leads to three effects: over estimates of the value of existing programmes; doubts about the legitimacy of particular interventions; and difficulties in estimating the impact of interventions.
- Policy makers are often faced with a difficult choice. Supporting youth entrepreneurship is risky as young entrepreneurs suffer from high closure rates and low growth rates. Youth entrepreneurship ALMPs may, therefore, provide few private or societal benefits. However, groups such as the NEETs pose particular problems for society and are costly. Evaluations of youth entrepreneurship ALMPs need to reflect not just the partial but also the wider general equilibrium effects of ALMPs.

This paper makes three recommendations:

1. If youth entrepreneurship ALMPs are considered, there is a need to properly and robustly evaluate the programme. As with ProjectGATE, there is value in running

a demonstration project to identify if a programme works before it is adopted more widely. The aims and objectives of the programme have to be clear.

2. One reason why young people struggle to sustain their business is that their business model is often focused on low entry barrier and low value added sectors. This exposes them to very competitive marketplaces. There is potential value, therefore, in actively targeting assistance to young people who can identify particular niches or innovative sectors.

3. More needs to be known about the efficacy of different types of finance to address the undercapitalization of businesses set up by young people. This is important because undercapitalized businesses are more likely to fail. This paper recommends a demonstration pilot project which tests which forms of finance are best able to support young entrepreneurs. It should also consider what amount of finance young people need to start up businesses. What is clear from the evidence is that, even with support, young people's businesses remain significantly undercapitalized.

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