

**UNITED NATIONS**



**OPPORTUNITIES AND CONSTRAINTS TO YOUTH ENTREPRENEURSHIP**

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**Perspectives of Young Entrepreneurs in Swaziland**

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## FOREWORD

This report from the United Nations Swaziland comes out at a time when the country faces one of the highest youth unemployment rates in Africa, combined with persistently low growth and widespread poverty – all amplified by negative impacts of HIV epidemic. Reaching high and inclusive growth to improve people's lives is thus a key human development challenge facing Swaziland. On a positive side, Swaziland has several strengths to capitalize on in its quest to reach such growth, including relatively diversified production base, regionally competitive wages and high literacy rates.

This study is a continuation of the 2011 UN Rapid Assessment of the Impact of the Fiscal Crisis in Swaziland, which pointed out three critical areas for policy interventions and analysis: (i) youth employment and entrepreneurship, (ii) public financial management, and (iii) social protection. While the markedly improved SACU revenues for 2012/13 and 2013/14 removed the urgency of fast fiscal adjustment, the structural causes and the longer term development priorities remain unchanged. In particular, finding sustainable solutions to youth employment challenge is a key policy priority in Swaziland, as in the rest of Africa.

The report on 'Opportunities and Constraints to Youth Entrepreneurship: Perspectives of Young Entrepreneurs in Swaziland' looks into three distinct, but complementary drivers of youth entrepreneurship – institutions, societal attitudes and personal traits. It is based on survey of a large sample of urban entrepreneurs, supplemented by focus group discussions with young entrepreneurs and students at the University of Swaziland. The study highlights how in addition to the business environment, other factors – namely positive societal attitudes and culture of entrepreneurship as well as skills and motivation of entrepreneurs – are critical for fostering productive youth entrepreneurship in the country.

It is our hope that the report will enhance our understanding of the complex employment challenge facing Swazi youth and stimulate discussion on how to address this key development issue. The study could be a building block for strategies, policies and programs for sustainable livelihoods of Swazi youth, in particular job creation and entrepreneurship. The UN Swaziland – which has expertise and programs in a range of related areas – looks forward to working with the Government and people of Swaziland in this endeavor.

We wish to thank all those who contributed to the success of this study: institutions who shared information, entrepreneurs who completed the survey interview, the Government and the United Nations agencies which helped with staffing and logistics, UNDP Regional Bureau for Africa which provided funding, and the United Nations technical team which effectively planned and conducted the study.

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<sup>1</sup> Pauwel van Pelt passed away suddenly in November 2012.

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## EXECUTIVE SUMMARY

Swaziland faces a major youth employment challenge, as evidenced by one of the highest youth unemployment rates in Africa and widespread youth idleness. At the same time, policymakers have increasingly recognized entrepreneurship as a key driver of economic development by fostering growth, technology adoption and innovation as well as poverty alleviation. Despite the importance assigned to entrepreneurship and youth in national development strategies, research on youth entrepreneurship in Africa has been limited. The lack of evidence has impeded designing policies addressing the youth employment challenge.

Swaziland is particularly interesting and relevant for analyzing drivers and impediments of youth entrepreneurship, given the high youth unemployment, low growth and wide inequality of the past two decades. Findings of the report could inform policies in other middle income countries in Southern Africa, which face similar challenges. The Swaziland study also gives a picture of a country in transition, where the private sector is still to realize its potential.

This UN Swaziland report, which presents findings of the first systematic study on opportunities and constraints to youth entrepreneurship in Swaziland, contributes to closing the knowledge gap on youth entrepreneurship in Swaziland and other African countries. It is based on primary data gathered through survey of 640 entrepreneurs (255 young and 385 adult) in urban Swaziland. The survey was supplemented by six focus group discussions with young entrepreneurs and students of entrepreneurship at the University of Swaziland.

Young Swazis are drawn to entrepreneurship out of both necessity (to escape unemployment and build livelihoods) and opportunity (to realize their vision and contribute to their country and community). A mix of factors – institutional, social and personal traits – can foster or impede youth entrepreneurship in Swaziland. While well recognized constraints in the business environment (e.g., access to credit, property rights) undoubtedly play an important role, other factors such as positive societal support and culture of entrepreneurship are also critical for fostering youth entrepreneurship. Implications for policies point to the need to:

1. *Support training and technical assistance for youth beyond the nascent stage of their businesses* to ensure higher perseverance and ‘graduation’ to higher value activities;
2. *Develop new and innovative sources of finance* taking into account specific characteristics (higher risk, innovativeness, use of ICT) of youth; and
3. *Improve the regulatory environment*, including transparency and accountability.

The study highlighted that young Swazi entrepreneurs are often not familiar with conditions they need to meet in order to start a business or obtain a loan. They are also not aware of all the supporting institutions and services available to them. A well-targeted training could help in this regard. Given the high perception of corruption and limited access to finance, the importance of reforms aiming at increased transparency and accountability, also in provision of financial services, cannot be overemphasized. Experiences of other countries emphasize the need to implement integrated reform packages rather than individual measures.

Finally, a key message from the Survey that needs to be underscored is that supporting youth entrepreneurship is a responsibility that should be shared by the Government, NGOs, the financial sector, the private sector and development partners. While some aspects, such as creating an enabling business environment fall mostly under the realm of public policy, the broader enabling youth entrepreneurship framework conditions are a responsibility of all stakeholders, including young people themselves.

## I. INTRODUCTION

African policymakers have increasingly recognized productive entrepreneurship to be an important driver of economic development through fostering growth, job creation, technology adoption and innovation as well as poverty alleviation.<sup>2</sup> For a large number of Africa's unemployed or discouraged youth, productive entrepreneurship offers not only an opportunity to build sustainable livelihoods, but also a chance for integrating themselves into society.<sup>3</sup> Understanding the opportunities and constraints to youth entrepreneurship in different settings is thus critical for driving and successfully implementing this policy agenda.

Despite the importance assigned to entrepreneurship and youth in national development strategies, systematic research on the topic, especially in Africa, has been limited. In turn, the lack of accurate evidence on factors fostering and hindering youth entrepreneurship has impeded formulating effective, evidence-based policies to help address the youth employment challenge. This report aims to contribute to closing this knowledge gap by presenting first-time evidence on opportunities and constraints to youth entrepreneurship in Swaziland, a country with one of the highest youth unemployment rates in Africa and globally.

With its high youth unemployment and underdeveloped private sector, Swaziland is particularly interesting and relevant for examining issues surrounding youth entrepreneurship. Promoting small and medium enterprises (SMEs) has become a policy priority in the aftermath of the fiscal crisis of 2011, which has hit this sector hard while making it even more challenging for graduating youth to find employment in the public sector or in established private firms. The emergence of youth entrepreneurship as a viable livelihood option is thus high on the policy agenda in Swaziland, making this study timely. The study also provides new evidence on the longstanding factors hampering private sector development, including heavy Government bureaucracy, widespread corruption, and limited access to finance.

Recognizing the complexity of factors that drive youth entrepreneurship and the multi-disciplinary nature of the topic, the report adopts three broad approaches.<sup>4</sup> First, to gain understanding of economic, legal and other institutions impacting entrepreneurship, the report examines various aspects of the institutional framework such as access to credit, property rights, regulatory restrictions, and weak infrastructure. Second, the report focuses on the societal context shaping youth entrepreneurship, such as values, attitudes towards youth entrepreneurship, and social and professional networks. Finally, the report also looks into personal traits of successful young entrepreneurs to inform possible changes to the educational system and facilitate creation of an enabling environment.

With these three distinct, but interlinked approaches, the report provides new insight into the aspirations of young entrepreneurs in Swaziland – and more broadly in Southern Africa – and the constraints they face. A major obstacle in tackling the problem of youth employment and entrepreneurship is often the lack of reliable and up-to-date data and analysis. To overcome this gap, the United Nations (UN) technical team developed a survey instrument and administered it to 640 entrepreneurs in the urban Swaziland (Hhoho and Manzini regions). To gain further insights into some of the issues, especially those pertaining to the societal

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<sup>2</sup> In this report, entrepreneurship is defined to be 'resources and process whereby individuals utilize opportunities in the market through the creation of new business firms' (Naude, 2010).

<sup>3</sup> Entrepreneurship often promotes social identity of youth by giving them a stronger sense of community where they are valued as well as of 'meaning' and 'belonging' (White and Kenyon, 2000).

<sup>4</sup> This approach has been utilized from Djankov et al. (2005).

context, focus group discussions (FGDs) with the young entrepreneurs and students from the University of Swaziland (UNISWA) entrepreneurship classes were also conducted.

In sum, this report provides first systematic evidence on views of young entrepreneurs in urban Swaziland on opportunities and constraints they face.<sup>5</sup> The study has examined a combination of factors – institutional, social and personal traits – that determine productive youth entrepreneurship. Findings suggest that while well recognized constraints such as the business environment undoubtedly play an important role in fostering or impeding youth entrepreneurship, ‘softer’ factors such as positive societal attitudes are also critical. Policy implications point to the need to (i) support training and technical assistance for youth beyond the nascent stage of their firms to ensure perseverance and ‘graduation’ to higher value activities; (ii) develop new and innovative finance sources reflecting characteristics of this age group (higher risk, innovativeness); and (iii) further improve the regulatory environment, including transparency and accountability.

The report is presented as follows. After this Introduction, Section II provides aggregate perspective on youth employment challenge in Swaziland. Section III examines the opportunities and constraints to entrepreneurship as seen by young Swazi entrepreneurs. It is based on a survey of 640 urban SMEs and FGDs with young entrepreneurs carried out by the UN Swaziland technical team from October to November 2012. Section IV concludes.

## **II. YOUTH EMPLOYMENT CHALLENGE: AGGREGATE PERSPECTIVE**

In contrast to the growth take-off experienced by many Sub-Saharan Africa countries, Swaziland posted one of the lowest growth rates in the region during 2000s. The country seems to be caught in the middle-income trap, according to the recent classification in Felipe (2012). A related long-standing challenge has been the lack of productive jobs, with the 2007 and 2010 labor force surveys revealing total unemployment rates of almost 30% of the labor force. The aggregate numbers hide differences across subgroups, with unemployment being disproportionately concentrated among youth, women and the rural population.

Due to the global financial crisis, which impacted Swaziland mostly through a fall in Southern Africa Customs Union (SACU) revenues, the labor markets have deteriorated further as the crisis led to cuts in expenditures and an accumulation of Government arrears to SMEs. The UN Swaziland (2012) found that the labor markets and SMEs were a key channel through which the crisis reduced household welfare.

### **II.1 Labor Market Characteristics**

#### ***High overall unemployment, alarmingly high youth unemployment***

At almost 30% of the labor force, Swaziland has had one of the highest unemployment rates in Africa (AfDB et al., 2012). Moreover, if people discouraged from searching for employment had been included in the labor force, unemployment would amount to 40%. While unemployment rates have not changed between 2007 and 2010, employment and labor force participation rates fell, pointing to rising labor market tensions.<sup>6</sup> The fiscal crisis of 2011 put an additional pressure on the already strained labor market, with reduced jobs in the

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<sup>5</sup> Out of 640 entrepreneurs surveyed, 255 are classified as young (ages 18 - 35 years) and 385 as adult.

<sup>6</sup> The deterioration was in part due to the negative impacts of the global financial crisis on selected sectors. In the textile sector alone at least 3,000 workers lost their jobs in 2009.

private sector and the closure of firms as a result of Government arrears to SMEs and overall weakened aggregate demand.

**Table 1.** Unemployment Rates in 2010 (% of labor force) 1/

	15 - 24	25 - 34	35 +	Total
Regular definition	52.4	30.5	16.0	28.5
Relaxed definition	64.0	40.7	28.6	40.6

**Source:** Authors' calculations based on the 2010 Labor Force Survey. 1/ Note: Relaxed definition counts discouraged workers as part of the labor force. Youth is defined as population aged 15 – 24 years.

Similar to overall employment, youth employment deteriorated between 2007 and 2010 while the official unemployment rate remained at around 52% of the labor force. Other indicators also point to youth unemployment as a key policy issue. For example, in 2007, youth accounted for 42% of all unemployed.<sup>7</sup> The unemployment was particularly pronounced *in the urban areas, where the youth rate (ages 15 – 24) was triple the adult rate*. Moreover, almost one out of five young people was unemployed (Table 2).

Another prominent feature of the Swaziland labor market is the long duration of unemployment and/or underemployment periods. Even though it is only slightly lower for the youth than for the adult cohorts, the very long unemployment and underemployment duration for youth could negatively impact employment opportunities over the long term. Given these trends, youth unemployment becomes not only an economic but also a social and political issue.

**Table 2.** Rural and Urban Labor Markets in 2007, by Young and Adult Worker Categories

	Youth / adult unempl. rate (ratio)	Youth unempl. rate (% of LF)	Adult unempl. rate (% of LF)	Youth - total unempl. (%)	Youth unempl. to youth population (%)	Adult unempl. to adult pop. (%)
Rural	2.3	57.8	25.1	41.2	15.5	14.3
Urban	3.0	45.8	15.4	44.8	19.0	12.0
Total	2.5	53.3	21.0	42.3	16.5	13.5

**Source:** Authors' calculations based on the 2007 Swaziland Integrated Labor Force Survey 1/ Youth is defined as population 15 – 24 years old, while the adults are 25 years old or above.

### ***Employed youth is overly concentrated in low value-added and unsecure jobs***

Besides the lack of jobs, the youth labor market disadvantage is evident from the type of jobs youth hold. Relative to the adult category, they are generally more engaged in low value-added activities such as subsistence agriculture and less represented in public service or the financial sector. More youth (75%) than adults (48%) hold insecure jobs without a contract or protection against health and the old age risks.

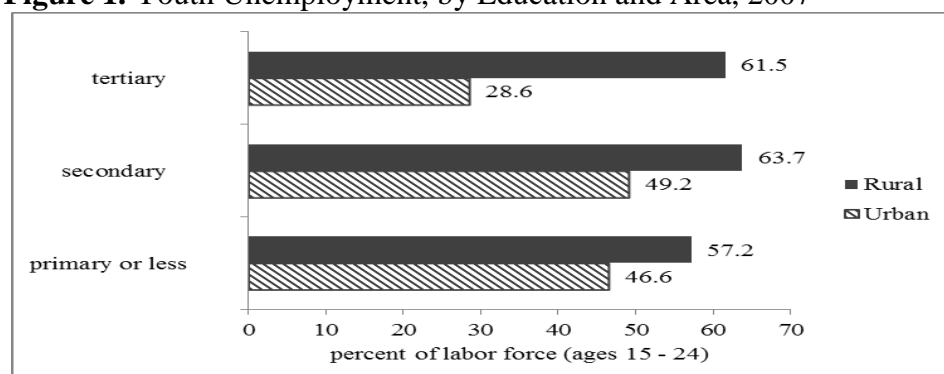
While unemployment has generally disproportionately impacted the less educated, at 41% the unemployment rate for youth with tertiary education is high, making education less of a buffer for this group than for adults (Figure 1). In recent years, this has partly been due to the spill-overs of the fiscal crisis in the form of freezing of the public sector hiring and cuts in the private sector, which has made job search challenging for youth entering the labor force. Besides weak job creation, high youth unemployment coupled with the skill shortages

<sup>7</sup> Both 2007 and 2010 labor force surveys illustrated that the largest number of unemployed were in the 20 – 24 years age category, amounting to more than 30 percent of all unemployed in both years.



experienced by some employers reveals a mismatch between university graduates' skills and those demanded in the labor market.

**Figure 1.** Youth Unemployment, by Education and Area, 2007



**Source:** Authors' calculations based on 2007 Swaziland Labor Force Survey.

While active labor market policies and other measures on the demand side can play a role in addressing youth employment challenge in Africa, the solution to youth employment challenge needs to come mostly through structural transformation and supply side of the labor market (Page, 2012). Swaziland is no exception in this regard, with inadequate job creation and self-employment in high-value added and high-productivity sectors being a key bottleneck to improving the labor market situation of young Swazis. The skill shortages and mismatch are another factor. Accordingly, sections below discuss impediments to private sector development and institutions that support youth entrepreneurship in Swaziland.

## II.2 An Underdeveloped Private Sector

Besides slow growth, one of the causes of the alarmingly high youth unemployment is the underdeveloped private sector (Table 3), which is not able absorb young labor force entrants. In turn, the underdeveloped private sector reflects the challenging business environment.

**Table 3.** The Size of the Private Sector: Swaziland and Other SACU Countries (1996-2008)

	Private Investment	Private Sector Credit
	% of Total Investment	% of GDP, 1996 - 2008
Botswana	65	17
Lesotho	88	25
Nambia	65	29
South Africa	71	64
<b>Swaziland</b>	<b>61</b>	<b>18</b>

**Source:** Stampini et al. (2011).

The fiscal crisis of 2011 put a strain on the SMEs; as a result a number of them downsized or closed down. The UN's Swaziland nationally representative survey on the impact of the fiscal crisis carried out in November 2011 found that 7.3 % of households had at least one member who lost their job – usually in the private sector – during the preceding 12 months. Moreover, 4.4% of households had a member who experienced wage cuts, 4.9% had somebody who reduced operations in their businesses, and 4.7% were told that member might lose job or experience wage cut in the future (UN Swaziland, 2012). SMEs have continued to struggle.

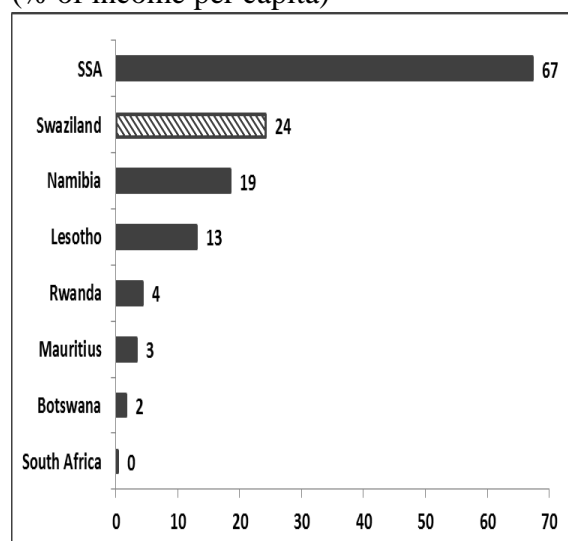
## ***Constraints to doing business and entrepreneurship***

The high overall and youth unemployment has brought policymakers' attention to flexibility and efficiency of labor market regulations. In Swaziland, however, labor market institutions are not considered a major obstacle to job creation, partly because the existing laws are not fully enforced. While labor market institutions could be improved (especially wage setting and employee-employer relations), a key constraint to private sector development and job creation is the relatively weak business environment.

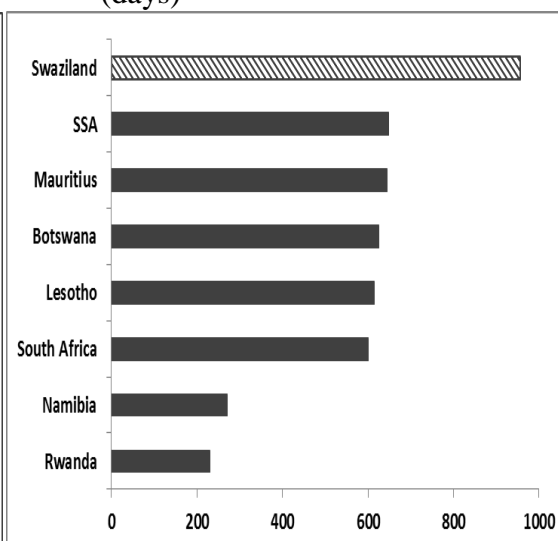
Structural obstacles including trade barriers as well as weak judiciary and regulatory framework continue to impede entrepreneurial start-ups in Swaziland. In the World Bank's latest Doing Business report, Swaziland ranked #123 out of 185 countries (World Bank, 2013). The country exhibits weaknesses in the 'Starting a Business' category (#163/185 countries), mostly due to high start-up cost and lengthy procedures (Figure 2a) and in the 'Enforcing Contracts' category (#174/185), especially in terms of number of days and procedures required (Figure 2b). These are also some of the areas where Swaziland has not shown improvement (as measured by Doing Business reforms) over the past five years.

The findings on barriers to start-ups from the Swaziland Enterprise Survey (World Bank, 2006) complement those on the barriers to start-ups identified in the latest Doing Business Report. The survey shows that access to finance, soft infrastructure (phone, internet), corruption and informal practices as well as high tax rates were key obstacles for small (employing 1-19 employees) and medium-sized (employing 20 – 99 employees) firms. These messages were echoed in the last three Global Competitiveness Reports (2010/11, 2011/12 and 2012/13), where investors identified (i) access to finance, (ii) corruption, and (iii) inefficient government bureaucracy as the three most problematic factors for doing business in the country (World Economic Forum, 2010; 2011 and 2012).

**Figure 2a. Cost of Starting a Business**  
(% of income per capita)



**Figure 2b. Enforcing Contracts**  
(days)



Source: World Bank (2013).

## **II.3 Existing Programs for Youth Entrepreneurship**

To address low youth employment and productive participation in society, the Government developed the National Youth Policy and established the Youth Enterprise Fund (YEF) in

2009. In terms of non-state initiatives, international NGO, TechnoServe, has been supporting Swazi SMEs, including those owned by youth, since 2006. Similarly, the Junior Achievement Swaziland (JASD) has developed entrepreneurial skills among Swazi youth through its programs for high school students. These initiatives are briefly discussed below.

*The YEF* provides start-up capital for young individuals (aged 18 – 35), companies and associations.<sup>8</sup> The Fund also facilitates training of young entrepreneurs and links them with large corporations to stimulate technology and management spillovers. Currently, the YEF faces low repayment rates as some of its young borrowers have not started yet the enterprise they outlined in the business plan, or started and failed. This situation was mostly a result of disbursed funds not being adequately monitored and certain weaknesses in the YEF's business proposal assessment process. A viable recapitalization strategy for the YEF needs to be created to reduce the Fund's dependence on unstable Government financing.<sup>9</sup>

Among NGOs supporting (youth) entrepreneurship, *TechnoServe Swaziland* has centered its activities on training, mentoring, and networking as well as on the provision of seed capital. Its *Believe-Begin-Become* (BBB) program helps promising young entrepreneurs create sustainable businesses. The BBB program also supports young entrepreneurs by linking them with financial service providers. The BBB program has been successful in Swaziland, as evidenced by performance of the enterprises it assisted. The careful selection of participants (only 80 applicants were selected in 2012) and their after-care were key to its success. However, it is not clear if the BBB program would perform as successfully on a larger scale.

Access to credit is cited as a key obstacle for young entrepreneurs in Swaziland who often lack collateral and are considered 'higher risk' because of their limited business experience. To address this impediment, TechnoServe launched a \$25 million loan guarantee facility that was taken up by Standard Bank and Nedbank Swaziland. The initiative seems to have played a catalytic role. A similar scheme – albeit on a larger scale – was recently rolled out, with the Nedbank extending credit under the Central Bank of Swaziland guarantee scheme. Entrepreneurs need to receive training from the Swazi Small Enterprise Development Company (SEDCO) to participate in this scheme.

Similarly to TechnoServe, *JASD* focuses on capacity development among potential young entrepreneurs, but it does so already at the secondary level. Specifically, JASD educates high school students about entrepreneurship and financial literacy through practical, hands-on courses. The aim is to prepare them for self-employment and equip them with entrepreneurial thinking for the workplace, and, more broadly, for success in the global economy. To achieve its objectives, JASD draws on partners from the private sector, education institutions and Government to provide in kind, monetary and other support.

Currently, JASD is an independent NGO, operating under a strategic guidance from Junior Achievement Worldwide (JAWW) with three main programs: (i) Economics of Success (Grades 2 and 3), which explores students' career options reflecting their skills, interests, and values; (ii) the JASD Company Program (Grade 4), which teaches students how to set up and

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<sup>8</sup> Collateral is not required for borrowing from the YEF and the interest rates are set below the commercial rates, but the amounts of individual loans are usually small. After receiving the loan, entrepreneurs have up to 3 months to start their business and 2 years for repayment.

<sup>9</sup> Other government employment initiatives include the Rural Youth Programme under the Ministry of Agriculture and the Youth and Tourism Programme under the Swaziland Tourism Authority. Funding has been reduced due to the liquidity challenges that Government faced in 2010 and 2011.

run a company; and (iii) the Job Shadow Program (Grade 5), which equips students with resume writing and interviewing skills. These programs are continuously being adapted to meet the emerging and diverse needs of the Swazi youth.

The JASD program was initiated in Swaziland in 2006 by TechnoServe in collaboration with Junior Achievement Worldwide (JAWW). In 2009, the Ministry of Education and Training re-launched it as an independent entity. Training material of JAWW was modified to meet the needs of the local environment and target group, while TechnoServe was responsible for program implementation.

Demand for the JASD courses has been rising. In response, the Ministry of Education and its National Curriculum Committee have been carrying out consultations on increasing the share of entrepreneurial courses in the curriculum and introducing some of them in the primary schools. JASD's effectiveness can also be seen in the increasing number of JSAD graduates who continue to run the enterprises long after the completion of the JASD Program.

In sum, while the above initiatives can play a catalytic role and provide lessons on removing impediments to entrepreneurship and employment in Swaziland, their size and budgets are small and efforts fragmented.<sup>10</sup> Swaziland still needs to develop a comprehensive youth employment and entrepreneurship policy and programs that will integrate its young people into the labor market and contribute effectively to inclusive growth.

### **III. ENTREPRENEURSHIP AS PART OF THE SOLUTION: YOUTH PERSPECTIVE**

#### **III.1 Methodology**

##### *i. Theoretical underpinnings*

Several streams of literature examined factors impacting start-ups of new firms and operations of the existing ones. Besides the body of work on firm organization (Casson, 2005 and others), this literature includes research on (i) factors impacting entrepreneurs and their personal characteristics (see, for example, Darzi, 2004) and (ii) the environment in which the entrepreneurs and their firms operate (Kerr and Nanda, 2009; Baumol, 2010 and others).

While the literature on entrepreneurship has grown markedly since the mid-1990s (see Acs and Audertsch, 2003; Parker, 2009 for overview), formal analysis of factors impacting entrepreneurs in developing countries in general and in Africa in particular has so far been relatively scarce. The literature in this area includes Leff (1979); Gelb, Mengistae, Ramachandran and Shah (2008); Naude (2008 and 2010); Brixiova (2010); and Brixiova, Kangoye and Fakudze (2012), among others.<sup>11</sup>

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<sup>10</sup> Another initiative stimulating youth entrepreneurship is Students in Free Enterprise (SIFE), a social entrepreneurship program for students in the tertiary institutions. SIFE provides young entrepreneurs with advisory networking support and small financial grants. Youth can also obtain financing through traditional structures from the Swazi Regional Development Fund and the Inhlanyelo Fund.

<sup>11</sup> Specifically, Gelb et al. (2008) analyze how in the context of Southern African economies regulations influence firms' decisions to formalize. Naude (2008 and 2010) highlights the main challenges and progress with incorporating entrepreneurship theory in approaches to development, while Brixiova (2010) develops a framework that shows how different institutional constraints to entrepreneurship may impact countries at different stages of development.

This report brings the various theoretical approaches to data, by illustrating constraints facing entrepreneurs, including youth, in urban Swaziland. One of the objectives is to find out which of the various factors (institutional, social or personal) are viewed as significantly impacting youth entrepreneurship in Swaziland's context. Such evidence could inform policy-making and provide basis for further policy oriented research.

## *ii. Empirical Approach*

### Quantitative survey

In November 2012, the UN Swaziland with help of enumerators from the Government of Swaziland and the UNISWA conducted a survey of SMEs in urban Swaziland. The survey relied on the enumerators administering an extensive questionnaire through face-to-face interviews with owners and/or managers in a sample of 640 firms in urban areas of the country's Hhoho and Manzini regions. The interviews aimed to obtain information about the entrepreneurs' background, objectives of the firms they run and the opportunities and constraints they encounter most frequently. The survey also collected data on the main characteristics of the enterprise (years of operations, sector, employment and turnover).

Seeking answers to the questions of who the (young) entrepreneurs in urban Swaziland are and how they conduct their business, the detailed introductory part of the questionnaire focused on entrepreneurs' backgrounds and information about their firms. The main body of the questionnaire was then divided into the following sections: (i) entrepreneurs' values and factors that motivated or demotivated them to start a business; (ii) social and cultural attitudes to entrepreneurship; (iii) constraints in the overall business environment; (iv) challenges to access to finance; (v) Government regulations and efforts to combat corruption; and (vi) business support services available to entrepreneurs. The questionnaire concluded with a section on entrepreneurs' recommendations for policymakers and financial institutions; these were gathered to bring their perspective into policy debates.

Twenty trained enumerators administered the questionnaire in Mbabane and other cities (Manzini, Ezulwini, Matsapha, Nhlengano and Siteki) in two regions (Hhoho and Manzini). The choice of urban areas was informed by the evidence from 2007 and 2010 labor force surveys, which revealed that the ratio of youth to adult unemployment was particularly high (almost triple) in urban areas compared to rural areas. Differently put, while finding or creating productive employment in rural areas is a challenge for people of all income levels, youth have been disproportionately impacted in urban areas of the country. Manzini and Hhoho regions were selected as areas where most entrepreneurial activities have been concentrated and for their potential to generate positive spillovers to the rest of the country.

The face-to-face interviews took an average of 45 minutes, with an entrepreneur being defined as the owner or co-owner of a SME. The sampling frame was SMEs listed in the 2011 SME directory of the Ministry of Commerce, Industry and Trade (provided by the SME unit). Using this frame, all firms listed in the six cities that provided their full addresses were selected for interviews. This choice implied that new and small firms as well as those that outgrew the 'SME status' or are not listed in the directory and operating more informally may be systematically underrepresented. To partly correct for this bias, a large number of enterprises were interviewed (relative to the population in selected areas). As some SMEs

listed in the directory went out of business or refused to participate in the survey, other companies – some of them not appearing in the directory – were added and interviewed.<sup>12</sup>

The survey covered young and adult entrepreneurs to understand differences between these groups in terms of personal characteristics, skills, social networks, values and views on the institutional, social and economic environment they face. Among the 640 entrepreneurs interviewed, 255 were classified as young (i.e. ages 18 – 35) and 385 as adult (above 35 years of age). Young and adult entrepreneurs with similar broad demographic and social characteristics (gender, sector of operation) were chosen in order to examine the differences age introduced to the entrepreneurial experience in Swaziland'. In defining 'youth' for the study, the prevailing definition in Swaziland (18 – 35 years) was adopted to ensure policy relevance and compatibility with the ongoing national initiatives targeting this group.<sup>13</sup>

#### Focus group discussions with young entrepreneurs

The survey was supplemented by six FGDs with practicing and potential young entrepreneurs. Adult entrepreneurs (selected for one of the FGDs) served as a control group. Potential young entrepreneurs were drawn from the UNISWA entrepreneurship courses and form a pool of recent high school graduates of JASD programs. The FGDs aimed at gaining deeper insights into specific drivers of entrepreneurship, such as the value system of (potential) young entrepreneurs, societal attitudes to youth entrepreneurship and general factors and institutions that motivate and support young entrepreneurs in Swaziland. Finally, one-on-one interviews were conducted with several successful young entrepreneurs, to obtain a comprehensive picture of constraints and opportunities that young Swazi entrepreneurs encounter.

#### Interviews with key public institutions, the financial sector and NGOs

To provide a balanced overview of opportunities and constraints to youth entrepreneurship in Swaziland, the team also engaged with relevant stakeholders. The first round of discussions – with the Ministry of Youth, Sports and Culture, the Ministry of Labor and Social Security, the National Youth Council and the YEF -- took place in the early 2012 in the process of preparing the African Economic Outlook 2012, with its focus on youth unemployment. Some of the issues raised were also incorporated in the survey, to gain youth perspective.

During the second round of discussions, which took place from August to November 2012, the range of stakeholders was broadened to include the key financial sector institutions (including commercial banks, the FINCOPR and the Swazi Bank). During the development of the survey and the interpretation of the findings, the UN Swaziland team collaborated closely with the SME unit of the Ministry of Commerce, Industry and Trade as well as with the relevant NGOs, especially with the JASD Program. Staff from TechnoServe also provided invaluable information regarding lessons learned from their programs.

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<sup>12</sup> The number of surveyed SMEs in 6 cities of Hhoho and Manzini is close to that in the 2003 survey of SMEs by the Central Statistical Office. Relative to population, the sample size also compares well to other similar studies (Pissaridies et al, 2000; Djankov et al, 2005). As indicated above, relying on SME directory as the main sampling frame initially limited the sample to generally more established firms. This was partly corrected during the interviews by including firms not listed in the directory.

<sup>13</sup> While the Survey provides an in-depth picture on constraints to youth entrepreneurship in urban Swaziland, the results cannot be generalized to the rest of the country. To understand challenges faced by often marginalized youth in rural areas, a supplementary survey covering rural areas in the less developed regions of the country (e.g., Lubobmo and Shiselweni) could be undertaken in 2013.

The UN team carried out a consultative workshop on the survey's initial findings, FGDs and one-on-one interviews with key national stakeholders and internally in the UN system.<sup>14</sup>

### *iii. Areas for Future Research*

While the issue of gender differences was touched upon in several parts of the report, the focus of this report is on young urban entrepreneurs in two regions and challenges they face in comparison to the adult segment. This approach leaves the important question whether young female entrepreneurs in Swaziland face similar opportunities and constraints as their male counterparts to further research. Similarly, issues pertaining to entrepreneurs in rural areas and/or other regions of the country were also not covered. To correct for the bias created by the survey covering only young entrepreneurs that already successfully opened businesses, an extension of this study could utilize the YEF data on young applicants that failed to do so.

Regarding more academic research, a follow up study could interview also non-entrepreneurs in the same areas and look further into determinants of entrepreneurship in Swaziland, along the lines of Djankov et al., 2005 and others. Finally, since this study took place in the aftermath of the fiscal crisis that negatively impacted SMEs, a survey of the same SMEs could be undertaken at the end of 2013 to see if their perceptions have changed with the improved fiscal situation.

## **III.2 Findings of the Survey of Urban Entrepreneurs**

A technical team from the UN Swaziland created specifically for the purposes of this study designed and implemented the survey in October and November 2012. It involved trained enumerators administering a common questionnaire to 640 business owners or managers through face-to-face interviews. The survey sought answering the following key questions:

- Who are the young entrepreneurs in urban Swaziland and what are the main opportunities and constraints they face? How do the opportunities and constraints for young Swazi entrepreneurs differ from those faced by adult entrepreneurs?
- Among the three streams of factors (institutional, social and psychological/personal) impacting entrepreneurship, is any particularly important? How do these factors interact in the Swazi context?
- How do education and personal characteristics impact young entrepreneurs, especially their commitment and success?<sup>15</sup>

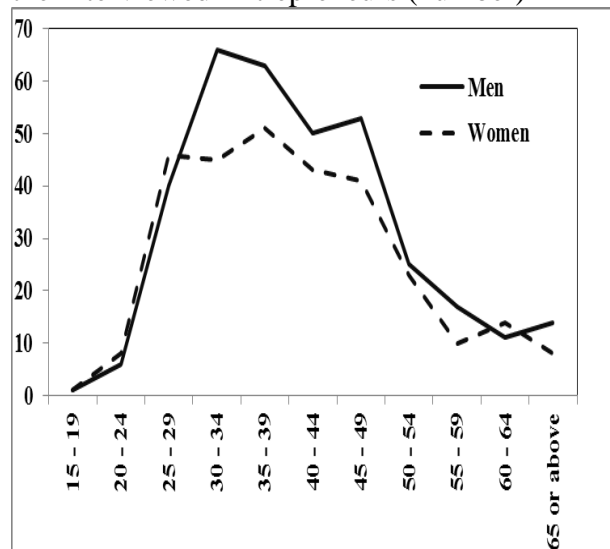
The sample was drawn from entrepreneurs across cities in Hhoho (Mbabane, Ezulwini) and Manzini (Manzini, Matsapha, Nhlangano, Siteki) regions. The sample gender and age composition is shown in Figure 3a, while Figure 4 depicts the distribution of entrepreneurs across sectors. Similarly to women participation in the labor force, share of women among entrepreneurs is markedly lower compared to men in the 30 – 54 years age group.

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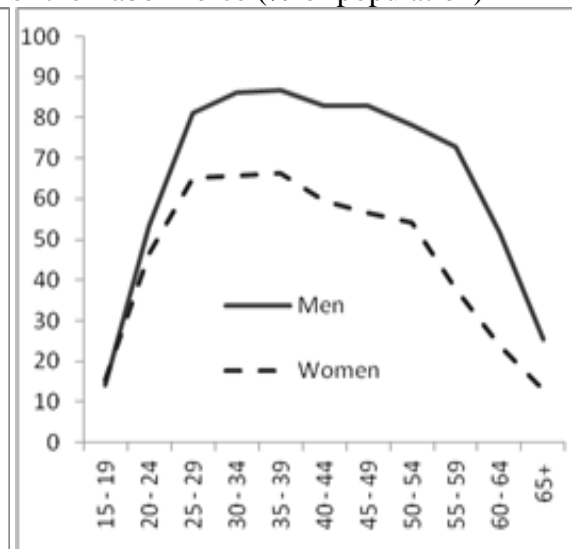
<sup>14</sup> A more formal analysis of the youth entrepreneurship challenges was presented at the 2012 African Economic Conference (Brixiova, et al. 2012). Feedback from the conference on the international policy experiences with promoting youth entrepreneurship, has been incorporated in the current study.

<sup>15</sup> A comprehensive assessment of the gender gap, while addressed in some parts of the report, was left to further research.

**Figure 3a.** Gender & Age Composition of the Interviewed Entrepreneurs (number)



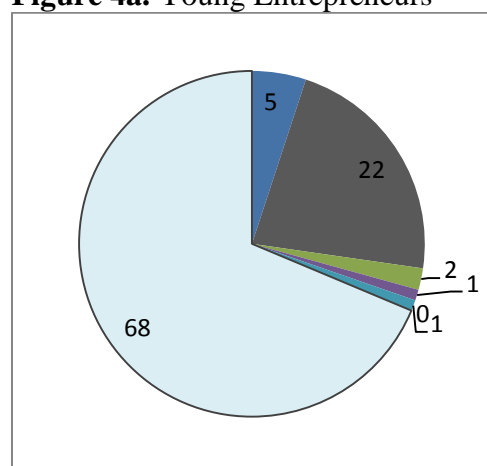
**Figure 3b.** Gender and Age Composition of the Labor Force (% of population)



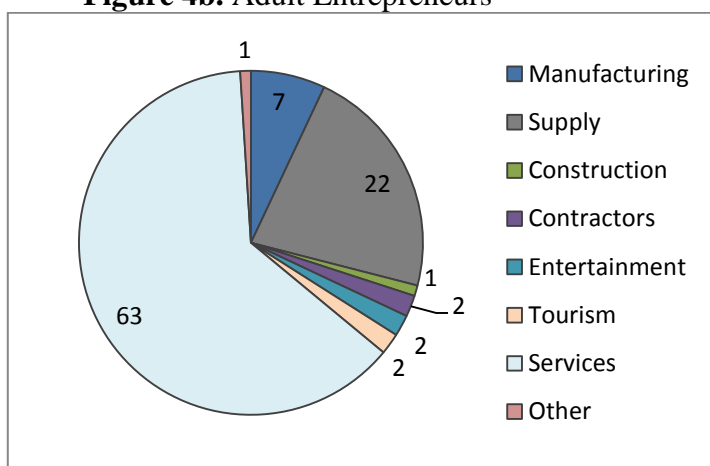
Source: UN 2012 Survey of urban SMEs (Figure 3a) and 2007 Swaziland Labor Force Survey (Figure 3b).

**Figure 4.** Sample Distribution of Entrepreneurs across Sectors (% of total)

**Figure 4a.** Young Entrepreneurs



**Figure 4b.** Adult Entrepreneurs



Source: Authors calculations based on the 2012 UN Swaziland survey of urban SMEs.

To ensure that broad demographic differences (gender) were not driving the survey results, it was ensured that the ratio of male to female respondents were identical for both the youth and adult entrepreneur groups; the ratio in both groups of respondents was 54% male to 46% female. The shares of entrepreneurs across different sectors were also broadly similar, with the majority (more than 60%) of entrepreneurs involved in the service industry (Figure 4).

#### *i. Profile of young urban entrepreneurs*

#### Who are the young urban entrepreneurs?

The survey data, which shed new light on young entrepreneurs (ages 18-35) in Swaziland, suggest that all three approaches to entrepreneurship (e.g., institutional, social and personal traits) are relevant in the Swazi context. The sections below highlight the main differences in personal characteristics and backgrounds between the young and adults entrepreneurs that need to be taken into account during policy design. Such information is useful not only to



outline reform options such as of the educational system, for example, but also to identify high-potential youth that can be targeted by programs stimulating youth entrepreneurship.

Over 90% of young entrepreneurs interviewed are Swazi nationals, while the corresponding figure for adult entrepreneurs stands at 80%, and there is no statistically significant difference in gender composition between the young and adult entrepreneur groups (Table 4). The average young entrepreneur in our sample is 30 years old, suggesting that youth opt for entrepreneurship relatively later in life, often only after completing their university education or failing to find employment (see also section III.3 on FGDs). There are notably more married people among adult entrepreneurs than among young ones, and those who are married are more likely than youth to be part of a traditional marriage arrangement.

Empirical studies of factors influencing entrepreneurship in other countries assign high importance to family background and in particular to having relatives who are entrepreneurs (Djankov et al., 2005; and others). In contrast, in Swaziland the percentage of entrepreneurs who have at least one parent entrepreneur is low, while there is a high percentage in both the young and adult entrepreneur groups who have at least one parent who is unemployed (Table 4). This is consistent with the overall weak labor market situation in the country.

**Table 4. Personal Traits and Background: Differences between Young & Adult Entrepreneurs**

	Young entrepreneurs	Adult entrepreneurs	SE and significance of difference (% of total)
<i>Individual characteristics</i>			
Swazi nationality	91.8	81.0	[2.83] ***
Age (years)	30.3	47.1	[0.57] ***
Married	38.4	74.3	[1.94] ***
If yes, married in traditional marriage	15.3	31.9	[1.72]
Gender (female)	45.1	45.5	[4.03]
At least one of the parents, if alive, is self-employed	13.7	12.0	[3.25]
<i>Education and business experience</i>			
Tertiary education	35.3	45.3	[3.97] ***
Previously employed	37.8	57.8	[4.01] ***
Received business training	49.8	49.1	[4.04]
If yes, training received was useful	44.3	44.7	[4.02]
Owns only one business	87.6	80.4	[3.02] ***
First business	92.3	83.2	[3.00] ***

**Source:** Authors' calculations based on the 2012 UN Swaziland SME survey. Note: for young and adult entrepreneurs we report means. Standard errors of mean difference are in parenthesis. The significance of the mean difference is reported, where \*\*\* denotes significance at 1%, \*\* at 5% and \* at 10% level.

**Table 5.** Differences in Entrepreneurs' Perceptions on Needed Skills and Support (% of total)

	Young Entrepreneurs	Adult Entrepreneurs	SE and significance of error
<i>What type of skills would be valuable?</i>			
Financial management skills	93.2	94.7	[1.92]
Marketing and marketing research skills	92.0	95.5	[1.92] *
Business plans formulation skills	80.3	86.3	[2.99] **
ICT skills and integration into global economy	79.5	82.8	[3.17]
Competition analysis, skills to identify niche markets	85.9	90.5	[2.58] *
<i>What type of business support service would be valuable?</i>			
Product management	85.7	89.5	[1.23]**
Customer management	94.4	97.1	[1.59]*
Revenue management	92.0	94.6	[2.09]
Order and supply chain management	81.5	85.0	[3.07]

**Source:** Authors' calculations based on the 2012 UN Swaziland SME survey. Note: for young and adult entrepreneurs we report means. Standard errors of difference are in parenthesis. The significance of the mean difference is reported, where \*\*\* denotes significance at 1%, \*\* at 5% and \* at 10% level.

Findings of our survey for Swaziland appear to support the widely held perception that young entrepreneurs everywhere are disadvantaged relative to adults in terms of education and relevant work experience. Indeed, according to our survey, only about one-third of young entrepreneurs have tertiary education, compared to almost half of adult entrepreneurs. Similarly, while less than 40% of young entrepreneurs have prior work experience, almost 60% of adult entrepreneurs worked before starting their own company.<sup>16</sup> Young entrepreneurs also fare worse than their adult counterparts in terms of previous business experience or running more than one company. What is surprising, however, is that Swazi youth do not seem to be fully aware of their 'human capital disadvantage' – fewer young than adult entrepreneurs view acquiring additional skills or receiving assistance from business providers as valuable (Tables 4 and 5).

#### What do young urban entrepreneurs do? Are they succeeding?

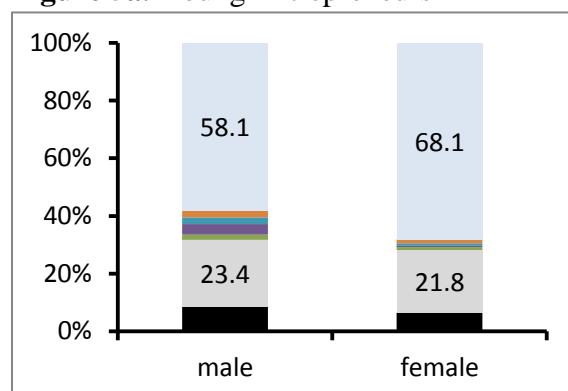
As indicated above, the vast majority of both young and adult entrepreneurs run their businesses in the service sector. Within services, retail trade and hairdressing services predominate, while textile is the most common manufacturing sector (Annex I, Figure 1).

Further disaggregating the sector distribution of young Swazi entrepreneurs by gender shows that of all the entrepreneurial sectors, the services sector accounts for about 68% of female entrepreneurs and about 58% of males (Figure 5). The supply sector is the second-biggest preference for entrepreneurs and accounts for about 23% of both males and female groups. A little over 6% of male and female entrepreneurs are involved in manufacturing. The least-preferred sectors are construction, contracting, entertainment, and tourism, and young female entrepreneurs are even less likely to venture into these sectors than young males. Specifically, the total share of these sectors combined is about 4% for young women compared to 10% for young men. Moreover, proportionately fewer adult female entrepreneurs are involved in the construction, contracting, entertainment and tourism sectors than young male entrepreneurs.

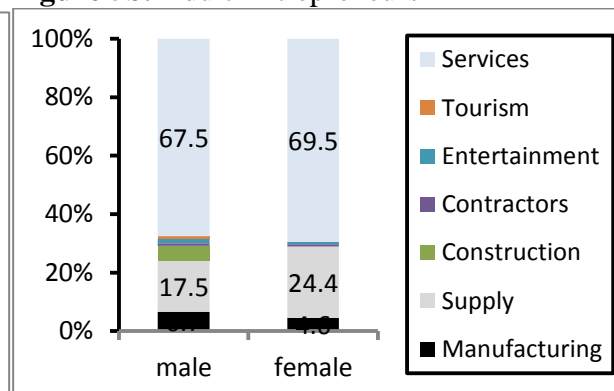
<sup>16</sup> Among employed youth, less than 40% held formal employment, while almost 60% of adults held a formal job before embarking on entrepreneurship.

**Figure 5.** Distribution of Entrepreneurs across Sectors, by Age and Gender (% of total)

**Figure 5a.** Young Entrepreneurs



**Figure 5b.** Adult Entrepreneurs



**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

Sector distribution of entrepreneurial activities emerging from the survey confirms societal perceptions and findings of earlier studies on SMEs that majority of Swazi entrepreneurs, including youth, operate in 'easy to enter but highly competitive sectors'. The concern about excessive exposure to low value added sectors (e.g., retail, textile) applies especially to Swazi women. In turn, very few young entrepreneurs, and especially women, have so far opted for high value added sectors that would rely on advanced skills, creativity, and use of technology. The lack of structural transformation to high productivity/high value added activities, which has contributed to low growth during the last decade, warrants policymakers' attention.

The survey reconfirmed findings of the UN's Rapid Assessment of the Impact of the Fiscal Crisis in Swaziland report (UN Swaziland, 2012) that the fiscal crisis of 2011 hit the SME sector hard; many of these enterprises are struggling in the aftermath of the crisis. What was not known, however, is that the negative effects of the crisis impacted young entrepreneurs disproportionately. Specifically, 43% of young entrepreneurs, compared to 32% of their adult counterparts, reported that their enterprises were in critical condition or downsizing at the time of the survey (Annex I, Figure 2). Enterprises run by youth (including successful ones) are also smaller, operate at lesser capacity and post lower turnover than those operated by their adult counterparts (Table 6a). These outcomes reflect – but only partly – the lack of entrepreneurial experience (personal traits) among the youth. Other factors that have played a role in the weaker resilience and outcomes experienced by youth include their limited links to networks (social factors) and lack of access to credit (institutional factors), among others.

Company performance indicators are only one measure of entrepreneurial success. To gain a more comprehensive understanding of young people's views of success and whether their general definition differs from that of adults, the survey included questions on this topic. Results reveal that about 85% of entrepreneurs in both groups associate entrepreneurial success with making profit. Both groups view an expanding range of services and a growing customer base as even more important than profit. Other aspects, such as employment expansion and staying in business for at least ten years are also valued, while providing employment for family is a lesser priority, especially for the youth (Table 6b).

The emphasis that all entrepreneurs put on profit underscores the importance of business education and technical skills, while the overall employment concerns point to the need for a value system that includes social concerns, including social entrepreneurship. The lower emphasis that young entrepreneurs put on providing employment for family members

compared to adult entrepreneurs (51% relative to 60.4%), may in part reflect weaker traditional societal structures, including extended families (Table 6b).

**Table 6a.** Enterprise Outcomes: Differences between Young and Adult Entrepreneurs

	Young	Adult	SE and significance of error
Av. monthly sales in 2012 (E thousand)	71.2	110.1	[76.2]
Av. monthly turnover 2012 (E thousand)	138.7	354.7	[79.7] ***
No. of months at full capacity in 2012	9.5	10.5	[0.14] ***
Av. no of employees in 2012	2.0	2.7	[0.15] ***

**Table 6b.** Criteria of Success among Young and Adult Entrepreneurs (% of total)

	Young	Adult	SE and significance of error
Still in business in 10 years	66.3	74.7	[3.74] **
Reached targeted profit	84.7	84.2	[2.96]
Providing employment for family	51.0	60.4	[4.05] **
Expanding # of employees	67.9	77.8	[3.65] ***
Expand customer base	90.8	94.7	[2.17] *
Expand range of services	88.0	91.8	[2.50]

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: for young and adult entrepreneurs we report means, with their combined standard errors in parenthesis. \*\*\* denotes significance of the mean difference at 1%, \*\* at 5% and \* at 10% level.

### What lessons were learned from earlier business experiences?

Most Swazi entrepreneurs – both in the young and adult segments (81% and 78%, respectively) – organize their businesses as sole proprietorships. This form of business ownership is particularly prevalent among young female entrepreneurs, accounting for 85% of their businesses relative to 77% of those run/owned by young men. Sole proprietorship remains the most popular business form also among experienced entrepreneurs: even with first business experience under their belt, only one out of five entrepreneurs would opt for partnership (Table 7).

Table 7 shows that young and adult entrepreneurs draw different lessons from their earlier business experiences. Young entrepreneurs are more likely than adults to control expenditures, change their location or business model. The findings on the willingness to move are consistent with the concerns of financial institutions, who generally perceive young entrepreneurs as ‘high risk’ and unstable and are subsequently reluctant to lend to this group.

#### *ii. Social factors*

Besides personal characteristics, social factors (e.g. values and importance that the society assigns to entrepreneurship and social and professional networks in which entrepreneurs operate) play an important role for young entrepreneurs. The following sections explore this set of factors in the Swazi context, with a view to inform policies.

**Table 7.** Lessons from Earlier Experience by Young and Adult Entrepreneurs (% of total) 1/

	Young entrepr.	Adult entrepr.	SE and significance of error
Investing money	73.3	80.4	[13.2]
Go into partnership	20.0	19.6	[12.2]
Change business location	60.0	37.0	[15.0]
Change business model	73.3	54.5	[14.1]
Control expenditures	93.3	86.4	[8.48]
Get more general business education	80.0	77.8	[12.4]
Get more sector-specific business education	86.7	76.6	[11.0]

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: for young and adult entrepreneurs we report means, with their combined standard errors in parenthesis. \*\*\* denotes significance of the mean difference at 1%, \*\* at 5% and \* at 10% level.. 1/ Entrepreneurs were asked the following question: 'Given your previous business experience, what would you differently?'

### Youth entrepreneurship: necessity or choice?

Literature on entrepreneurship has extensively noted the differences between 'necessity' and 'opportunity (productive)' entrepreneurship (Baumol, 1990). Necessity entrepreneurship has been widespread in Africa, but opportunity entrepreneurship has been relatively scarce (Rogerson, 2001). While opportunity entrepreneurship has a significantly positive effect on development, necessity entrepreneurship has almost none (Acs & Varga, 2005). The survey thus sought to understand whether entrepreneurship is the preferred career choice among young Swazis or whether they opted to become entrepreneurs due to the lack of other opportunities. Put differently, the survey endeavored to find out if young people are less or more committed to entrepreneurship than adult entrepreneurs.

Indeed, respondents' answers reveal that young people are less committed to entrepreneurship than adults; they are twice as likely as adults to accept another job offer. Also, while more than one out of four young entrepreneurs search for employment, only one out of ten adults is involved in a job search. Young entrepreneurs spend less time working in their companies. The notably lower operating hours of youth compared to their adults counterparts (Table 8a) also point to less commitment to entrepreneurship among young people.

Within the group of young entrepreneurs, women are less likely than men to start another business should their current one fail, highlighting another policy challenge in the sphere of entrepreneurship (Table 8b).

These findings seem to indicate the need for a change of mindset and attitudes towards entrepreneurship among young people with a view to raise their awareness of entrepreneurship as a viable career choice. Women in particular need additional support to overcome business challenges so as to prevent their early withdrawal from entrepreneurship.

### Social networks – who supports young urban entrepreneurs?

The survey found important differences in the social environments and networks of the young versus the adult Swazi entrepreneurs. For example, in terms of aspirations, only 44% of young entrepreneurs are driven by the goal of making money, compared to 57% of adults. At the same time, more young entrepreneurs (25%) relative to adults (20%) are motivated by the need to realize their own ideas and be their own boss, while 18% of youth (compared to 13% of adults) see entrepreneurship as a way out of poverty (Figure 3b, Annex I).

**Table 8a.** Indicators of Commitment to Entrepreneurship, by age (% of total)

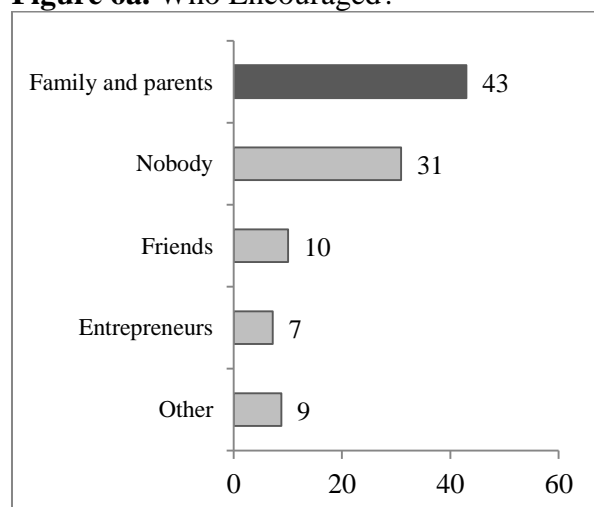
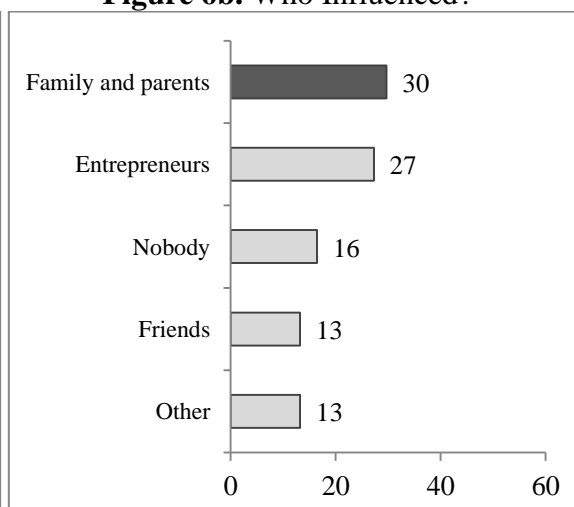
	Young Entrepr.	Adult Entrepr.	SE and significance of error
Av. hours worked by entrepreneur per week	39.4	42.3	[1.72] *
Av. weekly hours of operations by the enterprise	43.0	51.7	[2.31] ***
Would accept another job	35.3	17.9	[3.58] ***
Looking for another job	26.1	9.2	[3.16] ***
If fail, would start another firm	52.2	55.1	[4.03]

**Table 8b.** Youth Commitment to Entrepreneurship, by gender (% of total) 1/

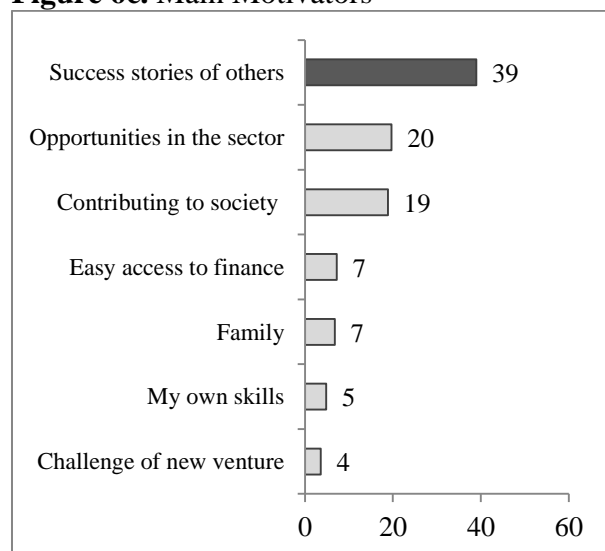
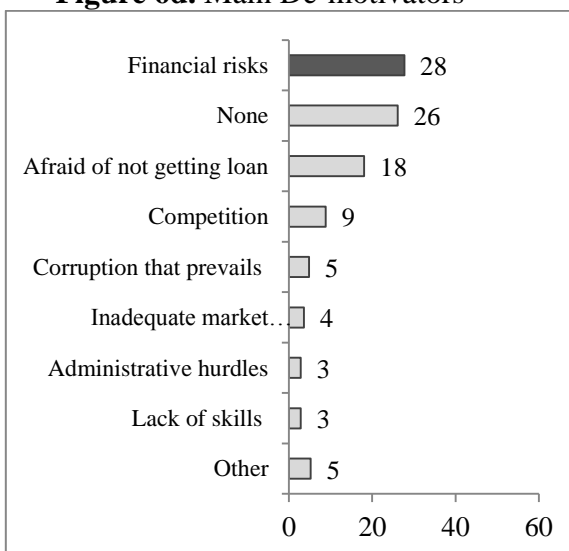
	Men	Women	SE and significance of error
Av. hours worked by entrepreneur per week	39.3	39.5	[2.76]
Av. weekly hours of operations by the enterprise	45.2	40.4	[2.52] *
Would accept another job	35.0	36.5	[6.09]
Looking for another job	28.6	23.0	[5.59]
If fail, would start another firm	56.9	45.2	[6.31] **

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: for young and adult entrepreneurs we report means, with their combined standard errors in parenthesis. \*\*\* denotes significance of the mean difference at 1%, \*\* at 5% and \* at 10% level. 1/ Table 9b focuses on young entrepreneurs only.

While families and parents rarely provide direct financial support to young entrepreneurs, they are often their most important source of encouragement (for 43% of young entrepreneurs) and positive influence (for 30% of young entrepreneurs).<sup>17</sup> Other entrepreneurs (from Swaziland and abroad) often serve as role models, positively influencing 27% of young entrepreneurs (Figure 6). When it comes to discouragement, somewhat surprisingly, friends seem to feature more prominently than other groups, discouraging almost 30% of young entrepreneurs. At the same time, more than half (54%) of youth interviewed were so determined to become entrepreneurs that they did not register any major source of discouragement.

**Figure 6.** Sources of Support for Young Entrepreneurs (% of total)**Figure 6a.** Who Encouraged?**Figure 6b.** Who Influenced?

<sup>17</sup> The importance of parental support also emerged very strongly from FGDs.

**Figure 6c. Main Motivators****Figure 6d. Main De-motivators**

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

### iii. Constraints in the business environment

Swaziland policymakers have long recognized that entrepreneurial start-ups and operations are heavily impacted by their country's institutional and regulatory environment. Ample empirical evidence has shown that countries that perform poorly on the World Bank Doing Business ranking or Global Competitiveness Index are generally those with rigid and bureaucratic regulatory environments that hinder competitiveness and entrepreneurship. Such countries find it difficult to create employment, sustain vibrant SMEs and/or attract development-friendly FDI.<sup>18</sup> In order to develop a vibrant private sector, including attracting foreign direct investment (FDI) and encouraging SME start-ups, Swaziland recently re-launched Investor Road Map (IRM), which outlines the major steps in improving the country's business environment.

Clearly, a rigid regulatory environment that delays the opening of new establishments and impedes their expansion will discourage all types of entrepreneurship, including that of the youth. A business environment conducive to youth entrepreneurship can only be created through the development of overall entrepreneurship-enabling framework conditions that improve changes of all firms.

At the same time, due to specific circumstances that face them, such as the lack of resources and experience, young entrepreneurs face unique constraints and greater barriers than their older counterparts. Some youth-specific features that may make them less able than adult entrepreneurs to cope with complex regulations include:

- Youth have less business experiences than adults (Table 4), which includes experience in dealing with institutions. Due to this limited experience, youth may also have less information on the relevant rules and regulations they need to comply with;

<sup>18</sup> The World Bank encourages countries to adopt SMART business environment (streamlined, meaningful, adaptable, relevant, and transparent), especially for SMEs, so as to ease barriers for all entrepreneurs, including the youth segment.

- Young entrepreneurs are typically less educated and less connected to business networks than their adult counterparts. This constrains their ability to obtain the relevant information and understand the regulations in their business environment;
- On average, youth enterprises are smaller in terms of both employment and turnover (Table 6a). Since regulatory impediments often constitute ‘fixed cost’, smaller youth enterprises face a relatively higher compliance burden than their adult counterparts;
- Due to their limited savings, young entrepreneurs face notably greater challenges to obtain credit for their start-ups, resulting in them missing business opportunities or starting at sub-optimal levels with finances obtained through other channels.

Given the disadvantages young entrepreneurs face compared to their adult counterparts, they are on average likely to spend more time than the adults dealing with taxes and regulations. They are also more easily discouraged. The range of barriers that youth need to overcome on their way to entrepreneurship tends to be more extensive than for adult entrepreneurs (Schoof, 2006). It is thus important that beyond general measures to improve business environment for all, as outlined in the IRM, Swaziland factors in the specific needs of its young entrepreneurs and designs measures to remove or overcome barriers facing this group.

The sections below aim to help in this endeavor by highlighting the most severe barriers in the business environment from the perspective of young Swazi entrepreneurs, so as to provide background for policy measures that could overcome them. The differences between main obstacles as perceived by young and adult entrepreneurs are also analyzed below.

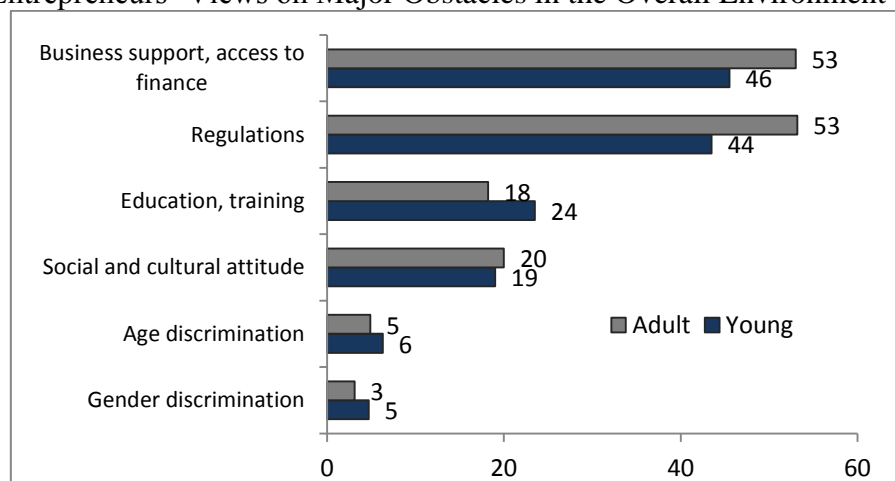
#### Does the business environment impede youth entrepreneurship?

Before turning to specific areas impacting entrepreneurs, such as access to credit or property rights, it is important to understand the youth perspective on the overall business and cultural environment under which their enterprises operate. This will help identify the major impediments to youth entrepreneurship and inform policy on ways to promote conditions enabling entrepreneurship – generally and for the youth. For the purposes of this report, the ‘business environment’ encompasses not only regulations on opening a business but also includes property rights, the availability of skilled labor, infrastructure, the cost of production (including wage rates and the cost of internet access), ease of access to finance, and corruption.

With regard to the broader environment (e.g., business and cultural conditions) in which entrepreneurial start-ups and operations function, the survey found weak access to finance, underdeveloped infrastructure, and inadequate business support services to be the most pressing issues. While the relative prevalence of various constraints is the same for young and adult entrepreneurs, young entrepreneurs express greater concern than adults about the training and education system. About one out of five entrepreneurs consider societal and cultural attitudes towards entrepreneurship an obstacle to be overcome. Only a small share of entrepreneurs views age or gender discrimination as major barrier (Figure 7).



**Figure 7.** Entrepreneurs' Views on Major Obstacles in the Overall Environment (% of total)



**Source:** Authors' calculations based on the 2012 UN Swaziland Survey of Urban SMEs.

Focusing on *barriers to start-ups* within a more narrowly defined business environment (i.e. not taking into account cultural and societal attitudes), the survey points to inadequate access to finance as a key obstacle to start-ups. Entrepreneurs also consider regulations, including taxation, to constitute a major barrier, followed by inadequate access to land and pervasive corruption (Figure 8a). Surprisingly, fewer young entrepreneurs than adults express concerns about specific aspects of the business environment; this could also reflect their lack of experience in dealing with these issues.

When it comes to *day-to-day challenges to company operations*, both young and adult entrepreneurs are preoccupied with issues other than the direct business environment. Specifically, they are notably more concerned about finding customers or dealing with competition than about accessing finance (Figure 8b). These concerns reflect the highly competitive nature (and low entry barriers) of the general sectors in which Swazi entrepreneurs operate. Besides the demand for effective competition policy, these concerns also underscore the need to encourage (youth) entrepreneurs to enter sectors in which they incur high entry costs but may also have a more lasting competitive advantage.<sup>19</sup>

#### How do young entrepreneurs perceive corruption?

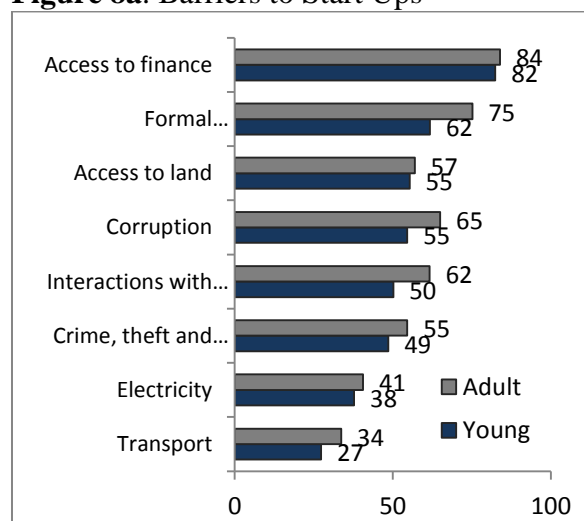
In Swaziland, the public appears to perceive corruption as a widespread phenomenon and, in fact, a 'normal' part of daily activities, as was documented, for example, in a 2010 study carried out by the Swaziland Anti-Corruption Commission. In the study, 94% of respondents considered corruption to be a major issue that warranted policymakers' attention and action; many of the respondents also thought that the Government could do more to increase transparency and accountability.

From the point of view of businesses, the negative impact of corruption extends beyond 'another cost'. It is also a factor that brings substantial uncertainty to business activities and often drives firms to operate outside of the formal sector and boundaries set by the rule of law. Given the importance that public assigns to combating corruption in Swaziland, the surveyed entrepreneurs were also asked questions on this topic.

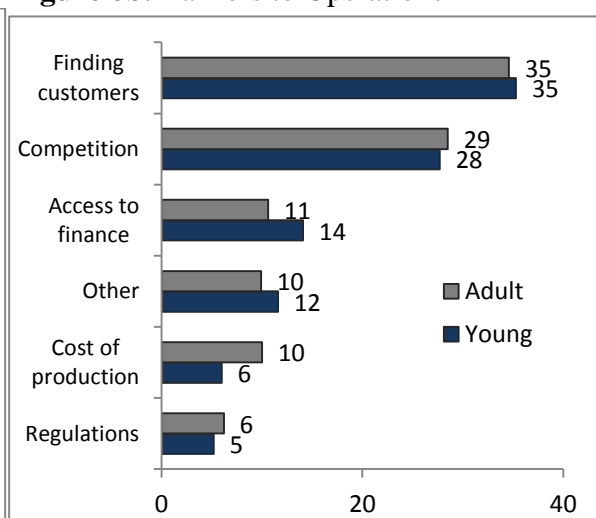
<sup>19</sup> The low numbers of Swazi SMEs exporting their products reflects the country's weak competitiveness.

**Figure 8.** Barriers in the Business Environment, by Age Groups (% of total)

**Figure 8a.** Barriers to Start Ups



**Figure 8b.** Barriers to Operations



**Source:** Authors' calculations based on the 2012 UN Swaziland Survey of Urban SMEs.

More than half of urban young Swazi entrepreneurs and more than two-thirds of urban adult entrepreneurs surveyed perceived corruption as a major challenge to their activities. Even more alarming is that almost one out of five young entrepreneurs believes that 'they can get things done' through gifts to public officials, while one out of six young entrepreneurs believes 'they can receive protection' by providing gifts to public officials (Table 9).

The survey found that almost half of young entrepreneurs did not consider Government officials' views of the law as predictable. In addition, 15% of young entrepreneurs were not convinced that the legal system would uphold their property rights and contracts in the case of a dispute. On average, young people spend about 8% of their time dealing with Government regulations, compared to an average of 10% spent by adults.<sup>20</sup> Overall about 20% of respondents spend over 20% of their time dealing with regulations (Figure 9), which underscores the importance of streamlining procedures.

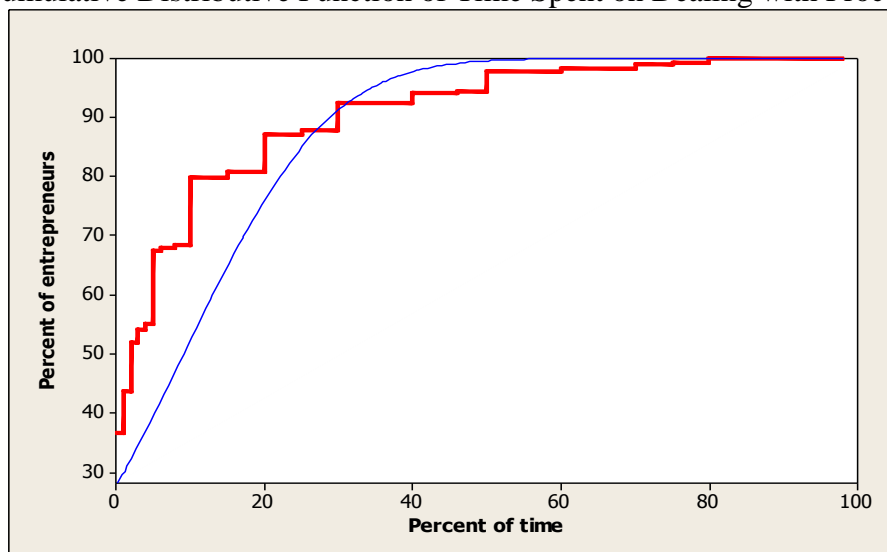
**Table 9.** Entrepreneurs' Perceptions of Corruption, by Age Groups (% of total)

	YE	AE	SE and significance of error
'Firm like this believes that ...'			
corruption is a major obstacle to start ups	54.6	64.9	[4.00] **
Government officials interpretations of the laws are inconsistent and unpredictable	16.1	13.8	[2.90]
it knows what to pay to officials to get things done	3.7	4.8	[1.67]
it can get things done through gifts to public officials	18.5	16.4	[4.37]
it knows what to pay to public officials for protection	4.0	2.9	[1.52]
it can get protection through gifts to public officials	16.5	16.9	[3.01]

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: for young and adult entrepreneurs we report means, with their combined standard errors in parenthesis. \*\*\* denotes significance of the mean difference at 1%, \*\* at 5% and \* at 10% level.

<sup>20</sup> These figures are above those cited by the World Bank's Doing Business Report, which shows that senior Swazi business managers spent 4.4% of their time on average dealing with Government regulations. However, the World Bank report included firms of all sizes.

**Figure 9.** Cumulative Distributive Function of Time Spent on Dealing with Procedures

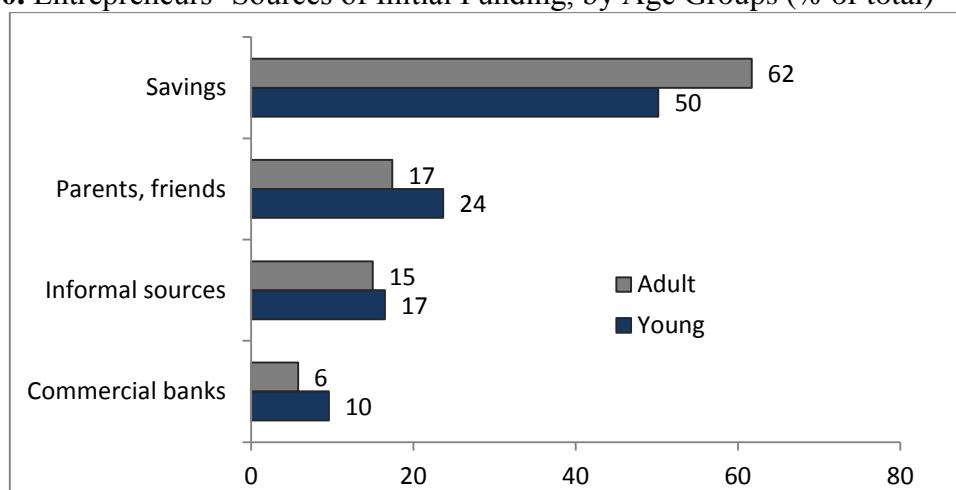


**Source:** Authors' calculations based on the 2012 UN Swaziland Survey of Urban SMEs.

### What are the main challenges in accessing finance?

Entrepreneurs everywhere cite access to finance as a key obstacle to their activities. Young Swazi entrepreneurs are no exception – during the start-up phase, access to finance is the biggest impediment; it is also identified as a key obstacle to running a business (Figures 8a and 8b). Correspondingly, half of young entrepreneurs will in the first instance turn to personal savings to fund their businesses, but given their limited career history and savings opportunities, this share is still lower than among adult entrepreneurs. In the second instance they will turn to family funds; more than one out of five young entrepreneurs claim to have obtained their start-up capital from this source (Figure 10).

**Figure 10.** Entrepreneurs' Sources of Initial Funding, by Age Groups (% of total)



**Source:** Authors' calculations based on the 2012 UN Swaziland Survey of Urban SMEs.

Young Swazi entrepreneurs are less likely than adult entrepreneurs to apply for credit from a formal financial institution either during the start-up or operational phases of their businesses. Those who apply are more likely than their adult counterparts to have their application denied (Table 10). Lack of collateral is the most frequently cited reason (mentioned by 50% of young entrepreneurs) for having their application for credit denied, followed by a poor business plan (cited by 19% of young entrepreneurs). Consistent with the findings of a 2012 FinScope

report, only a small share of entrepreneurs applied for credit from informal financial institutions, perhaps due to the high rates charged on informal loans.

**Table 10.** Entrepreneurs' Access to Finance, by Age Groups (% of total)

	Young entrepr.	Adult entrepr.	SE and significance of error
<i>During start-up</i>			
Contributed from personal sources	61.4	66.7	[3.93]
Applied for credit from formal institution	18.1	28.0	[3.36] ***
If yes, received credit from formal institution	44.4	67.9	[8.77] ***
Applied for credit from informal institution	7.2	5.3	[2.00]
<i>During operations</i>			
Applied for credit from formal institution	12.0	16.4	[2.81]
Received credit from formal institution	63.3	74.2	[10.56]
Applied for credit from informal institution	3.6	3.7	[1.53]

**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: for young and adult entrepreneurs we report means, with their combined standard errors in parenthesis. \*\*\* denotes significance of the mean difference at 1%, \*\* at 5% and \* at 1% level.

The high prevalence of corruption combined with limited access to finance underscores the need for cutting the scope for corrupt practices in the provision of finance. For example, the subsidization of -- both youth and adult-run -- SME financing needs to become more transparent. Specifically, the Government should share information on procedures for accessing subsidized funds while financial institutions should provide information on loans awarded.

**Box 1.** Summary of the Survey Key Findings

The Survey has found broad evidence that all **three approaches to entrepreneurship – institutional, social and one based on personal traits – are relevant in Swaziland context.**

In the Survey, both young and adult entrepreneurs underscored the importance of **sound institutions** for creating an enabling entrepreneurship framework in Swaziland. Among various elements of the business environment, entrepreneurs – especially youth -- viewed **access to finance** as key.

The Survey has also revealed that institutional factors alone will not sufficiently stimulate youth entrepreneurship in Swaziland. **Softer factors**, including **measures to build capacity** of potential young entrepreneurs (skills, knowledge, attitudes and motivation) **play a key role** and need to complement reforms to the business environment.

From Survey responses it also became apparent that **entrepreneurship is typically not a preferred career choice of young entrepreneurs**, but a last resort activity undertaken after other plans fail. In that regard, societal attitudes need to change, where entrepreneurship would be viewed as an activity to which society assigns a high value.

One of the key concerns that policy makers in Swaziland may like to address is the hesitance of Swazi young to enter high value added, innovative activities. Instead, majority of young entrepreneurs opt for traditional, low value added activities such as retail or basic agriculture. **Change of mindset, based on changes of the educational system together with improving access to internet and technology**, will be required to turn the situation around.

### III.3 Focus Group Discussions with Young Urban Entrepreneurs<sup>21</sup>

To obtain deeper insights into the key areas and obstacles raised by young entrepreneurs during the Survey, the UN technical team conducted six focus group discussions with active and potential young entrepreneurs as well as one-on-one interviews (Box 2).<sup>22</sup> The FGDs were structured to delve into the same three topics as the quantitative survey, namely (i) psychological factors such as personal traits of entrepreneurs; (ii) social factors such as societal and cultural attitudes to youth entrepreneurship, and the role of networks; and (iii) institutional factors, in particular the business environment. The FGD participants were asked to suggest solutions to problems they identified. Key findings are discussed below.

#### *i. Who Are the Young Urban Entrepreneurs?*

While findings from FGDs cannot be generalized to all young entrepreneurs in Swaziland, they provide useful insights into a specific group of young urban entrepreneurs in the Mbabane-Manzini corridor. In the FGD with practicing entrepreneurs, most (80%) of the participants were young adults (ages 18-35). Most participants operated in the services or manufacturing sectors. They expressed interest in pursuing businesses in a wider range of sectors than traditional areas such as agriculture, transport and retail. The areas in which the youth displayed interest included media and entertainment, fashion and other creative fields. The technical fields do not, however, seem to have captured the interest of Swazi youth thus far, in part because of the relatively low priority that the educational sector assigns to technical skills.

About half of the entrepreneurs reported starting their business out of necessity (to counter unemployment or address financial need), while the remainder embarked on entrepreneurship because an intriguing business opportunity came along. During the FGDs, most of the young Swazi entrepreneurs exhibited confidence and optimism in their activities. Even though half of the FGD participants admitted to have failed at least once in operating a business and some failed twice, those who were currently active (more than half of the participants) considered themselves to be successful.

#### *ii. Societal Attitudes to Youth Entrepreneurship*

The youth interviewed had mixed emotions about entrepreneurship as a viable option for sustainable livelihood. On the positive side, the UNISWA students (who had completed an entrepreneurship course but did not have consistent practical experience in running a business) seemed to be interested in entrepreneurship as a career option. Some aspired to start businesses and even had concrete ideas on the type of business they wanted to operate. They also seemed to often have a sound understanding of generating and sourcing business ideas. Several practicing young entrepreneurs also expressed enthusiasm and confidence in the future of entrepreneurship.

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<sup>21</sup> Findings from Focus Group Discussions are detailed in UNDP (2013) report on 'Voices of Young Entrepreneurs in Swaziland' carried out for the forthcoming Swaziland Human Development Report.

<sup>22</sup> Potential young entrepreneurs were drawn from the UNISWA entrepreneurship courses and recent high school graduates of Junior Achievement Swaziland (JASD) programs.

## **Box 2. An example of a successful young Swazi entrepreneur: SAFIKA Piggery**

### ***Background***

**Safika Piggery** is (agri)-business with the main office located in Manzini and the production facility located in Siphofaneni in Lubombo region. It currently produces about 80-100 porkers a week. The business started to operate in 2007 with 1 employee and a 13 sow unit and grew to current 4 employees and a 50 sow unit. In 2010, it received an award in a TechoServe competition ('grow to get gains') as one of the top five growing companies in Swaziland.

Mr. Gamedze (31), the founder of Safika, has managed it from the inception. He has a Bachelor of Commerce degree from the University of Natal, majoring in marketing and management. He studied economics and acquired knowledge in the pig production industry through post-graduate training.

*Safika's Vision* is to be a supplier of choice and to deliver high quality product while growing the business in order to increase shareholder value. The company strives to supply reliably, deliver a product of high quality and be an employer of choice.

### ***Beginnings***

Upon graduating from the University of Natal, Mr. Gamedze returned to Swaziland with the objective to open his own business. In 2007 he received modest (E, 5000) starting capital from his parents (both entrepreneurs), which he used for selling soft drinks at sport events. Through these activities he was able to make profits of E7,000. Subsequently, he seized the opportunity to cater drinks and refreshments at the Trade Fair, which led to further accumulation of start-up capital of E30,000.

With this capital and a business plan, he received a supplementary loan of E50,000 from his parents to start a pig unit (parents became a minority shareholder in his new enterprise). His parents also transferred part of family SNL to him, with consent of the local chief. Finally, utilizing his marketing skills, he found buyers (7 butcheries in Manzini). As most firms in the pork production sector, Safika is a price taker with a small margin for price negotiations. Finding clients was relatively less challenging part of the start-up, given the unmet demand for pork meat in Swaziland.

**Challenges:** Besides the lack of access to finance and challenges with transfer of land ownership, Mr. Gamedze struggled with trade procedures. When importing the first (10) sows for breeding, the business operation was hampered by import procedures, especially quarantine requirements he was not aware of. This held up delivery of sows by four months. To bridge the gap and meet commitments to buyers, Mr. Gamedze acquired locally 20 piglets (again with financial assistance of his parents); these were successfully sold 4 months later. Since then he grew his business successfully.

### ***Key elements of success***

- Vision and strategy; contingency planning
- Good educational background and continued learning
- Positive attitude to entrepreneurship from an early age; entrepreneurship was viewed as viable – in fact preferred – career choice to wage employment;
- Assistance and support from family in acquiring assets for a start-up – capital and land
- Timely financial loan from FINCORP
- Good employment practices (HR strategy); low turnover – employer of choice

### ***Looking ahead***

Safika will face increased competition, as the quarantine procedures on imports from South Africa are to be relaxed and supply of sows in Swaziland will rise. Mr. Gamedze therefore plans to move up in the value chain and process the pork meat himself rather than supplying it all to buyers. This way he would turn his competition into suppliers and tap more into his marketing and management skills. He will be also able to expand production and establish additional demand/business relations with buyers from Mozambique who already approached him with request to become one of their suppliers

Overall, young people expressed concern about not having enough of a say on policies ‘promoting youth entrepreneurship’. They seem convinced that people who are not attuned to their needs, behavioral trends and characteristics are the ones making the decisions that have an impact on their development:

*‘We are disappointed about the poor outreach of the economic development and other programs that claim to target our generation. These initiatives typically do not identify activities that truly occupy us and consequently do not reach us.’*

*‘Participation in program development should start at the level of the youth constituency, including in the traditional leadership structures. Young people need to take the initiative and participate in developing programs targeting youth.....’*

Youth were also concerned about their lack of involvement in political activities and initiatives. Another young entrepreneur expressed the following view:

*‘Representation of youth in the country’s leadership structures such as Parliament is very low. This leads to neglect of young people’s needs in various policies.’*

FGD participants reiterated that the lack of effectiveness of youth development programs in part reflects societal attitudes to young people; young people seem to feel that society underestimates them and does not yet view them as capable to contribute to the country’s economic development. They are also concerned that since they are not part of traditional forums, they struggle to access development programs channeled through such structures.

**Box 3. Is Entrepreneurship Adequately Covered in the Education Curricula?**

All young entrepreneurs who took part in FGDs received business management training from the YEF, which is a requirement for financial assistance.<sup>23</sup> They have noted that:

- University and high school curricula do not offer enough courses in entrepreneurship;
- Business training programs do not close this gap, as they were designed for adults. In future, the interests and needs of young people should be accounted for;
- Entrepreneurial support received is largely in the form of short-term interventions and is not sustained. Mentorship programs are particularly helpful;
- There are not enough business development programs and existing ones are costly;

The UNISWA students felt that creativity and innovation are not nurtured in Swaziland. Moreover:

- Marketing and market research is not adequately supported;
- Curricula should aim at developing students’ capacities to innovate and be creative;
- The lack of technical expertise or know how and the lack of practical exposure to a chosen technical area reduce chances of success in business;
- Supportive educational infrastructure (e.g., incubators for students’ business ideas) needs to be developed;
- Students would benefit greatly from increased opportunities for internships, mentorship, and networking with established entrepreneurs.

Recognizing the need to make entrepreneurship education an integral part of the educational system, the Ministry of Education and Training has been conducting consultations with key stakeholders on the necessary changes to the curricula at all levels.

<sup>23</sup> The YEF assisted the team with putting together the FGD with young entrepreneurs.

Looking ahead, young entrepreneurs highlighted the need for youth involvement in formulation of national and local youth strategies and policies, so as these policies can effectively respond to unique challenges faced by young generation. Participants also underscored that the change of societal attitudes towards entrepreneurship should start with an adjustment of the educational system, in particular with embracing entrepreneurship as a key subject at all levels (Box 3).

At the same time, young entrepreneurs recognized that they could not rely exclusively on the Government to implement the necessary changes. They need to take initiative and organize themselves so that their voice is adequately heard in key policy debates, a view that was also shared by Swazi policymakers.

iii- *What barriers do young entrepreneurs face in the business environment?*

Barriers in the business environment can have a negative impact on youth, who generally **lack experience and links to professional networks**. Young people perceive the prevailing business environment as unfriendly mainly due to **cumbersome administrative procedures** as well as the **lack of transparency and accountability in doing business**. Due to greater experience and networks, adult entrepreneurs are able to complete registration and licensing requirements a lot quicker than their younger counterparts, even though the former group also found the procedures cumbersome and lengthy. Young people consider **the lack of reliable information on business procedures and opportunities troublesome**. As one of the young entrepreneurs pointed out:<sup>24</sup>

*'Business information is difficult to obtain, particularly for the non-traditional sectors. Reliable statistical information is limited, and often data on sector specific performance or projections are not even available.'*

With regard to the regulatory framework, the youth expressed **reservations about the recently enacted tax regime**. With their aptitude to innovate, young people were also naturally concerned about the **over-regulated information and communications technology sector**. Also of concern are the **unclear ownership rules and access to land**; methods of land allocation to businesses on Swazi national land vary between areas. The access to land is particularly cumbersome for youth and single women, making it challenging for these groups to enter the agri-business sector.

Young entrepreneurs who operate their businesses away from their home areas are often excluded from community funds as they do not meet the residency requirements:

*'If you were absent from your home constituency for only a few years, you will face challenges when trying to obtain the regional funds upon returning. You will likely be refused on the grounds that you have not lived in the area. At the same time, you will also not be able to get funds at the constituency where your new business is located.'*

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<sup>24</sup> Youth also mentioned poor quality of assistance received from the business services providers. Specifically, these entities often use templates to prepare business plans, without involving the young entrepreneurs. Not only are plans prepared in such a way too general, the entrepreneurs are also not able to present them to financial institutions in a convincing way. In this regards, entrepreneurs in South Africa face a similar challenge (Herrington, 2011).



Youth also face challenges to secure loans due to the lack of collateral and financial history; the formal financial institutions thus often exclude youth from their business services. Commercial banks usually consider youth unreliable and risky and are wary of offering them loans.<sup>25</sup> A young entrepreneur summarizes the situation:

*‘Even when our business is viable, banks are hesitant to give us credit you because of our age....they view young people as unstable and unreliable.’*

On a more positive note, young entrepreneurs participating in the FGDs receive financial assistance or training when starting a business, in part because of their affiliation with the YEF. Still, both the FGDs and the survey underscore the need to address the financing gap facing young entrepreneurs with new and innovative methods that take into account this age group’s specific characteristics (e.g., higher risk, longer time horizon). Recent pilot studies incorporating psychometric tests (Standard Bank) and credit guarantees combined with training when assessing loan applications (Nedbank and Sedco) indeed look promising.

While the findings of the FGDs confirm those of the survey, they also bring even greater attention to the importance of societal attitudes towards youth entrepreneurship. These discussions also emphasized the need for greater involvement of the youth in the design of economic policies and programs targeting them; they view their involvement as critical to addressing the youth employment challenge in a sustainable way.

Despite a challenging business environment, some young entrepreneurs in Swaziland have achieved substantial success in their activities, both in terms of performance indicators such as profits or employment and in terms of recognition by society and their peers. Box 2 summarizes the experience of a successful young Swazi entrepreneur, Mr. Gamedze, owner and manager of the Safika Piggery. In 2010, a TechnoServe-sponsored competition named Safika as one of the top five growing Swazi companies.

#### **IV. CONCLUSIONS AND POLICY RECOMMENDATIONS**

In conclusion, the survey and FGDs have shown that multiple factors – institutional, social and personal – can foster or hinder youth entrepreneurship in Swaziland. Young Swazis are often drawn to entrepreneurship out of necessity, to escape unemployment and build livelihoods, but are also motivated by the possibility to realize their vision and contribute positively to the development of their country and communities.

The FGDs indicated that prevailing societal attitudes towards youth can pose a challenge to entrepreneurial efforts of young people, as their ability to make sound business decisions is often underestimated. Youth in Swaziland – as in many other parts of Africa – are striving to achieve economic independence and find their identity in the context of weakening family and community structures as well as an educational system that does not always equip them with skills demanded in the global economy.<sup>26</sup> These challenges were amplified by the recent fiscal crisis that impeded the private sector and cut growth, making job opportunities or self-

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<sup>25</sup> Commercial banks have observed the following challenges in the provision of finance to youth: the lack of collateral; mostly ‘necessity driven’ entrepreneurship; and inadequate contingency planning and poor risk assessment, resulting in a low business success rate and loan repayment rate.

<sup>26</sup> Schoof (2006) discusses these challenges in detail in the African context.

employment even more difficult for youth entering the labor market.<sup>27</sup> Swazi policymakers aiming to stimulate youth employment need to take all these factors into account.

Based on the findings of the Survey and the Focus Group Discussions, policies aiming to support youth entrepreneurship could focus on three distinct, but complementary areas:

First, to help young people persevere beyond the start-up and succeed over the longer-term, ***training and capacity building need to extend from the ‘nascent entrepreneurship’ into ‘early entrepreneurship’ stages and beyond.*** In this context, the FGD participants expressed concerns about the rather general nature of training and technical assistance received from business service providers and suggested that these services be tailor-made to their needs. A system of certificates could be established for young entrepreneurs that complete such courses while running their businesses, which would also ease their access to credit.

Moreover, **young people could be linked with and learn from established entrepreneurs through professional networks and mentoring programs**, for the purposes of both skill transfer and peer support. The government could play an active role in this regards, through advocacy and featuring successful young African entrepreneurs who could serve as role models and help establish entrepreneurship as a viable livelihood strategy in Swaziland.

The survey and the FGDs revealed widespread beliefs that beyond modifications of training programs, **fundamental changes need to be made to the educational system**, with courses on entrepreneurship and problem-solving skills featuring prominently at all levels. Specifically, **entrepreneurship courses should be introduced at the early stages of education, and benefits of entrepreneurship should be better marketed.**

Second, the survey and FGDs underscored that with youth having limited access to funds based on collateral and credit history, **new and innovative financing** needs to be developed to ease the credit constraints experienced by this group. Methods relying on substituting collateral requirements with psychometric testing (piloted by the Standard Bank for SME working capital) or on credit guarantee and increased financial literacy (piloted by the SEDCO and Nedbank for start-up capital) are steps in the right direction.

Nevertheless, given the vast unmet demand by youth for financing, **even more innovative financial instruments need to be created.** These instruments should take into account higher uncertainty and risk but also the greater aptitude for innovation and longer term horizon associated with this age group. At the same time, the initial mixed experience with loans disbursed by the Youth Enterprise Fund in Swaziland showed that financial institutions need to put in place effective monitoring systems, to prevent diversion of funds to non-priority areas. Such systems would also help provide timely technical assistance where needed.

Third, to establish enabling entrepreneurship framework conditions, Government needs to continue and even accelerate the ongoing **reforms of the business environment**, especially those aimed at **easing regulations**. At the same time, a key message of this study is that an enabling business environment is necessary, but not sufficient to foster productive youth entrepreneurship in Swaziland. Soft infrastructure, including supportive value systems, needs to be in place to even chances of business success of youth and adult entrepreneurs.

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<sup>27</sup> Low economic growth rates over a number of years have resulted in fewer opportunities for young Swazi entrepreneurs.

From this study it also became apparent that **young people are not well informed** about regulatory requirements they need to meet in order to start business or obtain loan. In fact, they are not even fully aware of the various institutions and services available to support youth entrepreneurship. A well-targeted training could go a long way in this regard.

Regarding the business environment, given the **perceptions of high level of corruption** and limited access to finance, the importance of reforms aiming at increased transparency and accountability, also in provision of financial services, cannot be emphasized enough.

**Experience from other countries with effective policies** towards high potential young entrepreneurs underscored the following lessons: (i) the importance of selectivity to ensure that high potential youth with viable business projects are supported; (ii) providing more intense support per entrepreneur rather than spreading resources thinly; and (iii) providing integrated packages of support instead of a single instrument. While some of these lessons were echoed in experiences with programs supporting vulnerable youth, additional aspects included (i) developing credible exit strategies for cases where youth entrepreneurs were subsidized, and (ii) the private sector rather than Government administering training programs for youth, even though Government could help initiate these programs.<sup>28</sup>

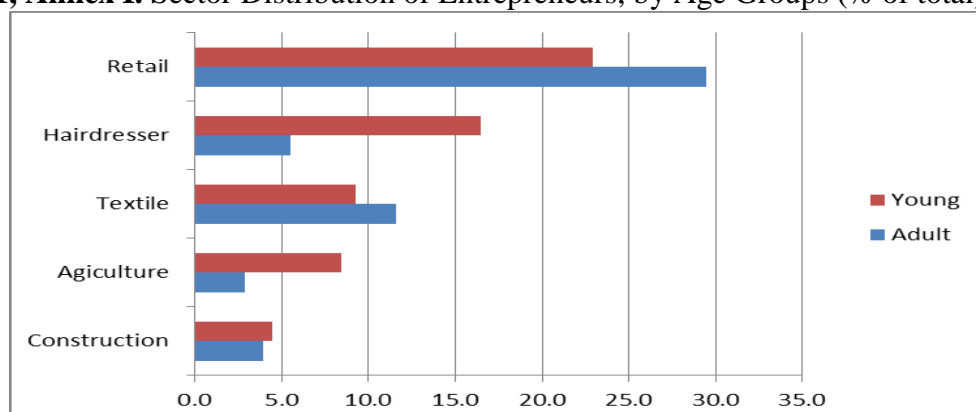
In conclusion, a key point from the survey that needs to be underscored is that **young Swazi entrepreneurs seem to expect too much from Government** in terms of solving the challenges they encounter. While creating an enabling business environment is indeed mostly the role of public policy, the broader enabling youth entrepreneurship framework conditions are a responsibility of all stakeholders, including young people themselves.

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<sup>28</sup> Annex II details international experiences with supporting youth entrepreneurship.

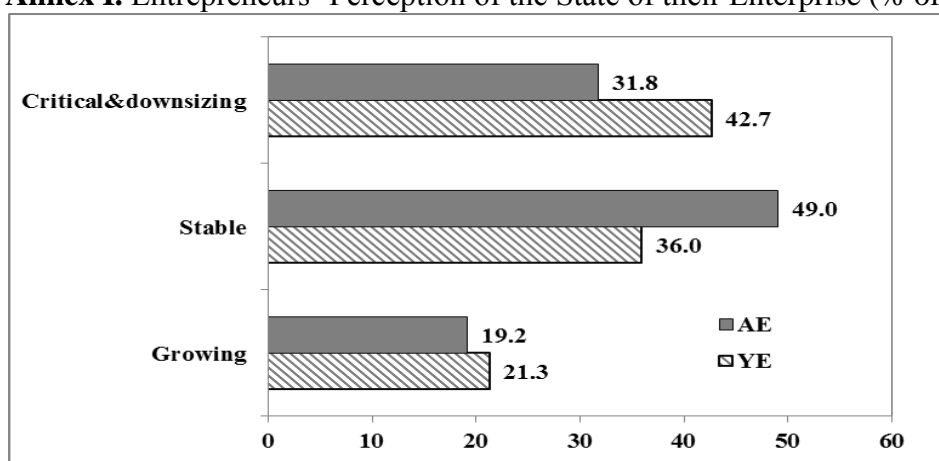
## ANNEX I – FIGURES

**Figure 1, Annex I.** Sector Distribution of Entrepreneurs, by Age Groups (% of total)



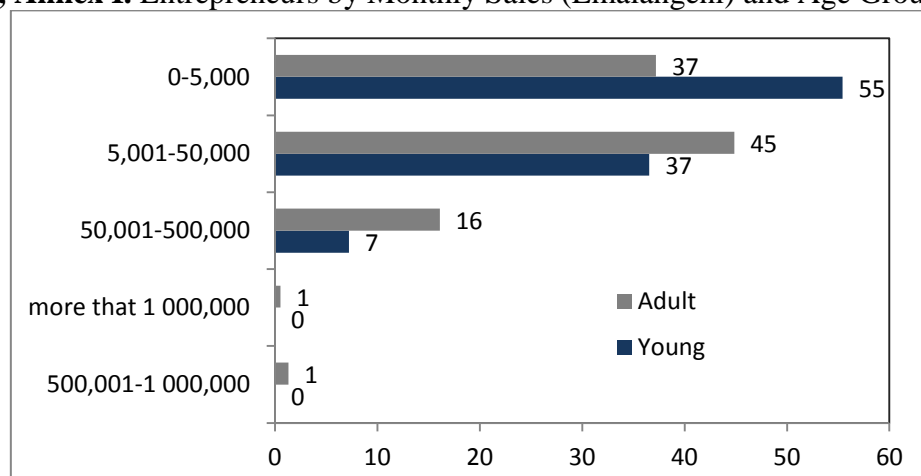
**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

**Figure 2, Annex I.** Entrepreneurs' Perception of the State of their Enterprise (% of total)



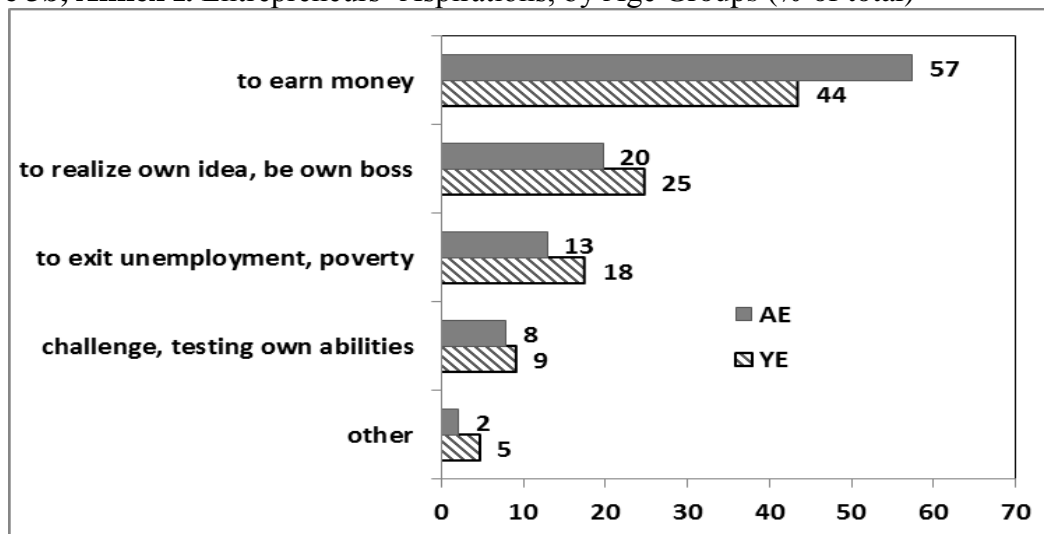
**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs. Note: The views reflect those held by entrepreneurs at the time of the survey (November 2012).

**Figure 3a, Annex I.** Entrepreneurs by Monthly Sales (Emalangeni) and Age Groups



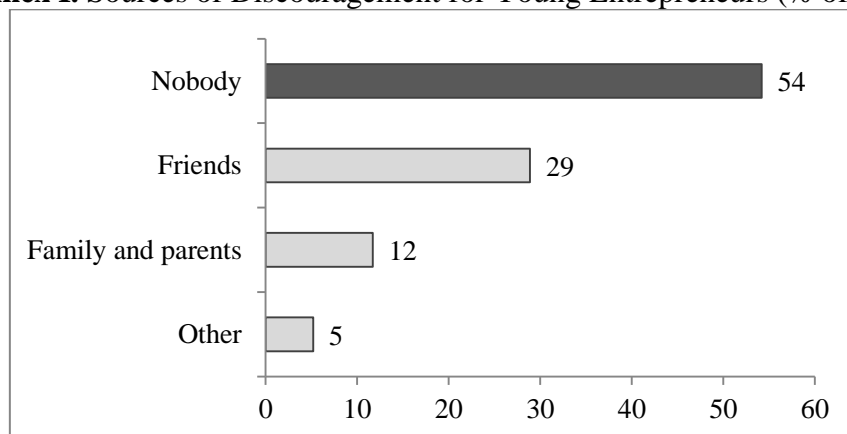
**Source:** Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

**Figure 3b, Annex I.** Entrepreneurs' Aspirations, by Age Groups (% of total)



Source: Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

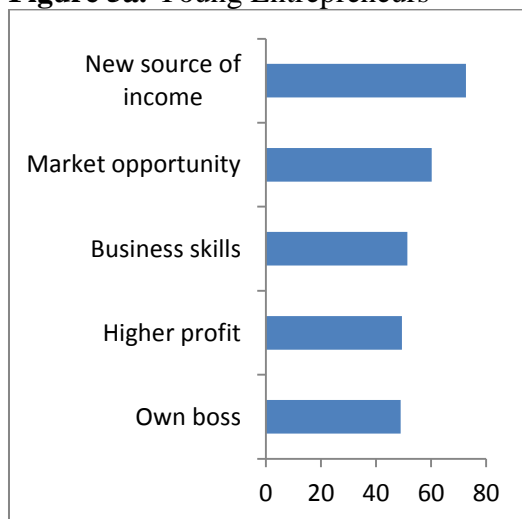
**Figure 4, Annex I.** Sources of Discouragement for Young Entrepreneurs (% of total)



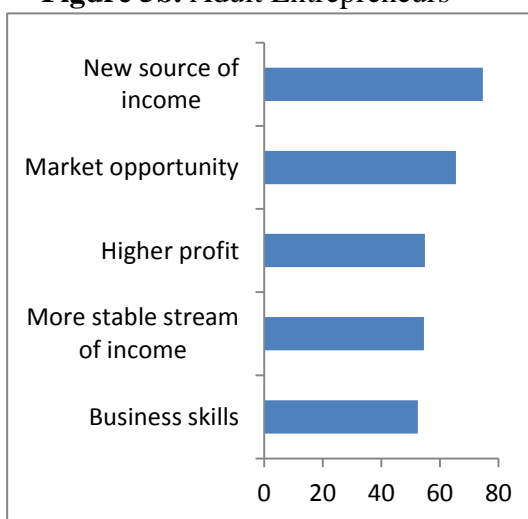
Source: Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

**Figure 5, Annex I.** Reasons for Going into Entrepreneurship, by Age Groups (% of total)

**Figure 5a. Young Entrepreneurs**



**Figure 5b. Adult Entrepreneurs**



Source: Authors' calculations based on the 2012 UN Swaziland survey of urban SMEs.

## Annex II -- Promoting Youth Entrepreneurship: Lessons from Other Countries

This Annex documents youth entrepreneurship interventions adopted in other countries, with a view to identify initiatives that could be possibly implemented in Swaziland, after adapted to the local context. The interventions are organized along the three approaches utilized in the main body of the report: (i) individual characteristics of young entrepreneurs, including skills; (ii) social and cultural attitudes; and (iii) institutional factors.

### *1. Developing skills of young entrepreneurs*

In Swaziland as elsewhere, young entrepreneurs have lower skills – both in terms of education and work/business experience – than adult entrepreneurs. Well designed and targeted training programs can go a long way in reducing this gap. Key lessons learnt from other countries are:

- Youth entrepreneurship training programs that combine in-classroom lessons with workplace training have higher success rates than courses with only in-classroom training (Fares and Puerto, 2009). Entrepreneurship courses tend to deliver better results if the private sector is involved in their organization and delivery, as the sector is more aware of the skills demanded by the market;
- To effectively foster entrepreneurial skills development among young people, entrepreneurship courses should be embedded within all levels of the educational system (OECD, 2012). Tunisia implemented a successful youth entrepreneurship teaching initiative, which specifically targeted university students Box 1, Annex II);
- Prior work experience is an important determinant of entrepreneurial performance (Wadhwa et al, 2009). Temporary wage subsidies that incentivize employers to hire inexperienced youths (e.g., Jordan) can help equip aspiring young entrepreneurs with work experience in an entrepreneurial environment (Box 2, Annex II).

#### **Box 1, Annex II: Tunisian Entrepreneurship Track Initiative**

During the 2009/10 academic year, Tunisia mainstreamed a new entrepreneurship track into applied undergraduate curriculums, to promote entrepreneurship and self-employment amongst university graduates. Targeting 3<sup>rd</sup> year students, the entrepreneurial track initiative entailed entrepreneurship courses as well as personalized coaching sessions. The program allowed students to develop a business plan as part of the graduation requirements, instead of a traditional undergraduate thesis.

The training aspect of the program, which was conducted at local employment offices, featured topics such as SWOT analysis of business ideas, information research, marketing, and building networks. The coaching sessions, meanwhile, were delivered by external private sector coaches, mainly entrepreneurs or professionals from an industry relevant to the student's business idea.

Upon completing the initial training, students presented their business ideas to bankers and experts for feedback, after which more training was provided. Students received a coach and supervision from a university professor to finalize their business plan, which they had to defend to graduate.

A total of 1,702 students participated in the Entrepreneurship Track initiative in 2009/10 – with positive results. Beneficiaries of the program were on average 46 to 87% more likely to be self-employed compared to graduates from the control group. There was also some evidence of a substitution effect from wage employment to self-employment.

**Source:** Premand et al (2012).

**Box 2, Annex II: Jordan New Opportunities for Women (Jordan NOW)**

In 2010, Jordan launched a pilot program, Jordan New Opportunities for Women (Jordan NOW), which gave job vouchers to female graduates searching for jobs. These vouchers had the graduate's name on it, were non-transferable, and paid an employer an amount equal to the mandatory minimum wage for a maximum of six months if they hired a female graduate. As part of the outreach on this initiative, the scheme was advertised through newspaper advertisements, an official government website and the Jordanian Chamber of Commerce.

The wage subsidy intervention succeeded in providing graduates with work experience they would otherwise not have had and three-quarters of those who used the voucher used it for the full 6 months. By allowing firms to observe young women working for them, the scheme also provided an opportunity to overcome prevailing gender-related stereotypes in the labor market.

**Source:** Groh et al (2012).

*2. Reshaping social and cultural attitudes towards youth entrepreneurship*

The Survey and the FGDs highlighted the importance of positive societal attitudes and culture of entrepreneurship for stimulating productive youth entrepreneurship. So far, the societal and cultural attitudes to youth entrepreneurship in Swaziland have been neutral or mixed.

The educational system can help cultivate positive attitudes towards youth entrepreneurship and recognition of entrepreneurial expertise (AfDB, 2011). Successful entrepreneurs can be also 'youth entrepreneurship ambassadors'. Some of the interventions (by the government, NGOs and private sector) could aim linking young people and 'role model' entrepreneurs. Box 3, Annex II highlights how this was done in Germany.

**Box 3, Annex II: Connecting schools with local entrepreneurs (Germany)**

The German Federal Association of Young Entrepreneurs (Bundesverband Junger Unternehmer -- BJU) has successfully implemented programs that connect school students and teachers with local entrepreneurs and businesses, to raise awareness of, and stimulate interest in, entrepreneurship.

Through the BJU 'Entrepreneurs in the Classroom' project entrepreneurs visited schools to share their experiences of being an entrepreneur, including their daily work and business-related responsibilities. The BJU also takes the entrepreneurship learning out of the classroom into the real world. Through its 'Students/Teachers Sitting in the Boss's Chair' project, students and teachers spend a day with an entrepreneur. This gives them a chance to observe first-hand what it is like to be an entrepreneur. After the visit, students are required to write an essay, which is then assessed by an independent regional jury, with prizes awarded to the best essays.

**Source:** Schoof, 2006.

*3. Institutional factors*

*Access to finance*

- A plethora of loan schemes, including soft and government-backed loans, have been implemented internationally, with varying degrees of success, to improve entrepreneurs' access to finance. Most measures, however, do not directly address the causes of limited access to finance for the youth. An innovative psychometric testing method launched by

the Standard Bank Group aims to overcome the limited collateral and financial credit history typically encountered by (young) entrepreneurs (Box 4, Annex II).

- Efforts to improve youth access to finance (as well as for the population as a whole) could include incentives to save. In Nigeria, for example, the Bayelsa State Government has piloted matched-saving accounts for 1,000 low-income children in order to incentivize saving amongst the youth. The Government makes periodic deposits into these accounts, either in set amounts or in proportion to the amount saved (UNCDF, 2012).

**Box 4, Annex II: Standard Bank Psychometric Testing for Loan Applicants**

In an attempt to overcome the ‘access to finance’ barrier and extend more loans to entrepreneurs, Standard Bank piloted the use of psychometric testing in several African countries, including Kenya, Tanzania, Ghana and Nigeria, in their assessment of the loan applications of entrepreneurs.

The psychometric assessment, which lasts 30-40 minutes, operationalizes methods developed by a research institute linked to the Harvard University. The test is conducted by Standard Bank staff in the field, using laptops. It collects information on four key character-aspects of the loan applicant: psychological profile; ethics and honesty; intelligence; and business skills. The Standard Bank uses the information to assess the risk of lending to each loan applicant and their willingness to repay.

To gather information on the loan applicants’ ability to repay their loans, the Standard Bank asks that potential borrowers bank with them for at least several months, and monitors closely their activities.

Results from the pilot tests have been positive and indicate that psychometric loan assessments can be an effective instrument to affordably provide start-up finance to entrepreneurs, despite their limited credit history and collateral. Other benefits of this initiative include a streamlined loan application process and a reduced loan disbursement timeframe.

**Source:** Authors’ research and discussions with the Standard Bank Swaziland representatives.

### Business-support services

A number of countries have developed websites to provide business-support services through the internet. In the United Kingdom, for instance, the government launched a [www.improve.businesslink.gov.uk](http://www.improve.businesslink.gov.uk) website in 2011 to supply comprehensive information to entrepreneurs wanting to start and expand an enterprise. Box 5, Annex II provides another example of a web-based business support-service from the Kenya Institute of Management.

**Box 5, Annex II: TriStart**

The Kenya Institute of Management (KIM) has developed a TriStart, a web-based tool to improve business-readiness among entrepreneurs in Kenya. The website also features a questionnaire that can be completed online by entrepreneurs and assessed using the TriStart. Criteria such as entrepreneurial spirit, market and technology, and experience and skills are used to generate personalized business-readiness report and score for each entrepreneur. The website assists in minimizing the risk of business failure, and it also provides opportunities for entrepreneurs to access professional networks.

**Source:** [www.kim.ac.ke](http://www.kim.ac.ke) .

Lastly, international evidence has indicated that an integrated package of support interventions will go further in promoting youth entrepreneurship than isolated measures (Bruhn and Zia, 2011). Youth entrepreneurship initiatives should thus be comprehensive and consider all key impediments faced by youth, rather than focusing on one particular – and usually well-recognized – constraint, such as a lack of start-up finance.



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