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# Skills and Youth Entrepreneurship in Africa: Analysis with Evidence from Swaziland

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**Summary.** — The shortage of entrepreneurial skills has lowered search effectiveness of potential young entrepreneurs and the rate of youth start-ups. This paper contributes to closing a gap in the literature on entrepreneurship and development by developing a model of costly firm creation with skill differences between young and adult entrepreneurs. The model shows that for young entrepreneurs facing high costs of search for business opportunities, support for training is more effective in stimulating productive start-ups than subsidies. The case for interventions targeted at youth rises in societies with high costs of youth unemployment. We test the role of skills and training for youth entrepreneurship on data from a recent survey of entrepreneurs in Swaziland.


*Key words* — youth entrepreneurship, model of skills and structural transformation, policies, Africa

## 1. INTRODUCTION

For the past decade, Swaziland, as most of the other middle-income countries in Southern Africa (e.g., Botswana, Lesotho, Namibia, and South Africa) has been among the slow-growing economies on the continent. With high unemployment and youth unemployment, inclusive growth in the region has remained elusive (Jauch, 2011; Ncube, Shimeles, & Verdier-Chouchane, 2014). Despite the oversized public sectors, the overall employment has been low, reflecting limited private sector job creation and entrepreneurship, both in the formal and informal sector. The countries in Southern Africa were also negatively impacted by the global financial crisis, either through trade with Europe—directly (South Africa), via South Africa (Lesotho and Swaziland)—or through fall in commodity export proceeds as in the case of Botswana and Namibia (Kasekende, Brixiová, & Ndikumna, 2010).

In Southern Africa middle-income countries, which experience low job creation and demographic pressures, youth unemployment is a key challenge (AfDB, OECD, UNECA, & UNDP, 2012). In Swaziland, the share of youth in the working age population (15–64) reached 43% in 2010, which exceeded even these shares among the regional peers (UNDP Swaziland, 2012). In 2010, youth unemployment rate exceeded 50% of the youth labor force and is among the highest in Africa and globally. [1] A substantial portion of youth has been also discouraged from participating in the labor markets. The labor markets were a key in transmitting the 2011–12 fiscal crisis to households (UN Swaziland, 2012).

Besides macroeconomic environment, the literature on youth unemployment identifies the following main factors: (i) demographic changes; (ii) human capital; (iii) family background and networks, i.e., social capital; (iv) structural changes and characteristics of specific economies; and (v) skill and geographical mismatches. [2] While poor macroeconomic performance and shocks to aggregate demand are often considered a key in the developed economies, structural bottlenecks, especially to private sector development and entrepreneurship, are often underscored in Africa and developing countries (Page, 2012; Rodrigo & Moreno, 2014). Differently put, since many of the factors that could unlock the employment potential of youth in Southern Africa (and Africa in general) are also on the demand side of the labor market, promoting private sector development and entrepreneurship among young people can be part of the solution to youth employment challenge (Brixiová and Kangoye, 2014; Kew, Herrington, Litovsky, & Gale, 2013; Turton, Herrington, Kew, & Christensen, 2013).

The importance of productive entrepreneurship for development and differences in type of entrepreneurship across countries were already underscored in Baumol (1968), Baumol (1990)). [3] Since then, the literature on entrepreneurship has grown markedly (please see Parker, 2009, for overview). In the context of Africa, Rogerson (2001) showed that low productivity entrepreneurship has been highly prevalent in the region, but productive (opportunity) entrepreneurship has been mostly missing. At the same time, theoretical analysis

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of factors impacting entrepreneurship in developing countries and in particular Africa has been relatively scarce. The literature in this area includes Leff (1979), Gelb, Mengistae, Ramachandran, and Shah (2009), Naudé, 2008 and Naudé, 2010, Baumol (2010), and Brixiová (2010, 2013) among others.

This paper studies barriers to youth entrepreneurship in an extended framework of Brixiová, Li, and Yousef (2009) of costly firm creation and worker skill acquisition. It examines the lack of skills among emerging young entrepreneurs that prevents them turning perceived business opportunities into productive firms.[4] Specifically, a model of costly entrepreneurial start-ups, where youth are less skilled than adults is developed and applied to considering policies for removing impediments to youth entrepreneurship. It shows that targeted support to entrepreneurial training or start-up subsidies can narrow the gap in performance between new young and adult entrepreneurs.

The results of the theoretical model are supported by empirical analysis of data from the 2012 UN survey of entrepreneurs in Swaziland. Probit regressions point to the importance of skills for youth, as young entrepreneurs who view the lack of skills as a major obstacle report less often good firm performance than those who do not perceive skills as an impediment. Advanced business training has a positive impact on performance of new young entrepreneurs, and more so than in the case of adults. Young entrepreneurs who undertook advanced business training also record better firm performance than less trained youth, with trained young men outperforming trained young women. However, the kernel density estimate of sales reveal that firms of trained young entrepreneurs do not outperform those operated by their untrained counterparts in the highest sale ranges.

This research takes place at the time of heightened interest among researchers and policymakers in Africa and globally in unlocking the employment potential of youth. With tight fiscal conditions in the aftermath of the global financial crisis, new jobs in the region are unlikely to be generated by the public sector. Youth entrepreneurship is then viewed as an option for generating sustainable livelihoods. In fact, with their ability to adapt to changes and innovate, young people have the potential to drive tech-entrepreneurship and sustained growth (Lisk & Dixon-Fyle, 2013).

In Swaziland, as elsewhere, potential young entrepreneurs are constrained the most by the lack of entrepreneurial skills and the limited access to entrepreneurial finance/start-up capital. The few existing entrepreneurship programs are not always well-suited to their needs. The Government has taken steps to address these constraints, but such initiatives would need to be scaled up and linked with better incentives to help reduce youth unemployment (UN Swaziland, 2013). The empirical analysis in this paper also shows that to be effective, the interventions should be well targeted and tailored to different sub-groups of young entrepreneurs. Specifically, in Swaziland advanced business trainings impacted positively performance of new young entrepreneurs motivated by profits, but not performance of those who entered entrepreneurship mostly for other reasons.

The paper is organized as follows. Section 2 outlines key facts on constraints to entrepreneurship in developing countries and to youth entrepreneurship in Swaziland. Section 3 develops model of entrepreneurship, with shortages of entrepreneurial skills. Options to address the youth disadvantages in business start-ups such as government support for training are then analyzed. Section 4 tests the results of the model with recent data from Swaziland. Section 5 discusses the results and concludes with policy recommendations.

## 2. STYLIZED FACTS ON YOUTH UNEMPLOYMENT AND CONSTRAINTS TO YOUTH ENTREPRENEURSHIP

In the context of this paper and research on entrepreneurship, youth refers to people of ages 15–35. Such definition encompasses both the ILO and UN concept of youth as people aged 15–24 as well as the approach by Kew *et al.* (2013) in a study on global youth entrepreneurship where youth refers to the 18–34 age groups. This definition of the African Union, 2006, which reflects the continent's development realities, aims to cover the transition from childhood to adulthood when young people face challenges unique to their social group (Government of Swaziland, 2009).

With the fast-growing and more educated young population, creating good (i.e., productive, secure, and well-paid) jobs for youth is critical. This challenge is well recognized by Africa's policymakers who have been striving to create decent jobs for youth for years. Despite these efforts, youth unemployment continues to be high in middle-income countries, while vulnerable employment prevails in low-income countries (AfDB *et al.*, 2012). Against this background, and with over-sized public sectors in many countries, policymakers increasingly view promoting youth entrepreneurship as part of the strategy to address youth unemployment on the continent. With access to skills, mentors, social networks, technology, and finance, young entrepreneurs could drive economic growth and social progress in the years ahead (Roy, 2010).

### (a) *Constraints to entrepreneurship in developing countries*

Numerous factors constrain entrepreneurship in developing countries. Besides well-studied access to credit for the established small- and medium-sized enterprises (SMEs), key for start-ups appears to be the regulatory framework and the business environment, the initial capital, and entrepreneurial skills (Figure 1). For example, according to the World Bank (2013), in Southern Africa the existing SMEs viewed limited access to finance as the top constraint (29.1% of respondents), followed by crime and corruption. Workforce skills were also seen as important, constituting a major constraint for more than 16% of SME respondents.[5] Finally, the factors necessary for creating an enabling entrepreneurship framework conditions vary with the level of country's development (e.g., factor-driven, efficiency-driven and innovation-driven).

Among various constraints, access to credit has been well studied (Aghion, Fally, & Scarpetta, 2007; Li, 1998). The lack of skills on the side of workers in developing countries has been also recognized and covered (Brixiová *et al.*, 2009). This paper examines skill shortages of entrepreneurs.

### (b) *Constraints to youth entrepreneurship in Africa*

With relatively weak growth prospects of the middle-income countries in Southern Africa and especially in Swaziland, youth employment strategies relying only on the supply side will not be effective. Productive entrepreneurship can be a part of integrating youth into the labor market. Understanding constraints that young entrepreneurs face is critical for supporting overall entrepreneurship and productive youth employment in the region.