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1966 - 2016

## Inclusive Development and Entrepreneurship for All

### The IDEA Approach to Youth Employment and Enterprise Development

UNIDO inclusive and sustainable industrial development (ISID) working paper series No. 2



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION





### Acknowledgements

This working paper was prepared under the supervision and guidance of Mr. Gerardo Pataconi, Officer-in-Charge of the Department of Agri-business Development, Mr. Bashir Condé, Programme Officer, Africa Division, Mr. Olivier Stoullig, UNIDO Consultant, Prof. James Heintz, University of Massachusetts, and Mr. Matteo Menegatti, UNIDO Consultant.

Technical inputs and helpful comments from Dr. Frank Hartwich, Dr. Mohamed Lamine Dhaoui, Dr. Hashim S. Hussein, Ms. Monica Carco, Mr. Matteo Landi, Mr. Tidiane Boye, Mr. Patrick Kormawa and Ms. Nilgun Tas, UNIDO Staff, and Mr. Djibril Coulibaly, Ms. Hawa Kebe, Mr. Abdelkader Kadi, and Mr. Ritin Koria, Mr. Rui Levy, and Ms. Nadia Mrabit, UNIDO consultants, are gratefully acknowledged.

This paper also benefitted from the peer review of Mr. Charles Dan, ILO Special Representative for Youth, Prof. Leonce Ndikumana, Director of the African Policy Program, Political Economy Research Institute (PERI), University of Massachusetts, and Mr. Anders Isaksson, Senior Industrial Development Officer, UNIDO.

During the formulation phase of the methodology, the governments of Burkina Faso, Mali, Mozambique, Niger, Senegal, Tunisia, Togo, and Zambia, were consulted for comments, inputs, and suggestions, which are gratefully acknowledged.

Layout by Nora Aoun.

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## Introduction

The world's population continues to expand while traditional, stable labour markets are shrinking. Today, an estimated 74 million young men and women worldwide are unemployed,<sup>1</sup> and the global youth unemployment rate is three times higher than its adult counterpart despite widespread improvements in education. Nearly 43 per cent of the global youth labour force is still either unemployed or working in poverty.

There is a clear and urgent need to create employment for young people around the world. The lack of decent job opportunities for youth is among the global community's greatest security and development challenges. And our present failure to harness their enormous dynamism and potential to generate growth and progress, if left unaddressed, will continue to threaten the fabric of societies for many years to come.

The challenges associated with youth employment are especially critical in least-developed countries (LDCs) and middle-income countries (MICs), where the efforts of governments and development partners are being hindered by limitations in the number of sustainably-operating small and medium-sized enterprises (SMEs) that have the capacity to expand their operations and to train, hire, and retain additional employees. Meanwhile, start-up SMEs often face severe constraints with regard to licensing and registration, access to credit, business organization and developing markets. And labour market shortcomings continue to present challenges in generating the types of jobs and vocational training can successfully match youth skills with local industry needs and thereby help bridge gaps that young people often have in gaining the work experience that employers often require.<sup>2</sup>

Accordingly, entrepreneurship and self-employment are increasingly being viewed as critical areas of focus for creating more entry points for young people into the world of work. When enabled with the right skills and support to establish and develop their own micro or small enterprises, young people can actively help create employment opportunities, not only for themselves but for other young people they may employ.

*Inclusive Development and Entrepreneurship for All*, or IDEA, is an integrated strategy developed recently at UNIDO to address the main constraints faced by youth<sup>3</sup> when trying to enter the labour market. IDEA's main focus is to engage youth in economic/productive processes in two key areas: addressing the skills mismatch of youth by providing training in line with the needs of the job market, and in providing young, aspiring entrepreneurs with the necessary tools to start and run their own businesses. By building the capacity of young people to create jobs through training and entrepreneurship development, the IDEA strategy aims to help reduce the vulnerability of economies to crises, strengthen their capacity to absorb and overcome severe shocks, and to make the most of opportunities to accelerate economic growth and increase youth employment.

IDEA goes beyond common training and technology transfer approaches, putting all conditions into place to enable successful enterprise creation and development among young people. It seeks to consolidate existing capacity building projects in youth skills-building and entrepreneurship into a single, integrated, modular programme that is flexible enough to be able to adapt to local conditions and fit into national strategies for youth employment, job creation and private sector development. Accordingly, IDEA guides young

1 ILO Global trends for youth 2015

2 Scaling the youth employment challenge, March 2013, UK Commission for Employment and Skills

3 For statistical purposes, youth is often defined by the UN system (UN General Assembly's resolution 50/81 in 1995) as the population aged between 15 and 24. However, it is recognized that youth is not only a chronological definition, but also a term commonly used to describe roles in society ascribed to the young. Hence this report takes a slightly different approach defining youth by a larger age group from 15 to 34 and considering youth as the period of transition from the dependence of childhood to the economic independence of adulthood. Indeed, youth is often referred to as a person between the ages of leaving compulsory education and finding his or her first job. By extending the scope of the common youth age group, the present report takes into account the economic and social settings (education and skills mismatch causing long-term unemployment of youth, longer dependency of youth on family or solidarity networks) that hamper the transition towards the economic independence of adulthood





entrepreneurs in developing business plans, helps secure them an internship to gain practical experience, works with them to help them build their managerial, financial and technological capacity, and guides them toward strengthening the enterprise and making it a viable and sustainable business. In addition, the IDEA approach includes ongoing assistance and capacity to support the new companies on their path to sustainable growth through innovation, productivity improvements and integration into regional or international value chains. Finally, IDEA intends to make sure that enterprises created within the programme have reached autonomy and achieve sustainability and growth targets.

IDEA builds on UNIDO's unique expertise in the various stages of SME development. In particular, UNIDO has vast experience in providing technical assistance and service programmes in developing countries focusing on youth employment, entrepreneurship development, skills and technological upgrading, adding value, market access, standard setting and compliance, cleaner production, new and more efficient energy supplies as well as policy advisory services. IDEA also reflects UNIDO's success in blending manufacturing sector-specific technological knowledge with business and entrepreneurial skills. Further, IDEA builds on the partnerships that UNIDO has fostered between private sector, marginalized producers and government agencies throughout the world's industrial sectors, which have provided beneficiaries with unprecedented opportunities for income generation and employment.

IDEA is also a valuable tool toward achieving inclusive and sustainable industrial development (ISID), the new approach championed by UNIDO in alignment with Sustainable Development Goal #9 on industry, innovation and infrastructure. Indeed, IDEA aims to promote shared prosperity by helping expand productive employment through enterprise development, particularly with regard to disadvantaged young men and women and their opportunities to develop their skills and to take advantage of local business opportunities. IDEA also promotes inclusiveness on a wider scale since it brings together a wide range of actors ranging from public institutions, private sector organizations, clusters, vocational training centres, and business development services to financial and knowledge-based institutions.

This report provides an overview of how and why IDEA should be used as a tool in enterprise development initiatives to create youth employment in middle-income and least developed countries. Its target audience is decision makers with youth and employment programmes in governments and development agencies who are looking for more effective measures to boost job creation and enterprise development opportunities in LDCs and MICs.











## 1. Youth Employment and Economic Development in Least Developed and Middle-Income Countries

For countries with youthful populations, young people represent a critical resource that has enormous potential to drive economic development and structural transformation. However, achieving this requires increasing the number of jobs available to young workers. Efforts to improve youth employment opportunities (including through developing youth entrepreneurship) hold the potential to deliver widespread benefits to the entire economy.

Self-employment and entrepreneurship can unleash the economic potential of young people. But making this happen requires that the “rules of the game” — an economy’s entrepreneurial reward structure<sup>4</sup> — are structured in ways that will support an entrepreneur’s relentless search for opportunities. On top of this, it is essential that society at large support and invest in youth entrepreneurship — and, more generally, in human capital and new skills — much in the same way a venture capitalist invests in the early stages of an innovative company, with the expectation that it will later achieve equity growth.

Addressing youth employment challenges is essential not only for realizing broad-based economic development but also other development objectives, including the achievement of the Sustainable Development Goals (SDGs). While there is no SDG dedicated specifically to youth employment, nor was there a specific youth employment Millennium Development Goal previously, it is broadly recognized that the situation facing the youth population has direct implications for their achievement and, in particular, for the eradication of poverty.

The critical importance of the productive employment of youth has been recognized in other recent documents incorporating visions for a new development agenda. For example, the report that emerged from the United Nations Conference on Sustainable Development (“Rio +20”), *The Future We Want*,<sup>5</sup> specifically identified issues affecting youth, including problems associated with youth employment, as key development challenges. Similarly, the report of the high-level panel on the post-2015 agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, emphasizes the problem of youth unemployment and the marginalized position of young people.

### 1.1 Youth unemployment — a worldwide challenge

Amid the after-effects of the global economic crisis and the rise in joblessness around the world, the problem of youth unemployment has received increasing attention. Youth are almost three times more likely than adults to be unemployed,<sup>6</sup> and the upward trend in global unemployment continues to hit them dramatically. Between 2008 and 2012, the number of unemployed young people increased by more than 2 million in advanced economies, growing by almost 25 per cent. In 2012, youth unemployment rates were highest in the Middle East and North Africa, at 28.3 per cent and 23.7 per cent, respectively.<sup>7</sup> Moreover, of the approximately 510 million young people who are employed, many work in informal enterprises and jobs, with low earnings and few chances for advancement. It is not unusual to find that 60 to 90 per cent of youth employment in developing countries is informal. The costs of limited economic opportunities among youth can be far-reaching and often concentrated among the less advantaged. The 2011 suicide of 26-year-old Mohamed Bouazizi, a Tunisian street trader who faced harassment by municipal officials, triggered widespread outrage leading to the riots and demonstrations of the Tunisian Revolution, which subsequently spread to other countries in the region in what later became known as the Arab Spring. This sequence of events not only demonstrates the human costs of

4 Baumol, William J., 2010. *Microtheory of Innovative Entrepreneurship*. Princeton, NJ, USA: Princeton University Press, 2010. p. 172

5 <http://www.uncsd2012.org/content/documents/727The%20Future%20We%20Want%2019%20June%201230pm.pdf>

6 2013 ILO publication, *Global Employment Trends for Youth*

7 2013 ILO publication, *Global Employment Trends for Youth*



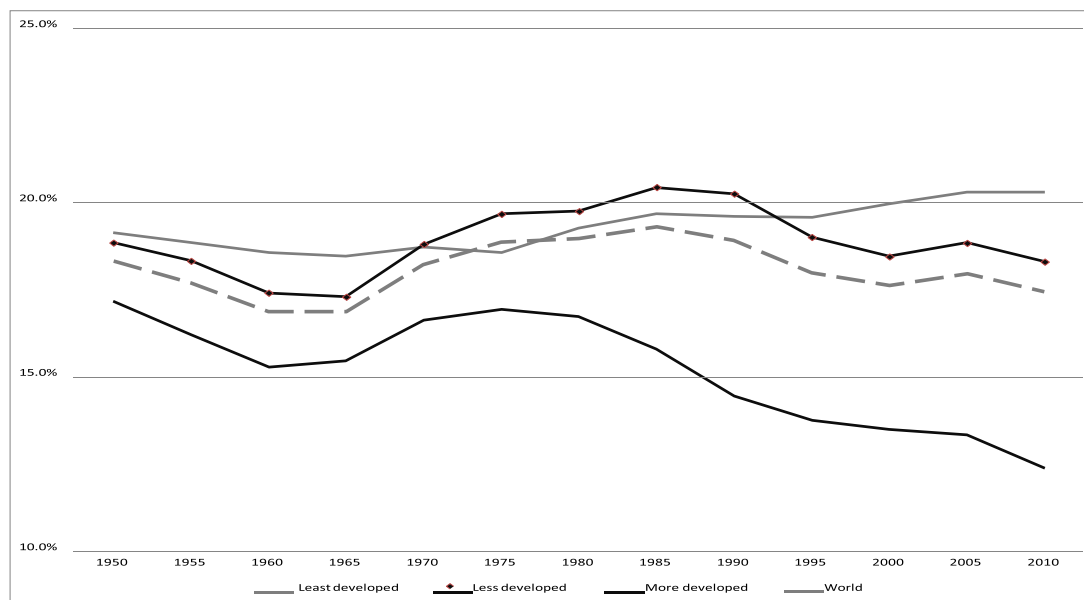


frustration and lack of democratic liberties but also the marginalization of youth — including the wasted potential, frustrated aspirations, social stigma, and diminished choices.<sup>8</sup>

The Global Employment Trends 2012 report published by the International Labour Organization (ILO) highlighted the urgency of the situation and the need to create 600 million productive jobs in the world over the next decade in order to generate sustainable growth and maintain social cohesion.<sup>9</sup>

The challenges of youth employment are particularly pronounced for the least developed countries (LDCs) as their share of world's young people continues to grow. Figure 1 shows that while the youth share of the overall global population is at approximately the same level as it was six decades ago, the youth share in the LDCs, after holding steady from the 1950s to the 1970s, has been steadily rising since then while the share in other countries is on the decline.

**Figure 1: Youth (age 15-24<sup>10</sup>) share of the population by country group, 1950-2010**



Source: World Population Prospects: the 2010 Revision. UN DESA

Youth unemployment rates tend to be two to three times higher than adult unemployment rates across most of the world, including in developed economies (see Table 1), and are significantly higher in Southeast Asia and the Pacific, South Asia, the Middle East and North Africa.

Youth unemployment is particularly acute on the African continent. The International Labour Organization (ILO) estimates that between 2000 and 2008 Africa created 73 million jobs, but only 16 million for young people age 15 to 24. As a result, many young Africans find themselves unemployed or, more frequently, underemployed in informal jobs with low productivity and miniscule pay. Young people make up 60 per cent of Africa's unemployed and youth unemployment rates are double those of adult unemployment in most African countries. One of the reasons young people are having trouble finding employment is a limited number of jobs.

<sup>8</sup> <http://unu.edu/publications/articles/the-role-of-emotions-in-politics.html>

<sup>9</sup> International Labour Organization (ILO) Global Employment Trends 2012: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_171571.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_171571.pdf)

<sup>10</sup> This graph is indicative since the IDEA takes a slightly different approach to the age definition of youth





This challenge causes young people to settle for less-than-ideal employment, such as jobs that are low-paying, temporary, or unsafe, or ones for which they are overqualified. Some enter the informal economy to make ends meet. Others stop looking for jobs altogether. These groups are difficult to measure and are typically not included in official unemployment figures.<sup>11</sup>

On top of this, long spells of unemployment or underemployment in informal work can “permanently impair future productive potential and therefore employment opportunities”<sup>13</sup> for young people over the course of their lives. Even for those who eventually manage to secure a formal sector job, the initial years of unemployment or underemployment can have a significant negative effect on lifetime earnings.<sup>14</sup> In fragile states, the lack of decent work is among the major risks to stability.<sup>15</sup>

**Table 1: Ratio of youth unemployment rates to adult unemployment rates, 2011**

Region/Country Group	Ratio of youth unemployment rates to adult unemployment rates
Developed Economies	2.4
Europe (developing)	2.5
East Asia	2.7
Southeast Asia and the Pacific	5.1
South Asia	4.0
Latin America and the Caribbean	2.8
Middle East	3.8
North Africa	3.4
Sub-Saharan Africa	2.0

Source: Global Employment Trends for Youth 2013, ILO, Geneva

The costs of widespread unemployment are high, particularly with regard to poverty. On average, 72 per cent of the youth population in Africa live on less than \$2 per day. The incidence of poverty among young people in Nigeria, Ethiopia, Uganda, Zambia, and Burundi is over 80 per cent.<sup>12</sup> The highest rates of poverty can be seen among young men and women living in rural areas, particularly sub-Saharan Africa and South Asia, which have sizeable rural youth populations. Rural youth employment raises a number of issues that are distinct from urban labour markets, as rural youth face additional barriers to decent employment due to ill-paid, seasonal work, and poor working conditions.<sup>16</sup> Many young workers in rural areas still depend on employment that is linked to access to land, which often is limited for them due to the ways land is transferred or distributed.

11 Reducing Youth Unemployment in Sub-Saharan Africa, Population Reference Bureau, Kristen Devlin, April 2013, <http://www.prb.org/Publications/Articles/2013/youth-unemployment-africa.aspx>

12 World Bank (2009), Africa Development Indicators 2008/2009 — Youth Employment in Africa: The Potential, the Problem, the Promise, World Bank, Washington DC

13 Guarcello, L., M. Manacorda, F. Rosati, J. Fares, S. Lyon and C. Valdivia (2007), “School-to-Work Transitions in Sub-Saharan Africa: An Overview”, in M. Garcia and J. Fares (eds.), Youth in Africa’s Labor Market, Directions in Development, World Bank, Washington DC

14 OECD (2010), Off to a good Start? Jobs for Youth, Organisation for Economic Co-operation and Development, Directorate for Employment, Labour and Social Affairs, Paris

15 Youth unemployment is definitely a critical issue in fragile states. Grievances among the young are most likely to be expressed violently, if non-violent political channels are not adequate or responsive (USAID 2006), and these grievances revolve around unemployment, involving considerations of both income and social cohesion. One in two young people who join a rebel movement cites unemployment as the main reason for doing so (World Development Report 2011: Conflict, Security, and Development, World Bank, Washington DC.)





Education is also a bottleneck to expanding youth employment. For instance, AEO (African Economic Outlook) country experts consider lack of education and skills mismatches to be principal obstacles for young people in labour markets in about half the countries in the survey they carried out.<sup>18</sup> Results showed that a lack of proper training is the third most cited reason by young people in North Africa with regard to why they do not find jobs. Young people therefore need more comprehensive education that responds to labour market needs, in terms of quality and relevance (including technical and vocational training). In general, many of the youth employment challenges are related in some way to labour market dynamics; that is, how easily and how effectively young people find jobs is typically dependent on how well the labour market is prepared to receive them and on how well they themselves are prepared for the labour market.<sup>17</sup>

Because rural educational attainment often lags behind that of urban areas, the problems are intensified for young people living in rural areas and they typically fuel excessive migration to cities. A well-rounded approach would be to expand education and training alternatives, particularly in agriculture-related technical and vocational skills development, in the rural areas where most youth live. Research undertaken in Tanzania in 2011 showed that of 23 vocational training centres in rural areas directly managed and financed by the Vocational Education and Training Authority, only three were offering training connected with the agricultural sector. In most African countries the situation is even worse, as in Malawi, where no agricultural training is provided in vocational centres.<sup>19</sup> And a recent World Bank report found that in Uganda, government-provided vocational training does not reach young people in the rural non-farm economy because it is too focused on formal post-secondary training and offers courses of long duration that people in rural, informal sector enterprises cannot attend because it would cause them to lose their sources of livelihood.<sup>20</sup>

## 1.2 Youth entrepreneurship development

Within the framework of potential efforts and strategies to boost employment and create jobs for young people, entrepreneurship development is increasingly viewed as an important mode of technical assistance and a useful alternative for income generation among young people.<sup>21</sup> Given the decline of traditional job-for-life career paths and the diminishing capacities of the public sector and the formal labour markets to absorb new entrants, youth entrepreneurship is seen as an additional way of integrating youth into the labour market and, more broadly, as a critical to overcoming poverty.

16 FAO (2010) Rural Youth Employment in Developing Countries: A Global View. Gender, Equity and Rural Employment Division Food and Agriculture Organization of the United Nations (FAO) Rome, Italy

17 World Bank (2009), Africa Development Indicators 2008/2009 — Youth Employment in Africa: The Potential, the Problem, the Promise, World Bank, Washington DC

18 African Economic Outlook, “Promoting Youth Employment in Africa” (June 7, 2012), accessed at [www.africaneconomicoutlook.org/en/in-depth/youth\\_employment/](http://www.africaneconomicoutlook.org/en/in-depth/youth_employment/)

19 Dalla Valle, F. (2012), Exploring Opportunities and Constraints for Young Agro Entrepreneurs in Africa, Food and Agriculture Organization of the United Nations (FAO), Rome

20 Bakiene, A., L. Fox, E. Mehta, and O. Pimhidzai (2012), “Raising Productivity and Reducing the Risks of Non-farm Enterprises in Uganda, Poverty Reduction and Economic Management”, World Bank, Washington DC, (forthcoming)

21 Programme Priorities 2003-2006 Youth Enterprise Development, Strategic Paper by the Commonwealth Secretariat, London, Commonwealth Secretariat, Ryan, C. (2003)





## The potential of youth entrepreneurship

When properly supported with financial and non-financial resources, entrepreneurship has the potential to be a major source of job creation, especially for young people. The Youth Employment Inventory ranked entrepreneurship promotion measures as having the highest positive impact on employment creation among a range of programmes reviewed.<sup>22</sup>

For instance, a study from the Oxford University<sup>23</sup> pointed to a number of wider benefits that promoting youth entrepreneurship can bring to societies:

- Creating employment opportunities for self-employed youth as well as the other young people they employ.
- Bringing alienated and marginalized youth back into the economic mainstream and giving them a sense of meaning and belonging.
- Helping address some of the socio-psychological problems and delinquency that arise from joblessness.
- Helping youth develop new skills and experiences that can then be applied to other challenges in life.
- Promoting innovation and resilience in youth.
- Promoting the revitalisation of the local community by providing valuable goods and services.
- Capitalising on the fact that young entrepreneurs may be particularly responsive to new economic opportunities and trends.

It is estimated that in the last decade new firms generated between 1 and 6 per cent of employment in Organisation for Economic Cooperation and Development (OECD) countries.<sup>24</sup> Establishing a new venture may have positive impacts on youth employment and economic growth, as it offers unemployed youth opportunities to build sustainable livelihoods and to integrate into society.<sup>25</sup> Young entrepreneurs, once established, are particularly active in high-growth sectors.<sup>26</sup> It has been found that self-employed youth have higher “life satisfaction” than youth in the same age group and are more likely to hire fellow youths,<sup>27</sup> setting up fertile ground for further employment-creation dynamics. And transition into paid employment within three years is easier for young people who were formerly self-employed than for those who were unemployed (Listerri et al., 2006).<sup>28</sup>

In addition, young entrepreneurs are particularly responsive to new economic opportunities and trends. Creativity is often the biggest asset for young people, who usually feel they can afford to experiment and take calculated risks in the early stage of their lives and careers. Indeed, one can argue that the presence of opportunities for young people to experiment with new ideas and take on risk is a key differentiating feature of creative, flexible, entrepreneurial societies as opposed to those in which institutions are increasingly rigid, hierarchical, and risk averse.

22 For the Youth Employment Inventory, see <http://www.youth-employment-inventory.org>

23 Youth Entrepreneurship: Meeting the Key Policy Challenges, F. J. Chigunta, Education Development Center, 2002

24 OECD (2010). Innovative SMEs and entrepreneurship for job creation and growth. Issue paper 1. OECD Working Party on SMEs and Entrepreneurship. Paris

25 Entrepreneurship and productive capacity building: Creating jobs through enterprise development, UNCTAD, May 2014

26 Kew J, Herrington M, Litovsky Y and Gale H (2013). Generation Entrepreneur? The State of Global Youth Entrepreneurship. Youth Business International and the Global Entrepreneurship Monitor. London

27 Simpson J and Christensen JD (2009). Youth Entrepreneurship and the ILO. Note on practices and lessons learned. Small Enterprise Programme. International Labour Organization. Geneva

28 Is Youth Entrepreneurship a Necessity or an Opportunity? A First Exploration of Household and New Enterprise Surveys in Latin America, IDB (Inter-American Development Bank), May 2006





The challenge of creating employment for youth has been identified as a major priority by the international community. As reaffirmed by the UN General Assembly in its resolution A/RES/67/202 on “Entrepreneurship for Development” adopted in December 2012, entrepreneurship is a powerful driver of development because it creates jobs and expands opportunities for all, including for youth and women. The resolution stressed the importance of giving appropriate consideration to the promotion of entrepreneurship in the context of post-2015 development agenda. Among others, the UN General Assembly resolution A/RES/67/202:

- Emphasizes the need for improved initiatives that promote entrepreneurship and foster small and medium-sized enterprises as well as microenterprises.
- Encourages governments to take a coordinated and inclusive approach to promoting entrepreneurship involving all stakeholders, while noting initiatives of (...) private sector as important entrepreneurship drivers.
- Emphasizes that partnerships with the private sector play an important role in promoting entrepreneurship and generating employment.
- Emphasizes the important role of national efforts aimed at bringing informal workers into the formal economy.
- Recognizes the value of teaching entrepreneurial skills at all levels of education, ensuring the full and equal participation of women and girls, and encourages entrepreneurship education through skills development, capacity building, training programmes, and business incubators.
- Acknowledges the role of entrepreneurship in enabling youth to turn their creativity, energy, and ideas into business opportunities by helping to facilitate their entry into the labour market.

In the same vein, the Tunis Declaration and the Declaration of Manama 2013 on “Entrepreneurship & Development” provided recommendations for creating an enabling environment for entrepreneurship, emphasizing in particular the need to promote entrepreneurship among young people. Thus the UN calls upon relevant organizations to further integrate entrepreneurship in its various forms into their programmes. As stated, developing human capital in all countries and societies and across sectors and bringing impoverished segments of population into the marketplace is a critical step on the path out of poverty and towards economic growth.<sup>29</sup>

The High-Level Thematic Debate “Entrepreneurship for Development” (convened in the aftermath of the UN resolution A/RES/67/202) also stressed the need to create enabling environments for entrepreneurs to expand their activities. It was stressed that key deficiencies and constraints affecting young people lie in the area of business assistance and support.

The more business assistance a young entrepreneur obtains in the start-up and new business development phases, the better his or her chance of creating a successful and sustainable business. Support services, including coaching, support networks, business clubs, incubators, and accelerators can hold the key to transforming one-person youth start-ups into successful small and medium businesses that employ multiples of workers.<sup>30</sup> Lack of business connections (business contacts, suppliers, suitable partners, and networks), lack of knowledge of available business services, lack of tailor-made business training<sup>31</sup> and advice for young start-ups, as well as limited funding opportunities for youth-led ventures, prevent young entrepreneurs from developing their businesses effectively and to their full potential. Consequently, various schemes and programmes have to be put in place to ensure that entrepreneurs have all the support they need. In this regard, chambers of commerce, business associations, Business Assistance Support (BAS), and Business Development Support (BDS) play a significant role and can offer a good leverage for youth enterprise development.

<sup>29</sup> High-Level Thematic Debate “Entrepreneurship for Development” 67th of the United Nations General Assembly, New York, June 2013

<sup>30</sup> Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people, ILO, SEED Working Paper 76, Ulrich Schoof, 2006

<sup>31</sup> Young entrepreneurs require tailor-made training and counselling pertinent to their particular start-up situation, their business and the sector it operates in. In many cases, there is a lack of on-the-job training focusing on technical aspects of starting up a business (business plan preparation, project formulation, start-up administration, procedural details, forms, duration, what to do and in what order, accountancy, taxation, etc.)

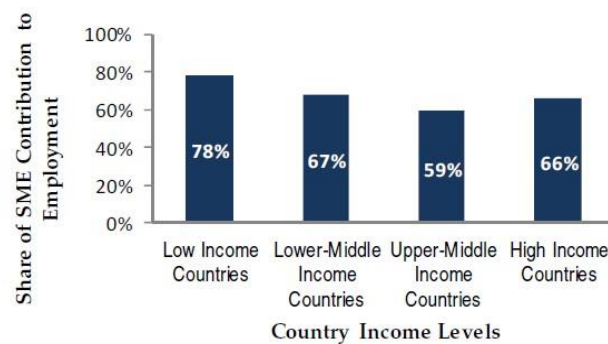




1. Youth Employment and Economic Development in Least Developed and Middle-Income Countries

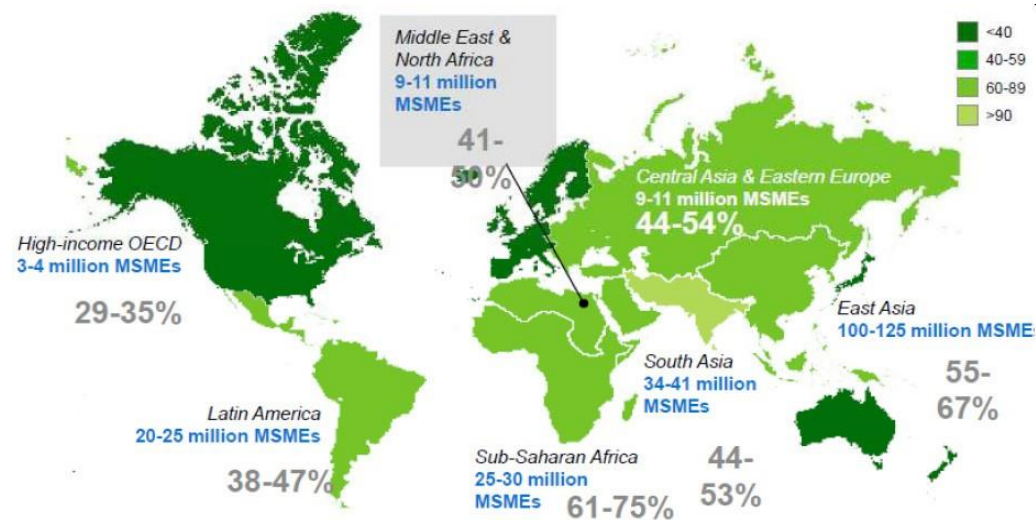
SMEs also provide economies with a source of dynamism. For instance, in Germany, small and medium-sized firms have been instrumental in driving the country's export performance and growth record. Similarly, smaller enterprises played a central role in Taiwan's process of economic development and its transformation into an industrialized economy.<sup>32</sup> The role of small enterprises in addressing youth unemployment is particularly relevant for many LDCs and MICs, the SME sector holding a critical role for employment,<sup>33</sup> as shown in the Figures 2 and 3 below:

**Figure 2: Employment Contribution by SMEs**



Source: World Bank<sup>34</sup>

**Figure 3: MSMEs around the world**



Source: World Bank

32 Wu, R. and Huang, C. (2003) Entrepreneurship in Taiwan: Turning Point to Restart, In MCPA (Ed.), Entrepreneurship in Asia: Playbook for Prosperity, The Maureen and Mike Mansfield Foundation Report, Source: [On-Line] [www.mansfieldfdn.org/programs/entrepreneurship](http://www.mansfieldfdn.org/programs/entrepreneurship)

33 9 Ayyagari, Demirguc-Kunt and Maksimovic, 2011. "Small vs. young firms across the world", World Bank

34 Source: Aspen Network of Development Entrepreneurs, using data from Ayyagari, Demirguc-Kunt and Maksimovic, "Small vs. Young Firms across the World: Contribution to Job Creation, Employment, and Growth", World Bank, 2011



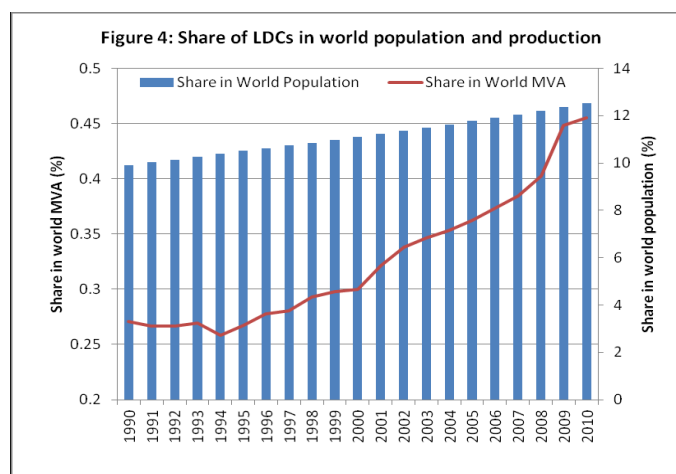




LDCs comprise more than 880 million people (about 12 per cent of world population), but account for less than 2 per cent of world GDP and about 1 per cent of global trade in goods.<sup>35</sup> The economies of LDCs are largely agrarian, affected by low productivity and investment levels. Most LDCs rely on the export of few primary commodities as major source of export and fiscal earnings, which makes them vulnerable to external terms-of-trade shocks. Only a few have diversified into the manufacturing sector, mostly in labour-intensive industries. Many LDCs have high population growth rates and large youth populations.

From 2000 to 2010, the share of LDCs in world population grew from 11.1 to 12.5 per cent, while their share in world Manufacturing Value Added, while growing, remained below 0.5 per cent (See figure 4 below).

**Figure 4: Share of LDCs in world population and production**



Source: UNIDO (2010a), WDI (2010)

In light of the need for innovative and alternative solutions such as expanding entrepreneurship, enterprise development in least developed countries faces the following challenges:

- The economy may still be mostly agrarian and the non-agricultural productive sector small, underdeveloped and employing few people.
- Educational systems generally fail to provide their graduates with the skills required by the labour market as well as skills for effective entrepreneurship.
- Most manufacturing enterprises of small and medium scale face a credit crunch, limited technical and business capacity, insufficient quality of their products, and limited marketing opportunities. Many SMEs remain informal due to regulation hurdles and their own limitations in accounting, business planning and sustainable growth. Production remains artisan and of low scale. Many SMEs also remain informal as a way to evade taxes and labour regulations. In the face of weak a business environment, complex red tape, corruption, and non-existent or inadequate business development services, a large number of informal business owners find few incentives to enter the formaleconomy;
- Young people typically cannot find jobs in the formal sector and enter the informal sector as a survival strategy.

<sup>35</sup> <http://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/LDCs.aspx>





Technological innovations and the shift towards knowledge-based economies make human capital investment a prerequisite for sustained economic growth and central to the start-up, growth and productivity of businesses, as well as a linchpin in a firm's growth and survival.<sup>36</sup>

At the enterprise level, human capital development contributes directly to a firm's productivity by facilitating the adoption of innovative technologies and processes, bolstering a firm's competitive advantage by enhancing its management and technical know-how and the skills, education, and the adaptability of its employees.<sup>37</sup>

To this end, raising the overall level of education among the workforce – and particularly developing an aptitude for lifelong learning – plays a critical role, as the skills of employees need to be continually upgraded through on-the-job training to increase the firm's productivity and its ability to absorb new processes and technologies. Education and human capital development are particularly important to equipping and inspiring a new generation of young entrepreneurs, young ones in particular.

Given the educative constraints they typically face, least developed countries are particularly disadvantaged in promoting human capital development, particularly in an effort to drive entrepreneurship among young people.

**Box 1: Key educative constraints**

- General lack of introduction and adoption of enterprise education
- Inadequate curricula and study programmes
- Use of ineffective learning methods
- Negligence of students' personal environment (parents and family members)
- Lack of trained/educated teachers
- Lack of career information and business possibilities
- Lack of business and education linkages
- Lack of ICT infrastructure/capability

Source: Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people by Ulrich Schoof, ILO, 2006

Unfortunately, many LDCs do not mainstream entrepreneurship education into their poverty reduction strategies,<sup>38</sup> hence the need for them not only to promote entrepreneurial education and awareness, but also to develop training initiatives aimed specifically at aspiring young entrepreneurs. More investment is needed in developing business-related skills, including foreign languages, information technology skills and basic finance, economics, and project management. Public-private partnerships that combine practical training on the job with basic education could be the basis for viable apprenticeship models.<sup>39</sup>

Some studies suggest the existence of socio-cultural constraints on youth entrepreneurship. As cultural and social backgrounds influence an individual's approach to life, they similarly influence entrepreneurial activity and enterprise culture,<sup>40</sup> which could be defined as a "set of attitudes, values and beliefs operating within a particular community or environment that lead to both 'enterprising' behaviour and aspiration towards self-employment."<sup>41</sup>

36 Unleashing Entrepreneurship: Making Business work for the Poor, Report the Secretary-General of the United Nations. Commission on the Private Sector Development, March 2014

37 Unleashing Entrepreneurship: Making Business work for the Poor, Report the Secretary-General of the United Nations. Commission on the Private Sector Development, March 2014

38 Entrepreneurship education, innovation and capacity building in developing countries, UNCTAD, January 2011

39 Unleashing Entrepreneurship: Making Business work for the Poor, Report the Secretary-General of the United Nations. Commission on the Private Sector Development, March 2014

40 On 17 June 1998, the International Labour Conference adopted Recommendation No. 189 concerning the General Conditions to Stimulate Job Creation in Small and Medium-sized Enterprises. An important issue of the Recommendation is recognition by the ILO member States present in the ILC of the importance of social and cultural influences on entrepreneurship and the formation of new enterprises

41 Gibb, A. A. (1988): "Stimulating New Business Development" (What else besides EDP. in: Stimulating Entrepreneurship and New Business Development (Chapter 3), ILO, Geneva





An example of a cultural constraint would be that in some countries, wage employment, particularly in the public sector (with its promise of job security), is a dominant goal for young people.<sup>42</sup> Further, studies have found that in both developed and developing countries, young people who are willing to engage in business are often associated with widely-held negative stereotypes about young entrepreneurs, which results in them not being taken seriously by older colleagues or business contacts. Sometimes this can harm their efforts to attract funding. Indeed, “not being taken seriously” and “age discrimination by suppliers or customers” were the two most frequently-cited in by young entrepreneurs in the United Kingdom in a 2004 Barclays survey (Box 2).

**Box 2: Problems experienced by young entrepreneurs in the course of running a business (in percentage)**

• Not being taken seriously by colleagues or business contacts	44%
• Age discrimination by suppliers or customers	36%
• Difficulties in attracting funding to the business	30%
• Age discrimination by institutions or the Government	17%
• Lack of support from family or friends	10%
• None of these	30%

Source: Young Entrepreneurs Tomorrows Business Leaders, Barclays Bank (2004), in Darby (2004)<sup>43</sup>

The motivation to engage in business and the decision to become an entrepreneur are closely linked to an individual’s the level of awareness and understanding of the concept of entrepreneurship as being a viable career path. Among all social institutions, the educational system has probably the most important impact on raising awareness and attractiveness to the characteristics and attributes of entrepreneurship. Education should play a crucial role in equipping young people with an understanding of and some of the skills necessary for entrepreneurship.<sup>44</sup>

### Youth and enterprise development in Middle-Income Countries

Middle-income countries, which are defined by the World Bank according to the threshold of their per-capita income,<sup>45</sup> face specific and complex challenges that stand in contrast to their recent macroeconomic success, particularly in achieving inclusive and sustainable growth and development, diversification of their economies, a broader distribution of wealth, and responding to climate change.<sup>46</sup> With regard to preserving and further developing their manufacturing sectors, they also face challenges in improving access to education and well-functioning labour markets, and in many of the MICs there is an urgent need for large investments for capital and human skills to maintain the intensity of production and address limited access to technology.<sup>47</sup>

42 Enterprise-based youth employment policies, strategies and programmes: Initiatives for the development of enterprise action and strategies, Simon White and Peter Kenyon, ILO, 2001

43 The figures above were collected in a survey carried out in the UK, however several studies also aiming at youth entrepreneurship on a global stage as well as in developing countries confirm that social perceptions and reputation of young people generate specific constraints and do have an impact on youth enterprise development (ILO 2006) Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people, Geneva Switzerland)

44 Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people by Ulrich Schoof, ILO, 2006

45 As of 1 July 2013, the World Bank income classifications by GNI per capita are as follows: Low income: \$1,035 or less; Lower middle income: \$1,036 to \$4,085; Upper middle income: \$4,086 to \$12,615; High income: \$12,616 or more. Low- and middle-income economies are sometimes referred to as developing economies. The term is used for convenience; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. (Source World Bank)





Underlying all of these challenges is the question of how to ensure that rapid growth translates into more and better employment opportunities. Widespread informal employment and self-employment are important characteristics of most middle-income countries, although to differing degrees. For example, in India, informal employment accounts for over 90 per cent of total employment. While in Latin American countries, the share of informal employment is much lower than that — typically between 40 and 60 per cent. In light of this, youth employment challenges are present across the range of MICs, where structural and institutional barriers typically hamper enterprise creation and development. Young people face numerous constraints that limit their success in operating a small enterprise, including a lack of savings, limited assets, restricted or no access to credit, underdeveloped skills and a paucity of support from enterprise development programs.

Enterprise development in middle-income countries faces the following challenges:

- While parts of the economy may still be agrarian, the share of the productive and the service sectors have increased over the last decades and provide employment to a large share of the population.
- Most labourers are employed in low-skill jobs in factories that produce for global value chains in which buyers set minimum quality standards and provide technology and know-how in return.
- Most manufacturing enterprises are of small and medium scale, some of them having reached substantial maturity in their business while others struggle with access to credit, competition, and compliance with buyer requirements and export standards.
- In some sectors, such as carpentry, metal works, and street foods, SMEs remain in informality due to regulation hurdles and their own limitations in accounting, business planning, and achieving sustainable growth.
- Job opportunities for youth are almost non-existent in the formal sector and are limited mostly to informal work.

### 1.3 The challenge of developing informal enterprises

In both LDCs and MICs, it is not unusual to find that the majority of small-scale enterprises are informal and represent a critical source of employment. Informal employment often accounts for a larger share of the economic opportunities available to women than to men. Informal enterprises, typically defined as those not regulated by the state, are usually small in scale and their finances cannot be easily separated from the finances of the household. They usually include, among others, street vendors, market women, and self-employed tradespeople.

46 Common Challenges, Multiple Perspectives: Middle Income Countries Experts' Consultation 13-15 May 2013, (Concept note) UNDP and Korea Institute for International Economic Policy, Seoul, Republic of Korea

47 IISID (International Institute for Sustainable Development) High Level Conference Bulletin, A briefing note of the High-Level Conference of Middle Income Countries, June 2013





Statistics show that informality is present in both rural and urban economies of developing countries. Informal employment constitutes the majority of employment in many cities (see examples in Table 2),<sup>48</sup> with women showing a higher proportion of involvement than men.

**Table 2: Informal Employment as Percentage of Non-Agricultural Employment**

Cities	Total	Women	Men
Niamey	76.2	83.4	71.9
Ouagadougou	80.2	86.9	75.4
Bamako	82.1	91.1	74.9
Dakar	79.8	88.0	73.9
Abidjan	79.0	89.7	69.8
Lomé	83.1	90.3	75.1
Cotonou	81.2	89.3	72.1
Antananarivo	63.0	67.1	59.5
Lima	58.5	63.9	53.8
Hanoi	46.2	48.3	44.4
Ho Chi Minh City	53.4	55.1	52.0

Source: Herrera et al. 2012: 3

Widespread informality limits enterprise development in a number of ways. It compounds the constraints that small enterprises already face. For instance, informal enterprises have more difficulty accessing sources of credit, especially formal credit from banks and finance institutions, while the lack of regulatory and legal protections compromises their ability to manage risks. Informality also presents challenges with regard to the government's ability to mobilize revenues through tax collection. This not only limits the tax base, but it also affects the ability of the government to implement programmes and policies, and to create infrastructure and support services, that can help advance small-scale enterprises.

For these reasons, there is a need to provide incentives and interventions to formalize small-scale enterprises in ways that advance and support enterprise development.

Based on SAME data covering the informal sector,<sup>49</sup> studies show that the regulatory frameworks and business approaches associated with formalization result in higher profits and investment, increased credit access, and improved contract conditions for workers. Thus, encouraging formalization should be the first step towards promoting SME development.

Although informality is an important challenge, there are other critical constraints on enterprise development, including a lack of access to finance or insufficient infrastructure — are often correlated with informality. Furthermore, the lack of knowledge and skills is an additional yet serious constraint that is particularly acute for informal entrepreneurs and even for those who are willing to move up the ladder to transition to the formal sector. For these reasons, formalization alone may not have a significant effect on enterprise development if other constraints are not addressed.

48 Informal employment is a broader category than informal enterprises and includes all self-employment in informal enterprises, unpaid contributing family members working in household enterprises, and paid employees who lack a core set of social protections. Informal employment can therefore be found in both formal and informal enterprises

49 Rand, J & Torm, NE 2012, 'The Benefits of Formalization: Evidence from Vietnamese Manufacturing SMEs' World Development, vol 40, no. 5, pp. 983–998., <http://dx.doi.org/10.1016/j.worlddev.2011.09.004>





## 1.4 The challenge of engaging women in enterprise development

Women entrepreneurs often face gender-based barriers to starting and growing their businesses, namely discriminatory property ownership, matrimonial, and inheritance laws and/or cultural practices, lack of access to formal finance mechanisms and technology, limited mobility and access to information and networks, a lack of maternity protection, and having to bear a disproportionate burden of family and household responsibilities.

The nature and impact of these constraints varies from country to country. ILO research based on detailed interviews with 379 women entrepreneurs in Ethiopia, the United Republic of Tanzania, and Zambia found the following:

- Women entrepreneurs do not have the same access to networks as men.
- Women entrepreneurs have difficulties accessing premises due to, among other things, a lack of property and inheritance rights.
- Women's lack of access to titled assets that can be offered as collateral for loans adversely affects the growth of their enterprises.
- Women entrepreneurs lack access to formal finance and rely on loans from family and community.
- Women entrepreneurs tend to work in a limited range of sectors, particularly food processing and textiles.
- Business development service providers do not give adequate time or effort to target women entrepreneurs; they do not offer flexible arrangements with respect to the timing and location of service delivery.
- Women often experience harassment in registering and operating their enterprises.

Most women entrepreneurs in developing countries operate micro and small businesses in the informal economy, in which women make up around 60 per cent of non-agricultural employment — including up to 90 per cent of street vendors and up to 80 per cent of home-based workers.<sup>50</sup>

Gender discrimination denies women their rights and is economically unproductive. The World Bank estimated that gender inequality in education and employment reduced sub-Saharan Africa's per capita growth from 1960 to 1992 by 0.8 per cent per year from 1960 to 1992.<sup>51</sup>

Women's entrepreneurship can make a particularly meaningful contribution to the economic well-being of families and communities, poverty reduction, and women's empowerment, and thereby contribute to the first and third Millennium Development Goals (MDGs). Actually, where women have more control over the resources of the household, the pattern of consumption tends to be more child-focused and oriented to meeting basic needs.<sup>52</sup>

As women tend to be overrepresented in micro- and small enterprises (MSEs) and, because they generally invest more than men in the well-being of their families and communities, women-targeted programmes at this level can be a particularly effective means of poverty reduction. At the same time, there is enormous potential for sustainable job creation in focusing on women-owned enterprises with growth potential.<sup>53</sup> To be successful, it is important that enterprise development initiatives consider the differences in the barriers of entry that exist for women, particularly young women, as well as cultural factors that may impact upon their inclination to engage in entrepreneurship. For its part, UNIDO has engaged in gender specific

50 ILO: Women and men in the informal economy: A statistical picture, 2002

51 World Bank Group: Gender, growth and poverty reduction, Issue 129, Feb. 1999

52 ILO strategy on promoting women's entrepreneurship development, Geneva, March 2008

53 ILO strategy on promoting women's entrepreneurship development, Geneva, March 2008





enterprise development projects focusing on both: a) enterprises that women have a particularly have an affinity for and b) enterprise in which women's participation can be raised through gender-targeted capacity strengthening (see Box 3).

### Box 3: Women's Economic Empowerment Through Enterprise Development

Processing shea butter, a fat extracted from the nut of the shea tree that is used in making cosmetics, provides potentially valuable employment opportunities to women in West Africa. For instance, average shea butter production in Mali hovers around 80,000 tonnes per year, less than a third of its estimated potential. Various factors limit the performance of the sector, including the need for better market access, poor product quality, limited access to productive assets such as machinery, low-quality infrastructure, and the lack of investment in building the skills of the women producers.

UNIDO has developed a project that addresses a number of these constraints. One goal of the initiative is to familiarize the women participating in the programme with available technologies, provide management training, and build an understanding of international markets and marketing strategies. The project also helps to improve access to finance for the members of shea butter cooperatives. Bio-certification is explored as a way to improve product quality, move into higher value-added production, and gain access to niche markets such as fair trade products. Improving the quality of paid employment generates additional benefits with regard to women's empowerment, such as greater economic independence and strengthening women's ability to make their own decisions.

In Burkina Faso, small-scale beer production is an important source of income for many women. As a result of using low-quality stoves to make the beer, productivity is poor and the women experience health problems. The cook stoves are inefficient and use more firewood than necessary. UNIDO, working with the Ministry of Environment and Sustainable Development and with resources from the Global Environment Fund, has launched a programme that will enable the women who brew beer to obtain more efficient cook stoves. In part, this involves establishing a line of credit that allows the women to buy the stoves. The programme is expected to improve productivity, reduce hazardous and unsafe work environments, improve women's access to credit, and raise earnings.

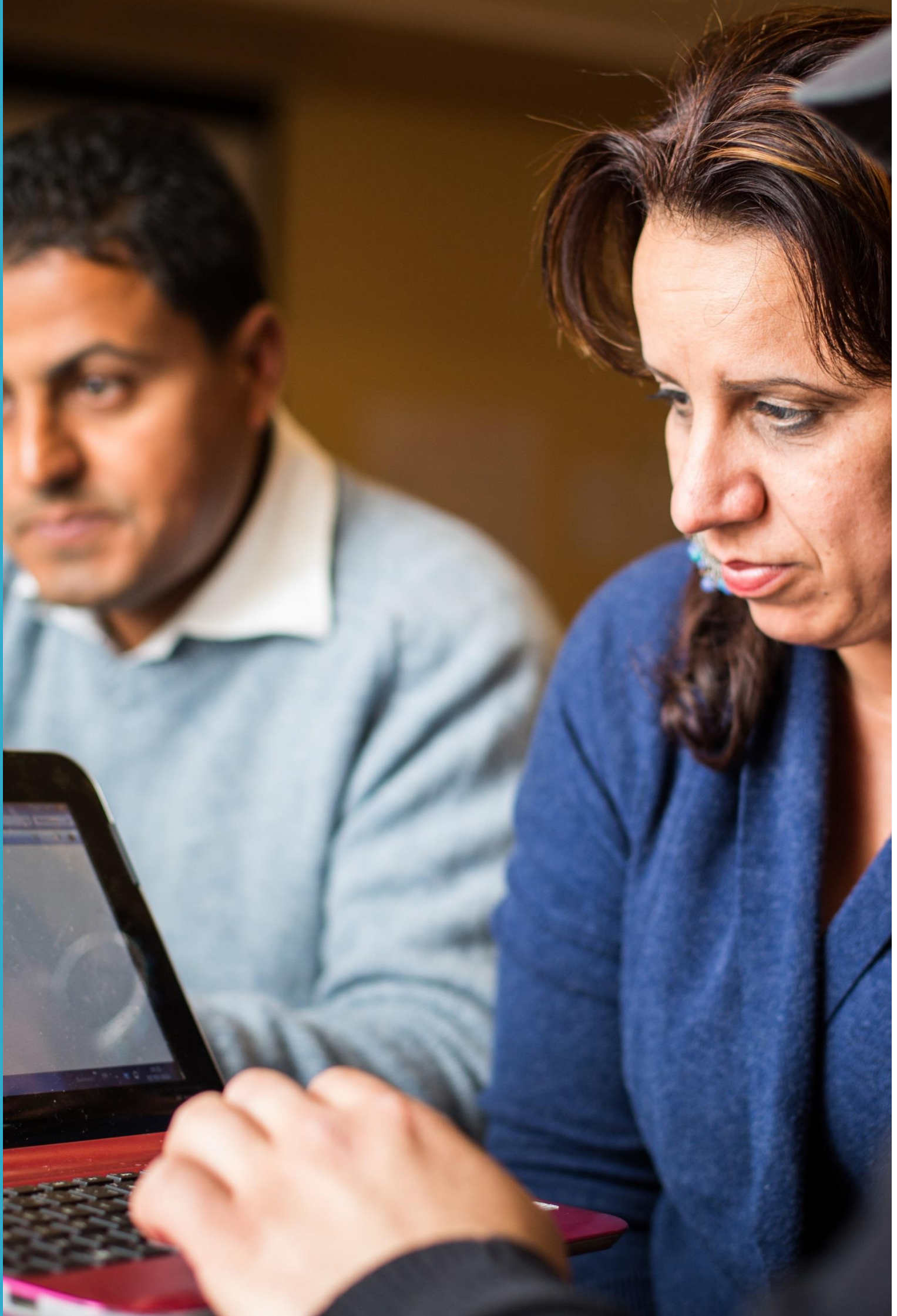
UNIDO ITPO Bahrain, through its Arab International Centre for Entrepreneurship & Investment in Bahrain, has developed women's economic empowerment centres (WEEC) in that country and in the United Arab Emirates and Kuwait. A similar programme is under way for the Islamic Republic of Iran. The WEEC focuses on providing non-financial services that would unleash the women's entrepreneurial capabilities and at the same time creates linkages with financial services. Through this linkage the smooth migration from informal to formal can be achieved, in addition to the growth from micro to small to medium size.

Through the cooperation with the Supreme Council for Women in Bahrain and the Ministry of Social Affairs & Labour in Kuwait, and as part of the non-financial services, a new approach to women incubation was implemented with the physical incubator services as a mall/shopping centre rather than a traditional incubator.







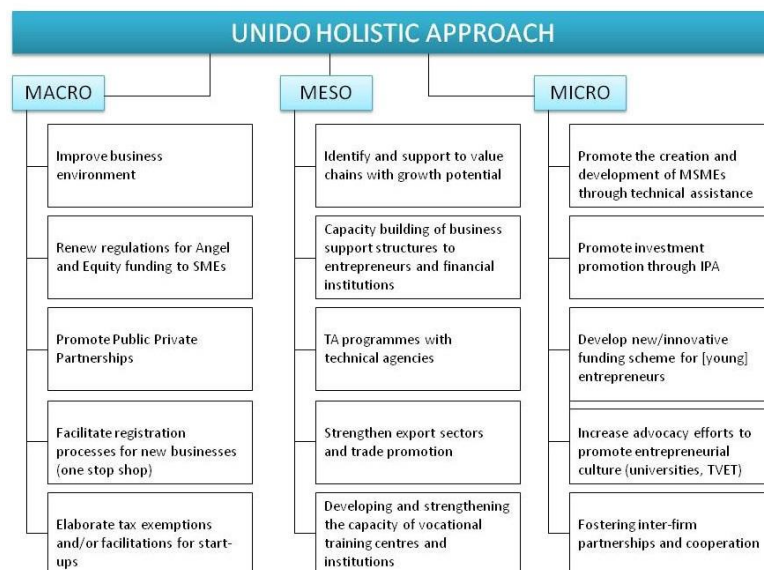


## 2. UNIDO's expertise in Youth and Enterprise Development

The constraints and barriers that impinge on enterprise development are typically compounded when it comes to youth. UNIDO has substantial experience designing programmes and interventions that directly address these blockages and foster enterprise development in manufacturing and industry development, many of which aim to generate and improve employment opportunities for youth.<sup>54</sup> This chapter offers further details on the primary constraints on enterprise development and provides examples of UNIDO initiatives to reduce or eliminate them, as well as how the IDEA strategy builds upon this foundation by integrating key services across various programme areas to provide support to the creation and development of youth enterprises. This chapter documents the context within which IDEA operates by examining the most common constraints which small enterprises face and providing examples of UNIDO interventions to support enterprise development.

The UNIDO approach to the youth employment challenge emphasizes the role of the private sector, with a specific focus on enterprise development, because micro- and small-scale enterprises are an important source of employment for youth and contribute to economic development. The approach also recognizes that in order to realize their potential, these enterprises require significant support, capacity building, and investment to realize their potential. Accordingly, to boost employment and inclusive growth, UNIDO has developed an integrated approach that applies financial and non-financial services according to the specific needs of a given country (Figure 5).

Figure 5: UNIDO Holistic Approach



Source: UNIDO

54 A recent survey of UNIDO activities illustrated that hundreds of UNIDO programmes have target thousands of youth. <http://www.unido.org/en/what-we-do/poverty-reduction-through-productive-activities/women-and-youth-in-productive-activities/youth/selected-projects-on-youth-in-productive-activities.html>



## 2.1 Institutional capacity building

Institutions such as the World Bank<sup>55</sup> stress the advantages of creating the appropriate conditions for enterprise creation and growth rather than directly subsidizing businesses. The creation of a business-enabling environment refers to the deregulation and improvement of the legal framework for enterprises, most importantly in the fields of property rights, market access, free competition, low taxes, and the deregulation of labour markets. In broader terms, it also includes improved access to roads and other physical infrastructure such as electricity, water, and telecommunications, financing and business development services, as well as political stability and good governance.<sup>56</sup> The setting up of quality testing and certification infrastructure also contributes to an improved business environment.

One particular approach to development is strengthening institutional capacities among enterprise promoting bodies (see Box 4). Numerous institutions — in government, the private sector, non-government organizations, and academia — play critical roles in capacity building and training to foster enterprise development, and they often need help in understanding technologies that can be useful among the constituent businesses, as well as with needs assessment, business facilitation, and coaching skills. Youth-led enterprises may require even more substantial coaching and support given their lack of experience in the business world. Since few institutions can singlehandedly address the full range of issues confronting small enterprises, UNIDO's approach anticipates that these capacity building initiatives will be driven by partnerships among various stakeholders in government, civil society, and the private sector.

Entrepreneurship and self-employment can be a source of new jobs and can improve youth livelihoods and economic independence in developing countries. However, caution should be exercised so that youth entrepreneurship is not seen as the wide-ranging solution against youth unemployment. Considering the lack of appropriate economic conditions, the lack of market opportunities and very little consumer spending power in developing countries, the all-purpose of youth entrepreneurship is still uncertain.<sup>57</sup>

Small and Medium Enterprises play a key role in economic development and diversification and are an important source of employment creation.<sup>58</sup> In many countries, both developed and developing, small to medium enterprises are responsible for a significant share and often a majority of job opportunities.<sup>59</sup>

### Box 4: Building Capacity among Tourism Promoting Institutions in Macedonia

Building institutional capacity to support enterprise development is a central aspect of many UNIDO programmes. For instance, UNIDO's Macedonian Tourism Cluster Development project fortifies the capacity of local institutions providing business support and related services to tourism enterprises. Such business support institutions include business associations, chambers of commerce, vocational and technical training institutes, business development services providers, and national and local governments. UNIDO helps by building skills and know-how in a range of areas including value chain analysis, product development, marketing strategies, setting up business networks, and project implementation techniques. The goal is to enable these institutions to provide long-term support to small enterprises.

<sup>55</sup> World Bank, IFC (2013) Doing Business 2013 Smarter Regulations for Small and Medium-Size Enterprises

<sup>56</sup> Kueblboeck, Stariz 2013: 4

<sup>57</sup> Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people, ILO, SEED Working Paper 76, Ulrich Schoof, 2006

<sup>58</sup> Ayyagari, M., T. Beck, and A. Demircuc-Kunt, 2007. "Small and Medium Enterprises across the Globe. Small Business Economics." 29 (4): 415–34

<sup>59</sup> Beck, T., A. Demircuc-Kunt, and R. Levine, 2005a. "SMEs, Growth, and Poverty: Cross-Country Evidence." Journal of Economic Growth 10: 199–29





Lack of basic information (on marketing opportunities, production technologies, the availability of business support services, prices and sources of key inputs, to name but a few) represents another serious constraint on business development. This is particularly troubling for potential youth entrepreneurs, who often lack the experience, connections, and skills needed to access and use information. In addition, while a broad range of available information technologies and devices has introduced new ways to access and sort through a vast amount of relevant information via the Internet, many aspiring entrepreneurs in developing countries lack the equipment and skills needed to make the most of them for business purposes.

**Box 5: UNIDO and on-line  
business information portals<sup>60</sup>**

Young people who are starting a new business often require accessible and practical business advice in a range of areas such as preparing a business plan, developing a marketing strategy, managing finances, improving the products they offer, and choosing a location for their business. Many need guidance on basic business regulations, such as available legal forms for their business and the types of licenses they need to obtain. This information can easily be delivered with online tools such as a business portal – a website set up to deliver information in a clear and user-friendly way. UNIDO has worked with governments and other business support institutions to develop and launch these on-line information resources.

For instance, UNIDO ITPO/AICEI in Bahrain has launched a specialized “Entrepreneurs Gateway” through which the following main services are being offered to entrepreneurs and MSMEs:

1. Entrepreneurs directory
2. Online mentoring and business counseling services
3. E-Market platform (buyers and sellers) for E2E business partnerships
4. Upcoming major events
5. E-tool kit and Resource Centre

In Tunisia, UNIDO has set-up a Digital Entrepreneurship Platform ([www.DEP.tn](http://www.DEP.tn)) that now has more than 10,000 users, including government institutions, young entrepreneurs, and UN experts and advisors. The DEP platform is fully self-sustainable and managed by young entrepreneurs themselves. It provides an online space for interactive discussion around critical topics such as:

- How to start a business in Tunisia (a full guide is available on the platform)
- Access to finance: a set of recommendations is provided to young entrepreneurs by other entrepreneurs
- Business development services: a comprehensive list of (and contacts for) business support structures is managed by local Investment promotion agency offices
- International experts: a wide variety of technical expertise is made available to young entrepreneurs

## 2.2 Knowledge transfer, skills acquisition and capacity building

Developing individual knowledge and skills, as well as fostering creativity and learning, are key to enterprise development. Skill formation plays a major role in shaping an enterprise's capacity to produce goods and services competitively. In various studies, the productivity and earnings of small enterprises have been positively impacted by improvements in workforce education and experience, at least up to a certain level of educational attainment. Conversely, lack of education, experience, and basic skills represents a constraint to enterprise performance as mentioned earlier under section 1.1.

<sup>60</sup> LDCs and connectivity, as well as ICT uptake is an issue as stressed in the Global Information Connectivity Report- Living in a Hyper Connected World (2012) by the World Economic Forum





A distinction has to be made between basic education, applied skills and on the job skills development. While many studies support the argument that basic education has the greatest positive impact on economic growth, some development scholars argue that the development and transfer of applied skills, both technology and business/organization-related, are nearly as important and that developing a mix of skills among workers also matters greatly for small enterprises. Hence, many technical cooperation projects and programmes (see Box 6) actually focus on skills development in professions such as farming, carpentry, and metal works. For instance, vocational training related to specific trades or occupations in line with market demands could have a more significant impact on a worker's earnings than academic secondary education.<sup>61</sup>

#### Box 6: UNIDO skills development projects

In Tunisia, UNIDO was part of a collaborative effort funded by the Spanish MDG Fund to support youth enterprise development through skills-building and training initiatives providing services to youth businesses, as well as direct support to enterprise creation. UNIDO intervention focused on a threefold approach that aimed at reinforcing local support structures (public, private and civil society organizations), assisting young entrepreneurs to create and develop their enterprises in selected value chains (such as handicraft and carpet value chain), and enhancing youth participation and information-sharing through a web-based platform.

Similar initiatives are underway in Armenia and in the Mano River Union (Cote d'Ivoire, Guinea, Liberia, and Sierra Leone). In Iraq, UNIDO has worked with Scania, a leading manufacturer of heavy trucks, buses, and engines, and various partners, including the Swedish International Development Cooperation Agency (SIDA), Education First (EF), and the Kurdistan Regional Government Ministry of Labour and Social Affairs (MoLSA), to establish the Swedish Academy for Training. The Academy provides skills and management training in manufacturing to unemployed Iraqis under the age of 30 and then connects them to employment opportunities in firms throughout the country.

As the pattern of skills required to compete in modern manufacturing changes, so must the institutions and methods for skill formation. Traditional methods of education and training, particularly in lower technology sectors, usually are limited to improving technical skills through on-the-job training. In the emerging competitive setting, greater emphasis is placed on high-level, specialized training and creativity with more formalized on the job training and vocational education featuring closer interaction between education institutions and industry.<sup>62</sup> Hands-on training programmes and sector-specific training centres are developed to supplement formal education programmes in order to enhance the development of tacit knowledge acquired through practice, which is typically difficult to transfer to others in more formal settings.

Meanwhile there is also a growing body of literature that people only engage in learning in response to their individual and collective absorptive capacity.<sup>63</sup> Individual and cultural values and beliefs can stand in the way of learning and application of certain knowledge and technology.<sup>64</sup> In other words: every innovation has to fit to its user and vice-versa.

61 African Economic Outlook, "Promoting Youth Employment in Africa" (2012), accessed at [www.africaneconomicoutlook.org/en/in-depth/youth\\_employment/](http://www.africaneconomicoutlook.org/en/in-depth/youth_employment/) on June 2014

62 UNIDO (2011)

63 Cohen, Wesley, M. & Levinthal, Daniel A. Absorptive Capacity: A New Perspective on Learning and Innovation, *ASQ*, 35 (1990), 128-152

64 De Faria (2013)



**Box 7: Vocational Training Centres (Sudan, Côte d'Ivoire)**

Vocational Training Centres (VTCs) offer youth and young adults opportunities to obtain training and improve their skills in technical subjects, enabling them to increase their employability and entrepreneurial potential. Through the institutional competency building of VTCs, and by stressing industrial relevance and dimensions of skills development, UNIDO aims to expand and enhance training services available to youth and women. The objectives are to improve employability, foster an entrepreneurial mindset and environment, and create market-driven job opportunities that can lead to poverty reduction. In the case of Sudan, through UNIDO's ITPO/ARCEIT, the Enterprise Development & Investment Promotion Programme provides potential entrepreneurs with business competencies and development of their personal attitudes, behaviours, technical skills, and knowledge – with the goal of improving their prospects as entrepreneurs.

### 2.3 Entrepreneurship development

Entrepreneurship development focuses on providing the general skills required for setting up and running a business, including business administration, accounting, planning, and marketing, as well as fostering creative thinking and self-empowerment. Some of these can be provided in secondary school, college, and through vocational training programmes targeted to people who are already in the workforce. For example, UNIDO's Entrepreneurship Curriculum Programme (ECP) for secondary schools aims at developing entrepreneurial attitudes and basic skills in young people so they can learn how to turn opportunities into business and how to manage and steer business (see Box 8). Typically, instruction in business planning, development of technical skills and acquisition of capital goods would come after the individual has chosen in which enterprise to engage.

Ideally, entrepreneurship development initiatives should be administered in partnership with private sector businesses in order to assure job opportunities for trainee who for whatever reason are unable to set up their own enterprise. Initiatives should also work to cycle lessons learned from failed ventures back into the programme so that trainees can benefit from them.<sup>65</sup>

**Box 8: UNIDO's Entrepreneurship Curriculum Programme (ECP) and entrepreneurship promotion in Mozambique, Angola, Bahrain, Tunisia, and Sudan**

This project, introduced in Mozambique in 2007 by the Ministry of Education and Culture with the support of UNIDO and donor agencies, fosters viable small-scale enterprises in two of the country's northeastern districts. At recently opened one-stop shops, the prompt availability of information, business registration, and licensing and taxation services ensures cost and timesaving efficiencies. Project-designed entrepreneurship courses at secondary schools and technical training programmes are improving the self-employment prospects of young people: As of June 2013, the project had trained 1,654 teachers to provide entrepreneurial and enterprise development training in 331 schools. The programme also created technical working groups, produced training materials, and provided resources to libraries to support the ongoing implementation of the training. The ECP programme has been replicated in other countries. For instance, UNIDO, with corporate financial support from Chevron, has launched an ECP in Angola to develop entrepreneurship skills among young people in order to build a more dynamic economy. The ECP was integrated as part of the syllabus in 40 schools in nine provinces of Angola in 2011, with more than 2,000 students taking part on a pilot basis. The government subsequently rolled out the programme throughout the country with the support of UNIDO,

65 Youth Entrepreneurship: Meeting the Key Policy Challenges, F.J. Chigunta, Education Development Center, 2002





reaching some 500,000 students by 2013. The project is carried out in cooperation with the National Institute for Educational Research and Development.

In the scope of UNIDO's entrepreneurship and enterprise development project in Tunisia, HP's Learning Initiative for Entrepreneurs programme (HP LIFE e-Learning) has been integrated in the Higher Institute of Technological Studies (ISET) in the city of Kairouan. HP LIFE e-Learning is a free, online business skills and IT training and support programme. The innovative, interactive solution helps students, potential entrepreneurs and small business owners learn to use technology effectively to start or grow their own business. It also serves as a robust open education resource for educators looking to enrich their curriculum and learning outcomes. HP LIFE provides a range of courses in core business disciplines such as communications, finance, marketing, and operations, as well as courses covering environmental and social entrepreneurship and effective leadership – from basic to advanced level.

In December 2014, UNIDO trained 16 educators from ISET Kairouan on HP LIFE e-Learning. Following the HP LIFE e-Learning workshop, the ISET educators have enriched business course modules with HP LIFE e-Learning content. Since January 2015, ISET Kairouan has been training students on these integrated business courses on a regular basis. In the pilot phase, ISET educators aim to test the use of HP LIFE e-Learning content in different business courses. The objective is to offer the integrated courses to all ISET students in Kairouan. Also, ISET in Le Kef is in the process of adding HP LIFE e-Learning content to their courses.

In the case of Bahrain, through the UNIDO ITPO/AICEI and in cooperation with the Ministry of Education, an Entrepreneurship & Innovation curriculum was developed in 2006 in five vocational schools. In light of the huge success, the ministry decided by 2008 to implement it nationwide to all 27 public schools. For the smooth adoption of the curriculum in schools, a series of capacity building programmes were shown to teachers. The success of this programme is attributed to the fact that it is developed based on the "learning by playing" concept, whereby it not only provided theory inputs but also introduced practical interventions whereby for example: when discussing financing, a study tour is arranged for the students to visit the banks. In addition to that, a business plan competition is held at school level and then at the national level. To further stimulate and unleash the spirit of entrepreneurship within youngsters, entrepreneurship centres have been developed in all major universities. Linkages between the private sector and academia are facilitated through these centres.

Similar programmes are being implemented in Sudan. Based on recent reports, the number of students admitted to vocational schools in Sudan has nearly doubled from 8,000 to 14,000.

## 2.4 Business and SME development

Enterprise development involves a cycle of activity that engages in a) the identification of opportunities, b) the building of the business case including its financial appraisal, c) the creation of the enterprise, d) the assembly of resources, e) the implementation of the business plan and management of the enterprise and f) the further sustainable growth of the enterprise. As the cycle plays out, business administration approaches are particularly applicable to the business plan development and assembly of resources stages, while business support services are necessary for further coaching and support for the enterprise. In the case of manufacturing enterprises and agro-businesses, there usually needs to be additional focus on product development and improvements in product quality. Eventually, successful enterprise development would be marked by increasing level of sales and sufficient profits.

The development of a business plan, which provides a roadmap to creating a new enterprise and is often essential for securing start-up financing, can be supported by the use of technical and financial feasibility study software such as UNIDO's COMFAR (see Box 9). For that purpose, basic management skills need to be in place.



**Box 9: COMFAR — UNIDO's feasibility and business planning software**

For a long time UNIDO has provided a software solution, the Computer Model for Feasibility Analysis and Reporting – or COMFAR ([www.unido.org/comfar](http://www.unido.org/comfar)), to expand the capacity of private businesses, government agencies and business support organizations to assess, analyse and plan industrial businesses and investments. The COMFAR programme allows users to enter financial and economic data as well as technical parameters and conversion rates for industrial projects. The programme then produces financial and economic analysis, graphical displays and performance indicators. The software can be used to analyse new investment projects and the expansion of existing enterprises, as well as to analyse potential economic opportunities, conduct market assessments, and assist in the development of business plans for small enterprises.

Recently, UNIDO developed a new version of the COMFAR to assist young entrepreneurs in the financial appraisal of their ventures, one that is more suitable for smaller-size projects and has is accessible to an online platform.

Enterprise development is sometimes also related to the increasing degree of formalization that businesses achieve, like whether they are officially registered, have an account, a business plan, formal credit, and a plan for expenditures and sales. Often development agents provide services such as facilitated government registrations through one-stop-shops etc. (See Box 10). However, as discussed in section 2.3, an abrupt transition from informal to formal businesses may not be always beneficial given the additional costs of formalization and the risk aversion given the income level and the willingness of informal entrepreneurs themselves to formalize.

**Box 10: UNIDO's enterprise development programmes**

The Enterprise Development and Investment Promotion (EDIP) programme is a UNIDO tool for job creation that was conceived in 2000 by the Arab Regional Center for Entrepreneurship & Investment Training (ARCEIT). The EDIP is a package approach aimed at developing the capacities of potential entrepreneurs in order to boost their capabilities and assist them in developing their own private businesses. The process is based on an approach that deals with building entrepreneurial capabilities in addition to enterprise planning, implementation and management.

EDIP aims at helping entrepreneurs launch and grow businesses in the manufacturing and service sectors, with an emphasis on small and medium enterprises. The EDIP Modality encompasses six steps: (1) entrepreneur identification, screening, and selection; (2) preparation and empowerment; (3) business counseling and technology tie-up leading to full-fledged joint ventures; (4) financial linkages; (5) virtual and in-wall incubation; and (6) post-incubation and growth. In addition to interrelated components, such as helping beneficiaries develop their business plans, enhance their management skills, improve their access to technology and financial support, and launch a new enterprise, EDIP builds the capacity of institutions that support enterprise development. After the enterprise is created, the programme continues to provide support during the enterprise growth phase, facilitating the development of growth plans, the assessment of opportunities and threats, and setting achievable goals and targets. One of the components of the EDIP programme focuses on identifying potential markets and improving market access. The EDIP programme has been successfully replicated in 42 countries.

The Arab Regional Center [Centre?] for Entrepreneurship & Investment Training (ARCEIT) was established in the year 2000 through a cooperation between governments of Bahrain and India, with the Inter-Regional Center for Entrepreneurship & Investment Training (IRC)-India contributing technically and financially. In light of the overwhelming achievements in 42 countries since its inception and the independent UNIDO evaluation in 2008, ARCEIT was transformed from a regional center into the Arab International Center for Entrepreneurship & Investment in early 2013.







UNIDO's Productive Work for Youth programme was created to boost youth employment through entrepreneurship in accordance with social inclusiveness, economic competitiveness, and environmental sustainability. In order to foster an entrepreneurial ecosystem in the private sector, partnerships are enhanced between multinationals, governments, international organizations, financial institutions, and civil society. UNIDO developed this holistic approach to assist young entrepreneurs from the conception of their business ideas to the creation and development of a start-up enterprise. This approach is based on three main stages: fostering entrepreneurship, offering pre-creation assistance, and offering post-creation assistance.

At the outset, UNIDO assists young entrepreneurs by analyzing markets to identify sectors and value chains with high potential for young entrepreneurs, as well as developing a financial appraisal of the business idea through UNIDO's financial appraisal software (COMFAR). Then, UNIDO helps them to identify sources of funding. Once the entrepreneur has started or upgraded the enterprise, UNIDO offers various support services such as trainings and counseling, investment promotion, technology upgrading (often in partnerships with private sector companies like HP, Samsung, or Microsoft), and assistance with business networking that can facilitate further expansion of the enterprise and thereby enable it to create more decent and productive jobs.

Currently the programme has been implemented in more than 15 countries. Results thus far include the strengthening of the entrepreneurial culture and enhanced awareness of youth entrepreneurship, along with facilitated access to finance for MSMEs and start-ups via local financial institutions and the creation of dedicated funds, measures that have helped enable the creation of youth-led enterprises that outlive the start-up phase.

## 2.5 Finance and credit schemes

Many enterprise development programmes set out with the promise to provide grants and loans to entrepreneurs and their enterprises (see Box 11). Indeed, access to credit in many formal and informal economies may well be the single most important constraint in the creation and development of enterprises in developing countries.

Some of the enterprise development credit programmes also provide technical support in business planning, while some go even as far as ensuring technical support in sourcing, production, and marketing, usually via independent business development and technology service providers.

### Box 11: UNIDO Initiative in the area of credit and finance for enterprise creation

In Bahrain, UNIDO's Investment and Technology Promotion Office (ITPO) worked with the Bahrain Development Bank, the Qatar Industrial Bank and private financial institutions to develop a range of strategies for addressing the finance needs of small enterprises. The initiative includes direct lending to small and micro enterprises, the launching of microfinance programmes, and the exploration of venture capital and crowdfunding possibilities.

In India, UNIDO, in cooperation with other international partners, has worked with the Small Industries Development Bank of India (SIDBI) to build its capacity to develop and support Mutual Credit Guarantee Schemes (MCGS). An MCGS aims to overcome barriers to the extension of credit provision to small enterprises, including perceptions of high risk, lack of information, relatively large transactions costs and weak mechanisms for loan recovery. MCGS are made up of small enterprises that lack access to credit, which pool resources and the MCGS, as a larger entity, is able to extend credit guarantees and facilitate access to financial services.





In West Africa, UNIDO and the Youth Employment Network launched the Youth-to-Youth Fund in the Mano River Union countries (Cote d'Ivoire, Liberia, Sierra Leone and Guinea). The Fund provides grants to youth-led organizations for the implementation of proposals to support youth employment. The grantees are selected through a competitive call for proposals and receive a combination of funding and capacity building support. A network of project assistants supports and monitors the grantees as they implement their projects. The programme specifically aims to help provide the resources needed for the creation of small-scale enterprises for youth. Within the programme, youth are encouraged to form cooperatives – as an additional strategy for pooling resources to support enterprise development. Sixty per cent of the beneficiaries in the pilot round were young women.

The Souk At-Tanmia project in Tunisia, The Productive Work for Youth programme in Armenia and the EDIP Credit Facility for the SME sector in Iraq (EDIP) are three projects with a common purpose: to support entrepreneurs with financial or non-financial services during and beyond the start-up phase in order to promote self-employment and the creation of jobs. As a result, in Tunisia several business projects were supported by providing seed grants (free of interests and repayment) that assisted the entrepreneurs in leveraging co-financing from banks as credit to reach a value of 6 million TND. In Armenia, UNIDO and a local facility set-up a revolving fund to be used by youth-led enterprises in selected sectors. In Iraq, the initial fund of USD 1 million funded 96 loans with a repayment rate of 100 per cent, and it's revolving for the second time.

On March 2015, an Expert Group Meeting (EGM) on Entrepreneurial Finance was held in New York, led by UNIDO in collaboration with UNDESA and UNCDF. The purpose of the meeting was to gather experts on entrepreneurial finance in order to draw up a list of good financial practices young entrepreneurs need to access to develop their ventures. The recommendations became part of a toolkit for governments to use to foster entrepreneurial finance, particularly for youth. The included a focus on 1) creating a more conducive regulatory and financial framework at the country level to promote innovative entrepreneurial finance schemes such as equity and venture capital, quasi-equity, equity crowd funding, and business angels investment; 2) promoting education programs, entrepreneurial and technical training, and peer to peer mentoring, and to equip entrepreneurs, banks, and investors with knowledge; and 3) investing in strengthening the entrepreneurial ecosystem through venture capital associations or business angel networks to facilitate the creation of start-ups and the development of MSMEs.

Financial resources include initial start-up capital, financing for ongoing investments, and the cash flow needed as working capital to finance day-to-day operations such as purchasing supplies. For small enterprises, the primary sources of start-up capital are often personal savings or loans from family members and relatives, which in low-income households are particularly limited. Hence, often a self-reinforcing cycle emerges: low earnings and productivity persist, which, in turn, result in limited savings, constraining future investment. This is a particularly onerous constraint for young people, who are less likely to have significant accumulated savings or access to credit from formal financial institutions.

Programmes that provide access to working capital – even very small amounts of cash – can make a significant difference in the performance of small-scale enterprises. For example, women engaged in small-scale rice processing in West Africa depend on the fluctuations of the prices for their supplies and end-products sold in local markets. However, the ability to take advantage of low prices for unprocessed rice, and thereby enhance their earnings, depends on having the financial resources on hand to buy the rice at precisely the right time.

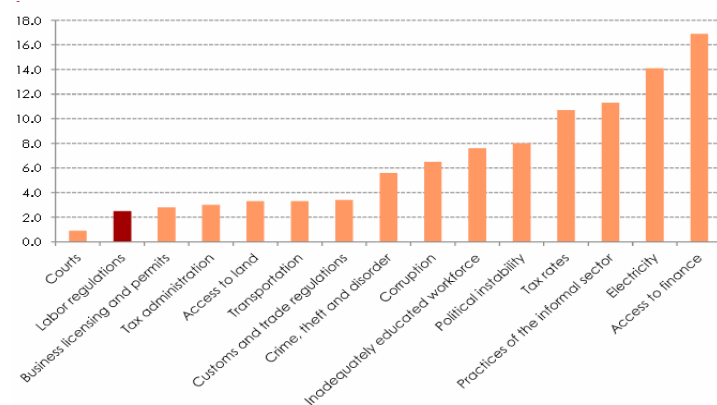
Barriers to credit and financial markets are a particularly severe problem for small-scale businesses, agricultural activities and youth enterprises. Not only is access to credit limited, but the cost of credit is typically high in the commercial banking sectors of low-income countries. A number of factors contribute to the relatively high costs of credit. The risk premium that borrowers must pay in formal credit markets is often extremely high due to perceptions that





most small-scale businesses are high-risk borrowers and not bankable. For small-scale and rural borrowers, transactions costs may also raise the cost of credit from commercial banks. Lack of credit information systems and perceptions of risk can reduce the quantity of credit available to small-scale borrowers. These institutional barriers in the banking sector limit the availability of credit to operators of small enterprises and represent an important set of constraints determining the availability of credit. Again, these constraints will be particularly pronounced for youngsters with few assets, low and volatile earnings, and no credit history.

**Figure 6: Firms perceptions about the biggest obstacle to their operation (all firms, % distribution)**



Source: World Bank Enterprise Survey

## 2.6 SME development, linking to markets and value chains

Another important type of enterprise development interventions, although not often labeled as such, are efforts to connect producers to markets and embedding them in local and global value chains. A large number of government and donor projects focus on such activities under programmes for regional and sectorial development and/or investment as well as export promotion. Often such projects focus on specific commodities or end products and efforts to improve quality levels in response to existing and potential market demands.

Securing market access is necessary for the success of a new small enterprise. For many small enterprises, the domestic market is the primary source of demand. Therefore, barriers to market access and insufficient local demand will limit the ability of entrepreneurs to succeed. Access to exports markets is also a consideration for certain enterprises, particularly as they grow and mature.

Some value chain development projects aim at increasing the added value that small and medium enterprises are able to generate in the value chain. This can be achieved through product (quality, design) and process (efficient resource use, technology)<sup>66</sup> innovation or through nuanced marketing strategies and procurement of supplies and inputs. “Market-for-the-poor” types of approaches promote value addition and expand marketing options indirectly through working with buyers, service providers, and processors.<sup>67</sup> Often it is imperative that collaboration occur among similar actors (via clustering and networking) and with buyers and input

<sup>66</sup> Small and medium sized companies can also be medium and high tech-web services for example. An example of this is seen in the development of startups using the I-hub infrastructure in Tanzania and Kenya. ( See the MIT Technology Review weblink. <http://www.technologyreview.com/featuredstory/426983/kenyas-startup-boom/> accessed on 2 September 2014

<sup>67</sup> DFID & SDC (2008). A synthesis of the Making Markets Work for the Poor (M4P) Approach. Available from <http://www.enterprise-development.org/page/m4p>





providers, be it for developing sustainable business relationship, access to market information and technology, or joint learning. Integrated value chain development approaches would not try to deal with one of these strategies alone but with all the necessary ones simultaneously (see the UNIDO tool for integrated value chain development<sup>68</sup>). A large-scale initiative that focuses on value chain development in UNIDO is described in Box 12.

**Box 12: Value Chain Development in the frame of the African (Accelerated) Agribusiness and Agro-Industries Development Initiative**

UNIDO, along with the Food and Agricultural Organization (FAO) and the International Fund for Agricultural Development, created the “African (Accelerated) Agribusiness and Agro-Industries Development Initiative” — or 3ADI — in 2010 to promote the expansion of local and international value chains that benefit the small producers and entrepreneurs in developing countries, with an emphasis on the least developed countries. While the vast majority of countries in which the programme has been implemented are African, the approach has been applied in other regions of the world. The countries in which 3ADI has been implemented include: Afghanistan, Brazil, Burkina Faso, Comoros, Democratic Republic of Congo, Ethiopia, Ghana, Haiti, India, Liberia, Madagascar, Niger, Nigeria, Rwanda, Sierra Leone, Republic of the Sudan, Republic of South Sudan, United Republic of Tanzania, and Uganda.

For each country, the programme begins by assessing the key constraints faced by agro-industries that limit their ability to add value to agricultural production. It then develops interventions that promote agro-industry development in close collaboration with various stakeholders. 3ADI aims to provide ongoing assistance with regard to resource mobilization, to support improvements in technology, and to build partnerships, both in the private sector and with government, which support continued enterprise development.

In light of the food security challenge faced in recent years, ITPO/AICEI in Bahrain, in cooperation with the Islamic Development Bank (IDB), the National Initiative for Agricultural Development, and the Ministry of Municipalities and Urban Planning, launched the Agro-preneurs programme in 2012. The programme is based on the Enterprise Development & Investment Promotion Modality but also encompasses technical interventions and counseling on agriculture; namely what, when, and how to plant and process. In addition to that through a USD 1 million grant from IDB an **agro pole**[?] has been established to incubate and develop the *agro-preneurs*.

Because of their ability to take advantage of economies of scale, larger enterprises tend to be more productive, more competitive, and generate higher earnings than small enterprises, which are often unable to generate the resources needed for upgrading to larger scale and higher value-added activities. Small-scale enterprises typically buy smaller quantities of inputs at higher per-unit costs and face greater market limitations than larger firms, further reducing their opportunities to scale-up revenues. Lack of access to assets and financing also keep these businesses small.

There are many ways in which development agents can help enterprises, particularly small to medium-sized businesses, to address these constraints. Coordinating with other small businesses, building networks, and establishing clusters<sup>69</sup> of interrelated activities are strategies that improve productivity and allow small firms to move into higher value-added activities (See Box 13). The formation of clusters represents a way in which small firms can pool resources, share risks and coordinate production, purchases, and sales — all of which allow them to act more like a larger enterprise and take advantage of scale economies.

<sup>68</sup> UNIDO (2011). Diagnostics for Industrial Value Chain Development: An Integrated Tool. Vienna, United Nations Industrial Development Organization

<sup>69</sup> A cluster can be defined as a sectoral and geographical concentration of enterprises that benefits from external economies





### Box 13: UNIDO's cluster development and value-chain initiatives

Many of the barriers that small businesses face relate to their size. Micro-enterprises are unable to take advantage of economies of scale, which would improve their productivity and earnings. Risks often discourage them from specializing in higher value-added activities. These constraints can be overcome through creating cluster initiatives, helping small enterprises to coordinate activities, improve their networks, and build productive relationships. UNIDO's cluster development programmes help to make this happen by building a basis for information sharing, building trust, enhancing coordination, and strengthening institutions (see [www.clustersfordevelopment.org](http://www.clustersfordevelopment.org)).

The UNIDO approach uses facilitating agents to support cluster development by providing operational support and training to enterprises. As a core part of the process, business networks are established among small-scale enterprises. Various organizations (including business development service providers, governments, training institutions and business organizations) – have a role to play in creating and sustaining clusters but they may have limited experience in doing so. Therefore, the UNIDO approach includes capacity building among these organizations. The UNIDO model has been successfully applied in a range of countries, including Ecuador (garments), Ethiopia (metal and woodworking), India (hosiery and handlooms), Nicaragua (bananas, dairy, and livestock) and Pakistan (surgical instruments), amongst others.

UNIDO also works to ensure that value chains support enterprise development. For instance, building linkages between small enterprises and larger firms further up the value chain (for example, retailers with access to major consumer markets) helps secure demand for the products of small-scale businesses.

## 2.7 Sustainable development and the ISID approach

In light of the global community's emphasis on environmental sustainability in economic development frameworks, UNIDO has implemented the inclusive and sustainable industrial development (ISID) approach to its efforts to promote industrial development for poverty reduction. UNIDO's efforts in this regard comprise services in policymaking, improved industrial production processes, and productivity with optimized resource efficiency. Along with ISID, UNIDO promotes its Green Industry Initiative to create awareness, knowledge, and capacities for environmentally sustainable industrialization and assists governments in supporting industrial institutions that, in turn, provide assistance to enterprises and entrepreneurs in all aspects concerning the transition to cleaner and more resource efficient production processes.

As part of the initiative, UNIDO supports enterprises in accessing energy (see Box 14). Energy is an important productive input, particularly in sectors like manufacturing and agro-business. Lack of reliable and affordable sources of energy constrain enterprise development and reduce competitiveness. Volatile energy prices are a source of uncertainty for small enterprises and an unexpected price hike can have a sizeable impact on production and earnings. The prices of energy derived from traditional non-renewable fossil fuels – such as petroleum, coal, and natural gas – have increased and exhibited greater volatility in recent years, creating a less stable business environment for small enterprise development. These uncertainties are likely to increase in the future, particularly as the effects of climate change intensify. Finding alternative sources of predictable, inexpensive, and sustainable energy is an important element of a holistic approach to enterprise development.





**Box 14: UNIDO's clean energy technology programme — India**

UNIDO is implementing a Cleantech programme for SMEs, supported by the Global Environment Fund and the Government of India's Ministry of Micro Small and Medium Enterprises. The programme aims to promote clean energy technology innovation and entrepreneurship among selected small enterprises. Its goal is to build the capacity for clean technologies and to foster a better business environment, particularly for small-scale firms developing resource-efficient innovations. The project supports enterprises in several ways, including training, mentoring, and access to capital and technology transfer initiatives. Priorities include energy efficiency, renewable energy, and waste-to-energy technologies. An important element of the Cleantech programme is to allow Indian enterprises to connect with initiatives and entrepreneurs in other countries such as Malaysia and South Africa.







## 3. The IDEA Approach for Youth Development

In developing countries, young people and women have enormous potential to drive economic and social progress through entrepreneurial activities. Yet most simply do not have the tools to deliver on the promise. Compared to older individuals, young people in particular have fewer business skills, less knowledge and experience, less savings and reduced access to credit, business networks, and sources of information that can be essential to entrepreneurial success. Financial institutions regard them as a high-risk group because of their lack of collateral and business experience.<sup>70</sup>

With this in mind, UNIDO has worked to develop an integrated approach to youth entrepreneurship development that takes into account both technical skills and managerial skills that are required to set up and run an enterprise.

### 3.1 Building on experience in youth entrepreneurship development in Senegal

The approach is rooted in a youth entrepreneurship development project in Senegal. Between 2007 and 2012, a joint UNIDO-UNDP-ILO project was implemented with funds from Luxemburg to promote entrepreneurship for local economic development. The project sought to address the skills mismatch between the curricula of vocational training centres (VTCs) and the concrete requirements of the Senegalese private sector with regard to strengthening practical technical skills and developing an entrepreneurial mindset among trainees. Targeting key economic sectors such as food processing, manufacturing, textiles, and handicrafts, the project endeavored to help young people find employment and set up their own businesses. Based on each organization's comparative advantage, the project was implemented as follows:

- UNIDO assessed the technical feasibility of the business projects and helped the young people meet the needed technical requirements, while disseminating relevant knowledge for a more efficient production.
- UNDP evaluated the financial feasibility of the business projects and helped the young people reach out to local financial institutions; it further enabled loans and saving facilities.
- The ILO provided training in business creation/planning and helped developed management capacities.

The project developed numerous partnerships with local companies to better match the youth's skills to the market requirements. At the same time, and taking into account the limited absorption capacity of the private sector, young people were enticed, through a combination of financial and non-financial services, to set up their own businesses in a wide range of economic activities. The young entrepreneurs participating in the programme had to present their business plan and thereafter were coached to make their project investment-ready.

As an immediate result, 1,500 VTC graduates were assisted; 300 found employment in existing firms and more than 450 young persons started to develop their business plan. In the end, 300 business plans were finalized and 177 of them received funding, which led to the creation of new businesses and 400 jobs, 250 of them for women. The project also strengthened the capacity of public and private business support institutions, as 75 professionals were trained as coaches for the young entrepreneurs.

Also with the financial support of Luxemburg, and within the same timeframe, UNIDO implemented another project on youth employment for the Medina, a district that is the cultural centre of Dakar, together with ILO and the Youssou Ndour Foundation (FYN). The project emphasized the structuring effect of clustering in strategic economic areas, with an eye toward enabling young entrepreneurs to develop their business ideas. The project trained 10 Cluster Development Agents (CDAs) who later advised more than 30 business consortia.

The project led to four emerging clusters incorporating shoemakers, fishers, recyclers, and "green industry." The shoemakers' cluster has been highly successful; it united more than 500 shoemakers and forged a strategic partnership with the Crédit Mutuel du Senegal, thereby generating funding of almost EUR 1 million. The project also established a community-based Mutual Guarantee Fund that provides access to credit for the youth of the Medina beyond the implementation period of the project.

<sup>70</sup> International Labour Organization (ILO) Global Employment Trends 2013







Based on these two successful pilot initiatives, in 2013 a second phase was launched focusing on:

1. Identification of market opportunities: through a value chain analysis of promising sectors (i.e. fisheries and aquaculture, agro-business, livestock, leather and skins, and tourism) and a stakeholder mapping, together with data collection and market research. A regional development observatory was created within the Regional Development Agencies (ARD) to develop promising business opportunities.
2. Skills training and development: consultations took place to determine the skills gap and to start informing potential entrepreneurs about the learning opportunities; subsequently, they received training on industry methodologies and were coached on MSME development.
3. Soft incubation: the “Maisons du développement local” (MDL), or Local Development Chambers (LDCs), were assisted in expanding their services towards delivering incubation services for new businesses; they were also trained on networking and cluster development.

### 3.2 The Nature of IDEA

The IDEA (Inclusive Development and Entrepreneurship for All) approach addresses youth employment challenges in MICs/LDCs through enterprise development. IDEA is a flexible, comprehensive approach within the wider framework of economic development tools whose goal is to improve develop businesses and improve income and employment through productive activities. IDEA strives to combine training, support services, access to technology, access to finance, and institutional capacity building.

The added value of IDEA pertains to the provision of intensive support to enterprise development through an integrated approach, combining various interventions that have proven to be effective and guided by UNIDO’s expertise in enterprise development. IDEA’s main characteristics and guiding principles are outlined below:

- **Generic:** While valuing the specific needs in a specific country, territorial and/or sector context, IDEA suggests going through a number of generic steps for enterprise development regardless of the context and situation.
- **Enterprise-centred:** IDEA emphasizes the role of the private sector with a specific focus on enterprise development. It is centred on the idea that small and medium enterprises are an important source of employment for young people, and applicable in both a territorial and value chain context.
- **Innovation-oriented:** Young women and men have great potential when it comes to creatively identifying opportunities and conceiving and developing innovative business solutions. Thus the business opportunities and models to be identified in IDEA draw not only from value chain, market, and stakeholder analyses but also stem from the engagement of youth in the identification process itself. The focus is on thinking “outside the box” and looking at business solutions not only in traditional manufacturing sectors but also in ICT, green businesses, and cultural and creative products<sup>71</sup>.
- **Integrated:** IDEA does not contemplate one-off interventions such as single training exercises. Rather, it seeks to deploy an integrated approach to promote youth enterprise while complementing and supporting broader youth employment policies and putting business development within the context of education and training, industrial relations, skills development, apprenticeships, traineeships, and other forms of vocational opportunities

**Youth-oriented:** IDEA targets development where businesses can be run by young people or where employment opportunities can be targeted toward youth, with an emphasis on tapping into their dynamism and creativity. The approach seeks to address the business challenges that young people tend to face

<sup>71</sup> Creative Industries for Youth: Unleashing Potential and Growth, UNIDO 2013





because of their age: limited life and work experience, limited financial resources, limited business networks and contacts, and age discrimination by institutions, government, or business partners.

**Gender-sensitive:** Women face specific constraints to entering the workforce, as well as to establishing businesses and running them successfully. IDEA is focused on empowering young women and specifically targets their interests in terms of business involvement and participation in entrepreneurship programmes. The approach seeks to address the obstacles young women face in pursuing business and work opportunities through counselling, training, building supportive networks, and creating links to access the resources they need to start and run businesses and to enhance their employability in the local market.

- **Inclusiveness:** By addressing the needs of young people, who are often disadvantaged in terms of economic and employment opportunities, IDEA strongly promotes social inclusiveness and particularly efforts to improve their opportunities to participate in society and the labour market. IDEA also works to strengthen integrated business development services that help young people in the process of their social and professional integration.
- **Sustainability-oriented:** IDEA promotes opportunities for young people to engage in green and environmentally sustainable businesses fostering the use of green technology, re-use of waste and materials, and the efficient and sustainable use of water and energy. In this regard, IDEA promotes skills development in the use of resources and environmentally-safe technologies and their incorporation into enterprises to help them become environment-friendly.
- **Sequential:** The IDEA approach has been designed to provide continuous support during the various phases of enterprise development: 1) the preparatory phase - with a focus on training and business plan formulation; (2) enterprise creation - with a focus on business incubation, access to finance, and building supportive partnerships; and (3) sustainable growth - with a focus on upgrading, clustering, and network formation and investment promotion.
- **Modularity:** In tailoring its approach to the particular stage of development of enterprises, IDEA can apply all or some of its available instruments. More developed enterprises will be subject to less intensive support.

IDEA is a flexible approach that can be adapted to various contexts as well as to rapidly changing environments. It requires engagement of stakeholders and trust among project partners. The aim is not only to follow up on business opportunities and develop business skills, but also to ensure that programmes and initiatives result in young people running their businesses profitably and sustainability.<sup>72</sup>

### 3.3 The structure of IDEA

Enterprise development is a process that engages in various interrelated steps, starting from the identification of business opportunities to the eventual realization of the business and further periods of adjustment as described in Box 15 (for a graphical presentation see also Figure 7).

<sup>72</sup> UNIDO 2011: 51 ff





### Box 15: IDEA at a glance

The IDEA approach was developed as a logical and comprehensive framework, with five key features that are typically rolled out sequentially.

#### 1) Identifying value chains and market opportunities

As a first step, the IDEA approach calls for analyzing sectors and segments of high growth and potential value chains on which to focus interventions, with an eye toward increasing impact in line with governmental priorities and the development needs of the country. Support structures and counterparts at the national and local levels, as well as in private sector organizations, are identified and mapped out for future engagement. Once the sectors and institutions have been identified, a partnership engagement campaign reaches out to the various support structures and into the private sector to raise awareness of the programme, its function, and opportunities to participate. The campaign also targets the involvement of academia and opinion leaders in an effort to secure their support and help raise wider awareness and participation.

#### 2) Skills and training development

The second step aims to support youth development through skills-building and training initiatives for youth who are seeking to create businesses and to those already running one. The development of individual knowledge and skills, as well as fostering an entrepreneurial spirit and culture, are important elements in enterprise development. Through institutional competency-building as well as by stressing industrial relevance and dimensions of skills development, UNIDO aims to expand and enhance training services available to young men and women. The approach also includes curricula on respecting quality, norms, standards, and certification processes that are part of statutory/regulatory requirements, as well as those that are promulgated by buyers in supply chains, with the aim of establishing good practices at an early stage of business development.

#### 3) Incubation services

UNIDO's services include direct support to young entrepreneurs for enterprise creation and capacity building activities via supporting structures such as incubators, technical centres, or local government entities that support MSME development. With a focus on resolving gaps in managerial, financial, and technological capabilities, UNIDO works in an innovative way to avoid having to create separate and costly business incubators by transferring business coaching, support, and financial assistance activities to existing institutions.

#### 4) Developing clusters and business networks

In this step, the newly created and strengthened businesses are further assisted through the development of clusters in order to boost innovation and productivity within the clustered firms, improve their market access (local, regional and international), and help them attain economies of scale. Industrial clustering benefits start-up businesses by giving them access to a skilled workforce, and specialized shared services, along with opportunities to capture valuable knowledge, attract investments, foster innovation, and access research services. This step includes efforts to build trust among stakeholders in order to enable joint actions and to establish cooperative relationships within the clusters, as well as to create business networks and linkages with buyers and international markets to ensure the sustainability of the approach.

#### 5) Sustainable enterprise growth

Finally, the **viability** of the **businesses** is jointly **assessed** by the local counterpart(s) and UNIDO to appraise the need for further assistance to the beneficiaries and to the institutional supporting structures.

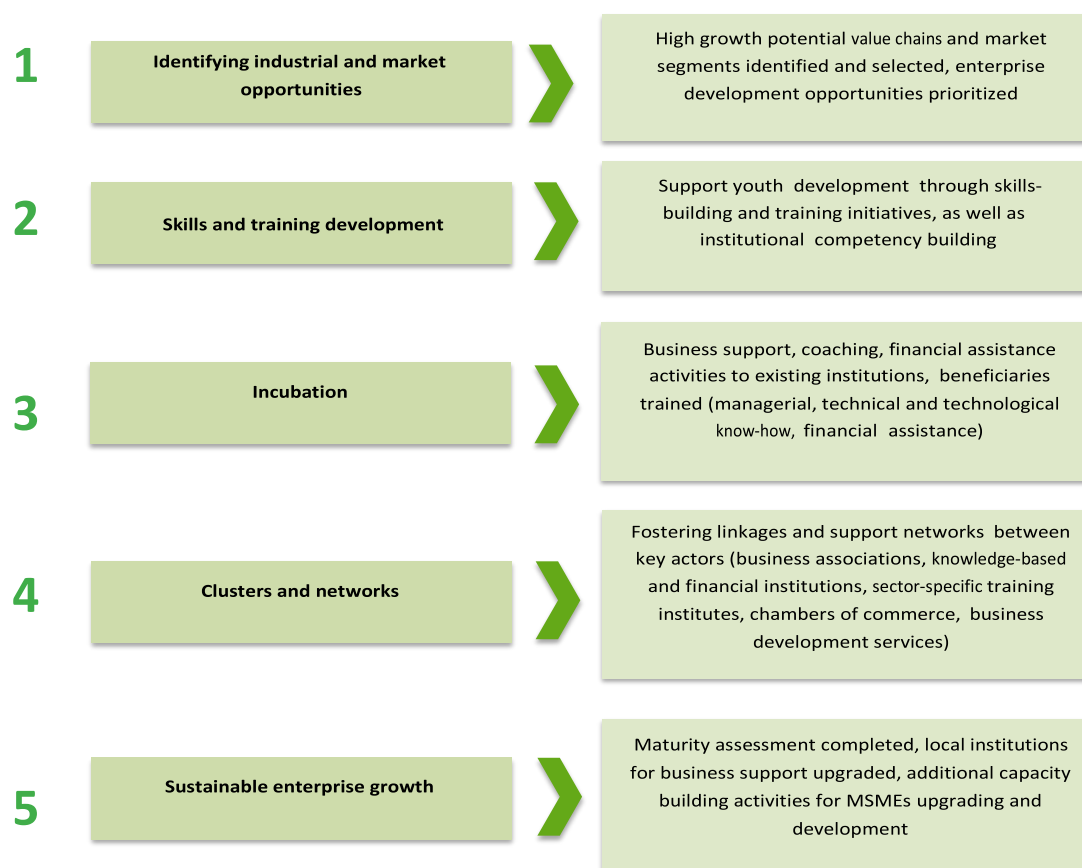




With the overall goal of assuring the long term sustainability of the enterprise, the assessment intervention determines the need for further support and development of the enterprises to avoid regression to the informal sector or premature exit from the market. When needed for upgrading and further development, additional capacity building assistance can be offered<sup>73</sup> in the areas of: (1) access to information and data and further development of business plans; (2) business counseling, co-entrepreneurship and an angels program; (3) technology upgrading, raw materials and technology sourcing; (4) quality management and upgrading to ensure adherence to international market standards; (5) legal support; (6) market access through franchising, clusters, export consortia, and subcontracting exchanges; (7) financial support, medium to large financing; (8) Infrastructure, through developing sector specific incubators, technology parks and research and development facilities.

The **modularity** of the five integrated steps allows for adaptability in the implementation phase to the effective needs of the beneficiaries, supported counterparts, and the country hosting the programme. The programme itself will also include an evaluation component for identification of gaps and transfer of best practices to ensure effective and sustainable implementation.

**Figure 7: The five steps of the IDEA approach**

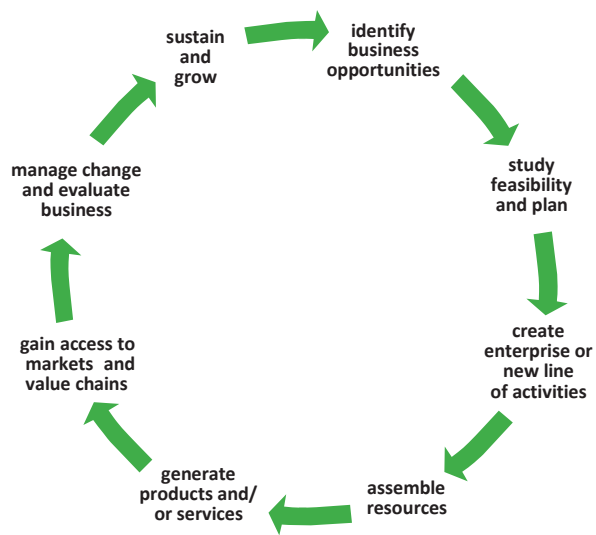
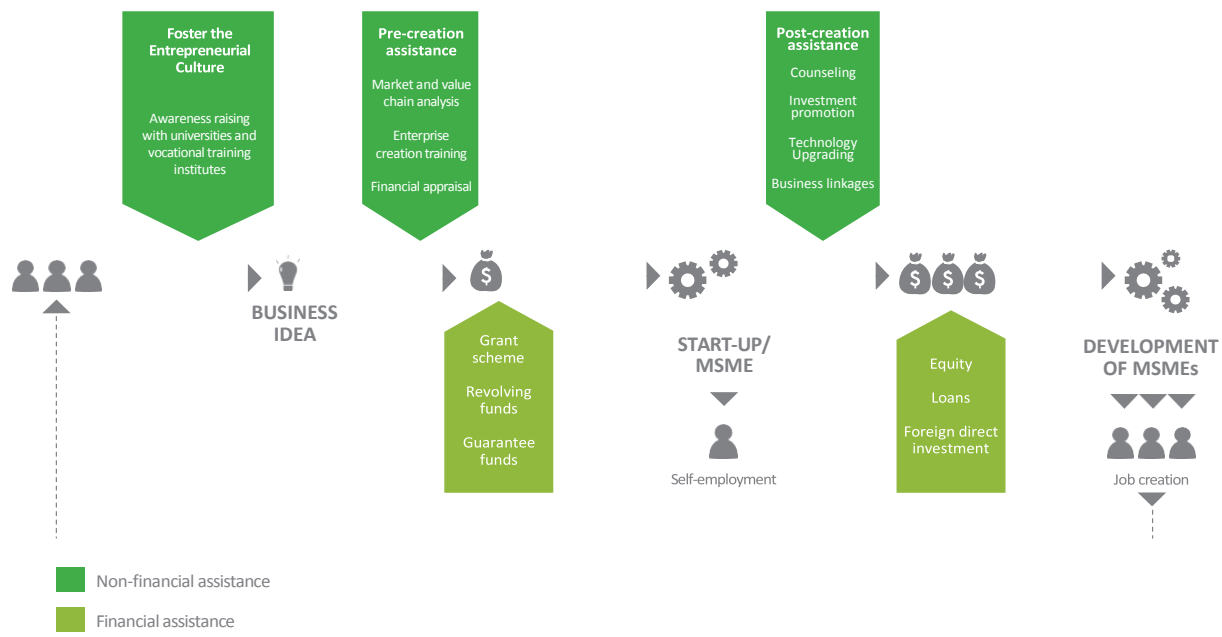


<sup>73</sup> The foreseen “MSME upgrading and development activities” take stock of the EDIP methodology





Figure 8: Steps in enterprise development





## 3.4 Activities

### Step 1: Identifying industrial development and market opportunities

The starting point of the IDEA framework is to identify strategic points of intervention and areas in which enterprise development can be fostered. This may relate to certain sectors, value chains, and specific subsectors and activities that have the potential to support the development of small, youth-led enterprises. More often than not, no analysis of the most promising areas for enterprise development is available. Even in cases where the strategic sectors are known in advance, information on how to achieve this is often scarce.

In order to offer a broad picture of the current business environment, the constraints that exist, and the potential opportunities available, IDEA suggests conducting interviews with enterprises and technical experts to establish private sector needs and then crosscheck if these correspond with government priorities. This process involves collecting statistical information and analyses of the local economic situation, the labour market, and existing value chain conditions and marketing opportunities for industrial products. Then a selection process may be applied to prioritize sectors, technical options, and/or types of businesses. Based on these choices, further feasibility studies and technological foresight analysis is conducted to gain knowledge on the outcomes and impacts of the business introduction and the resources and knowledge required for its realization. National and local counterparts and potential partners from the private sector are identified for the implementation of the programme. The various activities and tools to be applied in step 1 include the following:

Activity	Sub-activities
Identify value chains and market opportunities	<ul style="list-style-type: none"> <li>• Analysis of statistical information on local economy and unemployment</li> <li>• Interviews of potential benefitting enterprises</li> <li>• Enterprise surveys on characteristics and functioning of enterprises</li> <li>• Interviews with key-informants regarding industrial development potentials</li> <li>• Market analysis</li> </ul>
Prioritize enterprise development opportunities	<ul style="list-style-type: none"> <li>• Key informant interviews with private sector actors</li> <li>• Government priorities and meetings with government officials</li> </ul>
Complete assessment of the relevant finance system	<ul style="list-style-type: none"> <li>• Analysis of the financial system and capacities required</li> </ul>
Policy review and road map for enterprise development	<ul style="list-style-type: none"> <li>• Assessing the regulatory environment for enterprise development</li> <li>• Assist the government and relevant stakeholders (including private sector representatives) in developing a road map for fostering enterprise development</li> </ul>
Identify potential partners and their capacities available for enterprise development support	<ul style="list-style-type: none"> <li>• Stakeholder mapping including available training institutions and enterprise development agencies</li> <li>• Mapping of private sector organizations, academia, and opinion leaders</li> </ul>
Develop a partnership mobilization campaign	<ul style="list-style-type: none"> <li>• Large-scale communication strategy adapted to reach target groups: beneficiaries, ministerial counterparts, local institutions, partner agencies, private sector organizations, and established companies, with the aim of engaging and sensitizing about IDEA</li> <li>• A networking platform is established with selected counterparts and private sector partners to facilitate communication and information sharing</li> </ul>





## Step 2: Skills development and training

The second step aims to support youth development through skills-building and training initiatives providing services to youth who are seeking to create businesses and to those already running one. The development of individual knowledge and skills as well as fostering an entrepreneurial spirit and culture are important elements in enterprise development. Through the institutional competency building on vocational and on-the-job training or apprenticeship programmes, as well as by stressing industrial relevance and dimensions of skills development, UNIDO seeks to expand and enhance training services available to young men and women to diminish the gap between young graduates skills and the skills required by the labour market, and to provide the general skills required for setting up and running an enterprise, including capacities in business administration, accounting, planning, and marketing.

The step will focus selecting youth participants and providing them assistance on skills development, mentoring activities, and enterprise creation through UNIDO methodologies. The process will incorporate incentives and information to facilitate the formalization of enterprises and thereby reduce the degree of informality. Selected beneficiaries will take part in industrial internships in order to gain professional experience to strengthen employability or technical knowledge to launch businesses. The latter's facilities

The various activities and tools to be applied in step 2 include the following:

Activity	Sub-activities
Assessment of the vocational training system	<ul style="list-style-type: none"> <li>Strengthening the institutional management autonomy</li> <li>Providing effective analytical and planning tools for the system</li> <li>Involving the private sector and the local authorities in the development of the system</li> </ul>
List of marketable skills for the selected regions is provided	<ul style="list-style-type: none"> <li>Consultation mechanism are established in collaboration with the private sector to convey inputs in the upscaling/design of technical curricula for sectors with identified comparative advantages</li> </ul>
Revision of the technical and entrepreneurship training curricula	<ul style="list-style-type: none"> <li>Technical specifications for the rehabilitation and re-equipment of the centres [this is the only reference to "centres" in this step – reader might not know what you are referring to]</li> <li>Upgrading trainers' skills</li> <li>Technical and entrepreneurship skills training are carried-out and trainees provided with tool kits</li> </ul>
Instill an entrepreneurial culture in collaboration with the education sector	<ul style="list-style-type: none"> <li>Development of personal qualities such as willingness and ability to take initiatives, innovation and creativity, readiness to take calculated risks, self-confidence, ability to collaborate</li> </ul>
Engage potential partners in enterprise development programme	<ul style="list-style-type: none"> <li>Joint planning of programme development defining roles, responsibilities and contributions of partners</li> <li>Partnerships with existing businesses are set up to initiate internships and hands-on training programmes</li> <li>Information is provided to beneficiaries about the advantages of running a formalized business and its growth opportunities</li> </ul>





### Step 3: Incubation services

This step harbours the core activities of the IDEA approach. Enterprise development and creation involves a wide array of support services that need to be coordinated over time and that must be adjusted to the shifting needs of enterprises at different stages in their development. The idea of “incubation” is to provide this kind of continuous support that can be tailored to specific needs and applied in multiple contexts. These support services encompass technical, managerial, and financial interventions. A full-fledged business incubator - with a comprehensive set of support services - may not be feasible to set up or could take a significant amount of time to establish. The idea of the incubation phase is to adopt a modular and flexible approach that can be used to address the most serious constraints to enterprise development. An innovative aspect of soft incubation is to transfer the business support, coaching, and financial assistance activities to existing institutions, foregoing the need to create costly business incubators from the ground up. As part of the process of this “soft incubation,” an institutional capacity building process is needed to strengthen the institutional partners. Third step activities also aim to foster linkages with knowledge institutions such as universities, whose facilities can be used as a site for the incubation services as they possess the human capital and the technical expertise for practical research as well as technological and innovation capabilities. In addition, partnerships with the private sector will enable knowledge application to the development of local economy, and facilitate technology transfer from academia to the productive sector.

The various activities and tools to be applied in step 3 include the following:

Activity	Sub-activities
Build entrepreneurial skills among enterprises (owners and employees)	<ul style="list-style-type: none"> <li>• SME and business administration training programs</li> <li>• Training of trainers</li> <li>• Subcontracting of local training providers</li> <li>• Training on business formalization</li> </ul>
Provide technical training in production, quality and product design	<ul style="list-style-type: none"> <li>• Upgrading of skills and competencies through technical specialists</li> <li>• Subcontracting of local technical advisory service providers</li> <li>• Support to institution building at local technical training centres including the transfer of technology, equipment and training materials</li> <li>• Partnerships with existing businesses to organize internships and on-the-job training programmes</li> </ul>
Help to create new enterprises and build capacity of institutions to provide incubation services	<ul style="list-style-type: none"> <li>• Set up start-up support programmes to be implemented by local institutions (support in registration, business planning, etc.)</li> <li>• Transit Centres are set-up in training centres to ease transition to the market</li> </ul>
Provide access to finance	<ul style="list-style-type: none"> <li>• Training on business and finance planning and accessing financial [something missing here – “services”? financing?]</li> <li>• Assist financial institutions to better serve youth and women</li> </ul>

### Step 4: Developing clusters and networks

The fourth step of IDEA leverages synergies among beneficiaries to support enterprise growth and development through clusters and networks building. Clusters are defined as a sectoral and geographical concentration of interconnected enterprises producing related goods and services, created so that the clustered enterprises can benefit from external economies. Among other things, cluster development constitutes an important tool to boost innovation and productivity within the clustered firms, improve their







market access (local, regional and international), and help them attain economies of scale that have a direct and positive impact on their development and growth. Additionally, clusters encourage enterprise creation; they are associated with higher growth rates in the formation of new firms and start-up employment (Delgado, Porter, & Stern, 2010). Thus, cluster development initiatives have the potential to become an efficient instrument to tackle poverty and enable inclusive economic growth since enterprise creation and growth, in general, also implies job and income creation (UNDP, 2004).

Clustered enterprises can achieve levels of competitiveness that reach beyond what individual small-scale enterprises can realize. The growth of individual small-scale firms is frequently constrained by limited access to resources and inability to achieve scale and scope economies. These barriers can be overcome by the establishment of cooperative relationships between firms within clusters and also through the uptake of information technologies. The formation of clusters also allows firms to take advantage of other external economies, such as the availability of a specialized, higher skilled labour force, better access to machinery and input suppliers, and sharing of information and knowledge. The joint actions within clusters range from coordinated activities between individual firms to the establishment of new institutions such as associations and cooperatives.

Clusters are also a useful tool when addressing youth unemployment and job insecurity. By linking the cluster's companies with vocational training centres and universities, young graduates can access trainings where the skills acquired are adapted to the companies' needs. As such, more opportunities are created for the youth to find decent jobs in the cluster's companies after their graduation from VTCs or universities that partner with the cluster. In addition, by creating linkages and incentives with the public sector, government policies become more favorable to cluster development. Mutual collaboration between local institutions, support institutions, and the cluster structure in order to achieve job creation reinforces the business environment and facilitates the creation of mechanisms developing youth entrepreneurship, as well as enabling the establishment of solutions for young women.

Finally, by focusing on access to markets, quality vocational training, and finance and other resources, UNIDO's approach to cluster development increases incentives to enterprise creation. In fact, some inherent challenges and risks of entrepreneurship can be addressed and reduced through the cluster structure. Thus, young entrepreneurs participating in a the cluster have more chances to create and develop companies, always relying on a supportive cluster structure.

This step will build on UNIDO's extensive expertise and cluster methodology. By fostering the creation of business networks, IDEA will facilitate the integration in local, national, and international value chains. To contribute to the achievement of these goals, additional and specific capacity building will be provided to beneficiaries and to local institutions and existing networks.

Activity	Sub-activities
Organize cluster and ensure information exchange and joint learning	<ul style="list-style-type: none"> <li>• Selection and training of cluster development agents</li> <li>• Develop a resilient cluster structure through continuous meetings and common trainings to the cluster members</li> </ul>
Develop partnerships with diverse support institutions	<ul style="list-style-type: none"> <li>• Linkages and meetings with potential donors in order to facilitate access to credit for the cluster's companies</li> <li>• Partnerships with vocational trainings and academia to reinforce workers' skills and facilitate the access of young graduates to a decent job</li> <li>• Knowledge brokerage - link cluster to knowledge and technology providers (e.g. academia, international sources of knowledge, etc.)</li> </ul>





Improve the enterprises' logistics and quality of supplies	<ul style="list-style-type: none"> <li>• Bulk purchase of inputs for cluster members</li> <li>• Organize supplier networks and train suppliers</li> <li>• Support the setting up of producer organizations that engage in added value</li> <li>• Product development to facilitate access to different markets by offering adapted products</li> </ul>
Connect enterprises to potential local and global buyers	<ul style="list-style-type: none"> <li>• Buyer inventory</li> <li>• Juridical and business support in contract development</li> <li>• Joint cluster marketing structure and/or export consortiums</li> </ul>
Improve value chain governance	<ul style="list-style-type: none"> <li>• Developing value chain stakeholder platforms and networks</li> </ul>

### Step 5: Sustainable enterprise growth

Once the enterprises have launched and improved, further business issues will often arise requiring additional support in order for them to achieve sustained growth and development and address additional constraints to enterprise development. For this purpose, a thorough assessment is required to steer action and direct further interventions to viable enterprise development and growth. Based on this assessment, further business sustaining activities are implemented emphasizing continuous support and coaching activities rather than one-off capacity building events. Of further importance is the assessment of partner institutions' capacities to support enterprise development in the long run and to take over important enterprise development functions of the programme after its termination. The type of assistance and capacity building needed should be determined through consultation with the enterprises and institutions involved. The various activities and tools applied in step 5 include the following:

Activity	Sub-activities
Assess profitability and sustainability of enterprises	<ul style="list-style-type: none"> <li>• Financial (cash flow, IRR, etc.), technical and environmental analysis of enterprises</li> <li>• Enterprise surveys</li> <li>• Economic analysis of income and employment effects</li> <li>• Study on market and technology trends</li> </ul>
Provide continuous enterprise development support	<ul style="list-style-type: none"> <li>• Periodic enterprise visit programme for continuous coaching</li> <li>• Periodic training on remaining issues of enterprise development</li> <li>• Subcontract partners to provide business support services</li> <li>• Setup enterprise mentoring programmes</li> </ul>
Handing over business support functions to local institutions	<ul style="list-style-type: none"> <li>• Analysis of institutional enterprise development capacity</li> <li>• Programme on further upgrading of institutional capacities</li> <li>• Upgrade and train private business support service providers</li> </ul>
Capacity building activities for MSMEs upgrading and development (if needed):	<ul style="list-style-type: none"> <li>• Access to information and data / Developing growth business plans</li> <li>• Business Counselling, Co-entrepreneurship &amp; Venture capital and equity finance</li> <li>• Technology upgrading: Raw materials and technology sourcing</li> <li>• Quality management &amp; upgrading to ensure adherence to international markets;</li> <li>• Legal support</li> <li>• Market Access: through Franchising, Clusters, export consortia and subcontracting exchanges</li> <li>• Financial Support: Medium to large financing</li> <li>• Infrastructure, through developing sector specific Incubators, technology Parks and research &amp; development facilities</li> <li>• Investment promotion with local and international businesses through B2B event and platforms</li> </ul>







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