IMAGE: FMSC.ORG

Supporting Africa's Young Entrepreneurs: an investment in job creation and future prosperity for all

NIGERIA

Entrepreneurship offers great potential as a source of employment and job creation for Nigeria's youth. However, young people are not benefiting from ambitious and well-funded government entrepreneurship programmes as much as has been expected. Moreover, the formal financial sector fails to meet the needs of young entrepreneurs.

Obstacles to setting up dampen young Nigerians' enthusiasm for business

The Global Entrepreneurship Monitor (GEM) undertook a survey of young Nigerians in 2013 and found that the proportion who could be classified as "potential entrepreneurs" – those who believe that they have the relevant skill set to become entrepreneurs and who also can identify business opportunities – is very high at 82%, irrespective of gender. However, only half as many (40%) say that they intend to start a business themselves, and half as many again (22%) are actually in the process of setting up on their own.

There are many reasons for these dramatic differences between potential and actualization. One reason suggested by the study is a mismatch between the desire of young people to run their own businesses and the availability of information about the possibilities and the barriers that they will encounter. Once they have understood the challenges, young people's enthusiasm wanes. Indeed, young Nigerians already consider that starting a business is difficult; when they encounter the reality and find it worse than they had anticipated, they are often dissuaded from becoming entrepreneurs. Financial issues top the list of disincentives (55%), followed by lack of appropriate skills.

Bureaucracy as an impediment to setting up and running a business does not appear to figure prominently on young Nigerians' list of barriers to entrepreneurship. This may indicate that young people do not see themselves as entering the formal business sector as entrepreneurs in the short term. This finding is important for the future growth prospects of young people's enterprises, since they can only develop a long-term growth strategy by entering the formal sector, which is something they may be ill-equipped to do.

Young Nigerians looking for incentives to start their own businesses turn first to financing. Their lack of financing is a major disincentive and emphasises the shortcomings of the current financial system. There is also a widespread belief that running one's own business is very hard work for little financial reward and hence, most young entrepreneurs are forced into entrepreneurship by the grim alternative of unemployment.

The perception of the high likelihood of unemployment is a serious problem in Nigeria as attainment of higher education is not seen as contributing to employability. In addition, a high number of young people do not go beyond high school for a number of reasons including lack of finance and sponsorship, and a limited number of higher institutions that make entry very competitive. The result is a young, under-educated, unemployed workforce that considers entrepreneurship as a survival option, rather than a career path to prosperity.

Two thirds of young entrepreneurs expect low growth over the next 5 years

Once they have decided to start a business, young Nigerian entrepreneurs are influenced by family members, friends and other business people, although a sizeable proportion of young entrepreneurs state that they owe their career choice to themselves. It is striking that an insignificant number (0.7%) credited public or government schemes with providing the encouragement that led to their entering entrepreneurship.

The choice of sector of activity was determined mainly by young people's perceptions of market demand. Accordingly – and because entry to some sectors is easier than it is to others – the bulk (50%) of Nigeria's young entrepreneurs choose to go into wholesale and retail activities. Consumer services and hospitality account for another quarter of young businesses (24%). Perhaps disturbingly for a country with such a neglected agricultural sector, a mere 7% of entrepreneurs can be found in that sector and in related agro-industry.

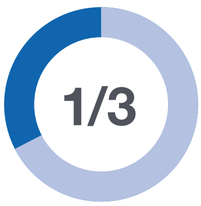
Young Nigerian entrepreneurs report that 23% of them are running businesses that are struggling to survive, but over a third were not only surviving but expecting future growth or were even already in a growth phase. Those that were struggling blame high competition as the major cause of their difficulties, followed by low sales and, hence, low profitability. The picture that emerges is that of a sector operating in a difficult environment where ambitions can be thwarted by factors beyond the control of most young people, but where determined entrepreneurs foresee a successful career in business.

Few young entrepreneurs had heard of government support programmes

Similar to other sub-Saharan African countries, Nigeria has attempted to provide support and encouragement for SME creation by young people. The principal government arm for this is the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), created in 2003 to promote SME development in the country. Under its mandate, SMEDAN funds initiatives throughout the country on youth entrepreneurship development

82%

of respondents were unaware of government-sponsored SME support programmes



One-third of young entrepreneurs

are expecting future growth or are already in a growth phase programmes. These are complemented or accompanied by initiatives at the state and regional level and include skills-acquisition efforts, entrepreneurship education, vocational training and some SME financing.

The impact of public support programmes for young entrepreneurs has been inconsistent, but generally unsatisfactory. Only 3% of young respondents recognised that they had made use of such programmes and none of the respondents claimed to have received funding from public-support programmes.

The primary reason for the lack of uptake of government-sponsored SME support programmes was unawareness of their existence (82%), while 7.4% of respondents said they had not availed themselves of such services because they found them too bureaucratic. As a result, hardly any new entrepreneurs had taken the expert advice available from such programmes before starting their businesses.

A need for reinforced education and training in business

The findings from the GEM survey indicate that there is a clear shortage of adequate training and advice for young entrepreneurs, and widespread lack of knowledge about government-sponsored support programmes. This may lead to poor choices of activity sector and thus unmanageable levels of competition, while other sectors could provide more opportunities for the young entrepreneur. In addition, there is a clear skills deficit identified by young people themselves that handicaps them when running a business and may stifle growth prospects. Finally, the relationship between SMEs and established businesses seems to be inadequate in terms of advice and mentorship.

Policymakers may consider taking measures both to expand awareness of public programmes of support to young entrepreneurs and improve their relevance to

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The formal financial sector supplies only 7% of funding, with over 80% of funding currently coming from either the entrepreneur's personal or family savings

Nigeria has Africa's largest telecoms market

Three-quarters of young Nigerians use cellphones

52% use the internet

the needs of young Nigerians and those of the economy as a whole. SMEDAN currently spends large amounts of money throughout the country, but needs to have a concerted effort in public awareness campaigns to reach young people. New and existing programmes aimed at young entrepreneurs would benefit from transparent evaluation and monitoring of their effectiveness, followed by adjustments and modifications – including the scaling up of successful elements – designed to make programmes more attractive to young people.

Such policy changes could result in providing increased resources to the programmes, but the economic benefits from a more successful youth-led SME sector would more than compensate for any short or medium-term increase in resource spending. Meanwhile, partnering with the private sector to provide mentoring and in-service advice to young entrepreneurs could also have positive results in terms of profitability, survival of enterprises and long-term employment creation.

Formal financial institutions neglecting young entrepreneurs

The lack of access to finance for starting a business was cited by most respondents as being a significant barrier to starting and operating a business in Nigeria. Indeed, over 80% of funding currently comes from either the entrepreneur's personal savings or those of her or his family. The formal financial sector supplies a paltry 7% of funding. This situation is clearly unsatisfactory due to the scarcity of personal savings and their inflexibility in adjusting to the business cycle.

There is space here for policy makers to intervene in order to encourage more engagement of the formal financial sector with young entrepreneurs. This could be achieved through fiscal incentives, partner financing or financial regulation requiring such institutions to devote a part of their assets to SME financing. Reliable sources of finance are important in the start-up phase of business operation but are even more so in the growth phase during which most employment is generated and the greatest contribution to the economy occurs. It is, therefore, in the interest of all economic actors to support young SMEs with sound sources of finance.

High levels of Internet use but more could be done

Nigeria has Africa's largest tele-coms market and three-quarters of young people use cell phones, while 52% use the internet. Entrepreneurs are also ICT users and over 60% of them use the internet to find suppliers; fewer (22%) purchase goods online and only 13% advertise online. A low number (4%) of young entrepreneurs actually sell online.

Apart from encouraging and supporting the extension of ICT infrastructures throughout the country, policymakers could promote training in the business use of ICT generally as a medium for sales, market and product research, innovation and seeking sources of finance. Regulations covering the provision of internet and ICT services could also be streamlined for business customers to encourage take up of internet subscriptions and the generalisation of access for entrepreneurs. Such regulations could include moratoria on early stage fees for ICT services, discounts for business users and fiscal relief for ICT-related expenses.

Origins of the study

The insights illustrated in this short summary draw on a multi-country study on youth entrepreneurship conducted across nine African countries under the auspices of the Global Entrepreneurship Monitor (GEM) with financial support from Canada's International Development Research Centre (IDRC).

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