



BACKING YOUNG ENTREPRENEURS

FYA submission to the Productivity Commission Draft Report on Business Set-Up, Transfer and Closure

Foundation for Young Australians
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This report was prepared by the Foundation for Young Australians (FYA). FYA is the only national independent non-profit organisation dedicated to all young people in Australia. Delivering a range of initiatives (co)designed with young people, FYA aims to develop the skills, networks and ideas of young Australians so that they can become leaders, innovators and job creators and deliver change across Australia.

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Overview

Young people have been overlooked in the Productivity Commission (PC) Draft Report on Business Set-up, Transfer and Closure. This is a missed opportunity. Young people are Australia's early entrepreneurs and drivers of future productivity and prosperity. Australia needs a more holistic approach to young entrepreneurs that includes:

1. A national strategy for entrepreneurial education; and
2. An ecosystem that fosters youth entrepreneurship including an accessible investment pipeline.

Based on surveys and focus groups conducted with participants from FYA's Young Social Pioneers youth entrepreneurship accelerator program, together with our broader expertise and backed by international evidence, we outline several recommendations to foster greater business set-up and growth by young people:

1. Introduce **enterprise education in all secondary schools** to support students to develop the necessary skills and knowledge to succeed in entrepreneurship.
2. Progress **new regulations on equity crowdfunding** as a matter of priority, ensuring they are not overly rigid and compliance heavy.
3. Explore a government-backed **microfinance** product for young entrepreneurs.
4. Explore **targeted initiatives to improve the business start-up environment for young people** – from information brokering to full wrap-around business services.

FYA recognises that there is not always a role for government in enterprise development. The private sector is adept at delivering creative solutions and we are seeing an emergence of technology hubs, shared working spaces and investment in youth start-ups. FYA has many strong partnerships with the private sector. Nonetheless, there are common barriers experienced by young people in business set-up and growth which need to be addressed to foster youth entrepreneurship in Australia.

In this context, intermediaries are critical for young entrepreneurs. These are organisations providing infrastructure, mentoring to build skills and capabilities, and access to networks through accelerators and incubators (such as FYA's Young Social Pioneers program). It is with the support of such intermediaries that young entrepreneurs can stress test their ideas, fail fast and then grow. These are extremely cost effective ways of creating a breeding ground for early entrepreneurship and setting young entrepreneurs up for success.

FYA sees a key role for the government in creating an enabling environment for these young entrepreneurs, with targeted initiatives to unleash their potential to contribute to innovation, growth, social outcomes and prosperity. Furthermore, as the labour market undergoes major transformation in coming years and decades, new and innovative approaches to supporting young people into a changing workforce are critical.



Introduction

If young people are better equipped to succeed in our rapidly changing world, Australia's productivity and prosperity is assured. The question is, are we making it easier for them? International research indicates young people will have on average thirteen different jobs across four different industries throughout their lives¹. The latest research from PwC indicates 44% of current jobs are at risk from digital-disruption². In order to navigate these changes, young people will need a broader set of enterprise skills that can be used across sectors and jobs.

Going forward, the traditional employment relationship may become more fluid with people holding portfolios of activities, including paid employment, unpaid employment (internships or volunteering), self-employment, and caring for children or the elderly³. This is consistent with FYA's experience with young entrepreneurs who are often simultaneously engaged in volunteer work or other paid employment.

Young people are more likely than their parents to be exploring business ownership and self-employment as they navigate changing labour markets and the digital economy. We need investment to support young people to be innovative, creative and enterprising. As the Deputy Governor of the Reserve Bank has noted, the type of human capital needed for Australia's future prosperity is best developed in a culture that encourages entrepreneurship and supports people to take a risk with a new idea⁴.

Young people are our early entrepreneurs

Australia is recognised as a leading nation in fostering entrepreneurship, ranked among the top five countries globally in relation to access to funding, entrepreneurship culture, and education and training⁵.

However, while across most age groups this has resulted in levels of entrepreneurship commensurate with the world's most entrepreneurial nations such as the United States and Canada, new data from the upcoming 2014 Global Entrepreneurship Monitor reveals when it comes to young entrepreneurs (aged between 18-24 years) Australia is lagging behind.

¹ Kahn, L. Abdo, M. Hewes, S. McNeil, B. Norman, W. (2011), *The Way to Work: Young People Speak Out on Transitions to Employment*, The Youth of Today & The Young Foundation, UK.

² PwC (2015), *A smart move: Future-proofing Australia's workforce by growing skills in science technology, engineering and maths (STEM)*, Sydney.

³ Oxford Martin Commission (2013), *Now for the Long Term: The Report of the Oxford Martin Commission for Future Generations*, University of Oxford, UK.

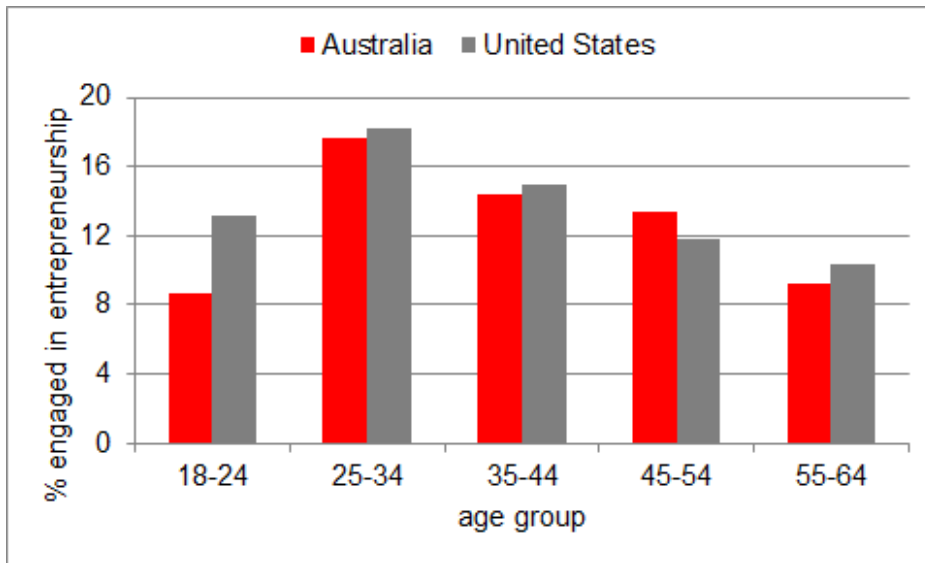
⁴ Lowe, P (2014) *Building on Strong Foundations: Address to the Australian Business Economists Annual Dinner*, 25 November 2014.

⁵ Ernst & Young (2013), *The power of three: Together, governments, entrepreneurs and corporations can spur growth across the G20*, EYGM Limited.



The new 2014 Global Entrepreneurship Monitor data for Australia will show that the peak for early stage entrepreneurial activity⁶ occurs amongst young adults (25-34 year olds), consistent with other countries around the world⁷. However, in the earlier years more needs to be done to foster entrepreneurship. Only 8.7% of 18-24 year old Australians are starting new businesses – much lower than the average rate of 13.1% across all age groups⁸. As shown in the chart below, this is the age group where Australia is failing to keep up with countries such as the United States, with fewer young people engaging in entrepreneurship in their late teens and early twenties.

Early-stage entrepreneurial activity rate across age groups



Source: Australian Centre For Entrepreneurship Research, QUT,
Extracted from 2014 Global Entrepreneurship Monitor Data

This data reveals a gap in the PC's Draft Report, which includes no analysis of young entrepreneurs despite their current and future potential as a driver of jobs growth, self-employment and innovation.

⁶ Early stage entrepreneurship (or the Total Entrepreneurship Rate as it is referred to in GEM) measures both nascent (in the process of starting a business) and new business owners (less than 3.5 years old).

⁷ Global Entrepreneurship Monitor, 2014 Global Report

⁸ Australian Centre for Entrepreneurial Research, QUT, Global Entrepreneurship Monitor (GEM): National Entrepreneurial Assessment for Australia, 2014 (*forthcoming*).



Young Social Pioneers Survey

To inform this submission and our recommendations for developing a supportive ecosystem for youth entrepreneurship, FYA conducted a survey with 65 young entrepreneurs engaged in our Young Social Pioneers accelerator program (YSP).

The YSP program was developed in response to a clear gap in the services for young social entrepreneurs. The program provides training, mentoring, peer-to-peer support and the opportunity for the entrepreneurs to pitch for funding to launch or expand their enterprise. Since 2009, 116 young people have participated in the program. The focus of their ventures is on achieving social impact alongside sustainable revenue generation. Many of the participants have developed operational social enterprise businesses, while others have developed social inventions to be launched into the market (see case study).

CASE STUDY: YOUNG SOCIAL PIONEERS

FYA's Young Social Pioneers are disrupting traditional forms of charity and applying commercial strategies to maximise improvements in community well-being and drive social innovation. For example, Ethan, a pioneer from Wollongong, has created SMART (Stroke Management with Augmented Reality Technology) – a camera-based device that helps people overcome stroke and vision impairment. Other pioneers are strongly focused on inclusion. For example Cheree, a pioneer from Brisbane, has launched Social Pops – an ice cream business providing unemployed people with work skills. Several pioneers have experienced significant growth - one enterprise has transitioned from being 100% volunteer based to a sustainable business with six employees, while another has achieved over \$1 million in sales and grants.

Our survey of YSP participants and alumni identified common trends in terms of the challenges and barriers these young entrepreneurs face, including access to finance, human resources and people management, and knowledge/education about legal and regulatory structures.

Key survey findings

When asked what the barriers were to starting or growing their enterprise (responses: n = 56):

- » 75% had trouble accessing finance
- » 45% identified human resources and people management as a barrier
- » 40% lacked knowledge about legal structures and regulations
- » 4% did not face any barriers



Respondents suggested the government could alleviate financial barriers by opening up flexible, accessible finance options (i.e. low interest loans) that would allow them to pilot their ideas. Several Young Social Pioneers also suggested that the government could play a role in providing more accessible information on setting up legal structures.

When asked how they financed their enterprises (responses: n = 53):

- » 66% accessed personal savings
- » 35% accessed crowdfunding
- » 4% accessed a loan secured against personal assets

One third of the respondents that have used crowdfunding cited a “lack of access to finance from banks and other institutions” as their rationale.

The Young Social Pioneers are often balancing multiple jobs, study and volunteer commitments on top of leading their enterprises (responses: n = 54):

- » 50% of respondents are engaged in study that is relevant to their enterprise
- » 75% are volunteering
- » 80% have paid employment outside their enterprise
- » 25% run more than one enterprise

A new approach to fostering youth entrepreneurship

Many of the concerns of participants in the Young Social Pioneers program are consistent with the concerns of young entrepreneurs globally.

A 2013 survey of hundreds of young entrepreneurs from G20 countries by Ernst and Young found:

- » 73% of young entrepreneurs needed help with access to funding, with funding remaining very or somewhat difficult to access in their countries
- » 49% needed access to innovative funding platforms which they believed would accelerate entrepreneurship
- » 66% of young entrepreneurs believed entrepreneurial skills needed to be specifically taught
- » 50% desired a more supportive culture where their contributions as entrepreneurs in creating new jobs would be recognised
- » 41% supported tax incentives for investment in small business
- » 29% said a reduced burden of government regulation through a streamlined tax and regulatory system would be an important factor in accelerating entrepreneurship
- » and 23% expressed concern that business failures were perceived as barriers to future business prospects due to society's low tolerance for failure⁹

⁹ Ernst & Young (2014), Avoiding a lost generation: Ten key recommendations to support youth entrepreneurship across the G20, EYGM Limited.



In our view, to support young Australians to develop the skills and knowledge required to embark on entrepreneurship and to succeed in their ventures, Australia needs a more holistic approach that includes:

1. A national strategy for entrepreneurial education; and
2. An ecosystem that fosters youth entrepreneurship including an accessible investment pipeline

Australia is one of the only advanced economies without dedicated youth entrepreneurship initiatives, supported wholly or partly by government. Countries like the United States, Canada and Germany all have initiatives to back youth entrepreneurship. In the following sections, FYA touches on two areas of relevance to the PC inquiry that should form part of any youth entrepreneurship initiatives: education; and finance.

Education

FYA strongly agrees with the Commission’s initial finding that entrepreneurial skills and the confidence to start a business venture can be strengthened through entrepreneurial-focused education and training. In our view, we need to start early, at the beginning of secondary school, which is why we have developed programs such as \$20 Boss, supported by our founding partner NAB, to increase access to enterprise learning for secondary students (see case study).

CASE STUDY: \$20 BOSS

FYA’s \$20 Boss program (supported by founding partner NAB) is aimed at developing entrepreneurial skills, primarily amongst Year 7-10 students in an engaging and practical way. Students are given \$20, like a loan, to establish their business, which is repaid from their profits with \$1 “interest”. Upcycling is a clever way to convert discarded goods into desirable collectors’ items. It’s good for the environment and makes good business sense. Thanks to the \$20 start-up money from \$20 Boss, students and budding fashionistas Michelle and Mia started a business converting old T-shirts into fashion statements. They made money and have since looked into launching their own label.

Just as young people need to be equipped to be innovative, creative and enterprising, education models need to adapt too. If young people do not learn about running a business at school or do not have a family history of self-employment, they are less likely to see this as a career option.

Our focus group session with pioneers revealed that parents were important role models and a source of confidence to start a business. This is consistent with international evidence that self-employment



is inter-generationally transmitted¹⁰. Given enterprising skills are being called upon more and more for this generation, there is a need to broaden out career education.

The spillover benefits of enterprising skills developed at an early age are exciting. Not all young people will go on to be business owners but can apply enterprising skills in their workplace. Skills such as confidence and agency, innovation and creativity and digital literacy¹¹. For example, a nurse who identifies a healthcare problem and develops a service to improve patient outcomes or a teacher who improves the teaching of foreign languages by developing a new learning tool¹².

The Productivity Commission notes that the benefits of training can dissipate over time and demographic factors are also important in influencing business start-up. FYA agrees that demographic factors are important - the median age for established business owners is 47¹³. This is why an earlier focus on young entrepreneurs is necessary. Continuous education is also important against the backdrop of rapid technological change and the rising importance of new markets in emerging economies.

Recommendation

Introduce enterprise education in all secondary schools to support students to develop the necessary skills and knowledge to succeed in entrepreneurship.

Access to finance

Access to finance is a major barrier for young people in starting or growing a business. For young entrepreneurs without significant asset holdings (including housing), obtaining commercial loans is difficult. We surveyed our Young Social Pioneers and found that two-thirds were using personal savings. We see opportunities to build on their personal savings if innovative finance options are available and young people are supported to access them.

Other sources of finance for pioneers have included: philanthropic, corporate and government grants; public donations and loans from family and friends. Several pioneers had also sourced equity from private investors or venture capitalists.

¹⁰ Francis, G (2013) *Youth Entrepreneurship*, Background Paper for the OCED Centre for Entrepreneurship, SMEs and Local Development

¹¹ For further discussion see: Australian Curriculum, Assessment and Reporting Authority (2013) *Draft Australian Curriculum: Technologies*; Kahn L, et al. (2012) *Developing Skills for Life and Work: Accelerating Social and Emotional Learning Across South Australia*, The Australian Centre for Social Innovation and the Foundation for Young Australians; Loader, T (2011) *Careers Education: Evolving, Adapting and Building Resilience Through Chaos*, Australian Journal of Career Development.

¹² Featherstone, T (2012) *How to Become an Entrepreneurial Country*, Business Review Weekly, 26 Sept. 2012.

¹³ Productivity Commission (2015) *Business Set Up, Transfer and Closure*, Draft Report



Crowdfunding

Crowdfunding is one innovation that has developed to fill a gap in traditional forms of finance. One-third of our Young Social Pioneers report using crowdfunding raising anywhere from \$5,000 to \$50,000. Crowdfunding can be a great way to secure finance and also raise awareness about a social issue. It can also enable entrepreneurs to pilot and test a model before applying for further funding. Whilst most pioneers use rewards-based crowdfunding (e.g. copy of the product, merchandise, donor recognition), there is growing interest in equity crowdfunding.

FYA is aware that the Government is currently considering regulation of equity crowdfunding – this needs to be progressed as a matter of priority. FYA recognises the need to minimise the risk of fraud and equip investors with reliable information. At the same time, the Government should not introduce an overly rigid and compliance heavy regulatory framework – this will constrain innovation in an important source of finance for young entrepreneurs.

Recommendation

Progress new regulations on equity crowdfunding as a matter of priority, ensuring they are not overly rigid and compliance heavy.

Traditional finance

To succeed in business set-up, young people need to be able to cover day-to-day expenses in advance of reliable revenue generation. Without a proven track record, it is typically difficult for young people to access traditional forms of finance. There may be a role for Government. FYA recognises that Government financing mechanisms should only be considered if there is a market failure and clear public benefit. Where the space is not filled by Government, private sector solutions can emerge – crowdfunding and peer-to-peer lending are examples.

Nonetheless, to more rapidly increase the youth entrepreneurship pipeline, we see government finance as an idea worth exploring. For example, one model could be based on the Trade Support Loans aimed at meeting day to day expenses of apprentices (e.g. rent, public transport, purchasing tools or a second hand vehicle). The loan becomes repayable once an income repayment threshold is reached, similar to repayment thresholds for the Higher Education Loan Programme (HELP).

Recommendation

Explore a government-backed microfinance product for young entrepreneurs.



There are already many government assistance schemes for entrepreneurs and small business that are open to all age groups, across the layers of government. Many do offer finance. Programs include the federal government's New Enterprise Incentive Scheme (NEIS) for disadvantaged job seekers, state government schemes such as South Australia's innovation grants for start-ups and the City of Melbourne small business grant program, to name a few.

However, young people engaged in our consultation process expressed they did not find these schemes accessible for youth. There are market failures in the provision of information to young entrepreneurs because young people find it difficult to navigate the available supports and perceive mainstream services to be targeted at older cohorts. Moreover, in our focus group some young people expressed that applying for government schemes was time-consuming and not a user-friendly process. To draw in more young people, government processes may need to become more nimble, innovative and creative too.

FYA recommends the Australian Government explore targeted initiatives to improve the business start-up environment for young people. National leadership is necessary in this space given the critical importance of enterprising skills for Australia's future growth and prosperity. Other countries have seen the potential. For example, the Canadian Government owned Business Development Bank of Canada, offers specialised services for young entrepreneurs including loans, business coaching and marketing workshops. For almost 10 years, the Canadian Government has also provided significant funding to Futurpreneur Canada as part of its economic growth and job creation strategies. Since 1996, Futurpreneur Canada has supported more than 6000 young entrepreneurs to start their own business, creating over 26,000 jobs and generating over CAD191M in tax revenue¹⁴. In Australia, it may be that only information brokering to young people is required. More likely, however, is that youth-targeted financing, legal advice, mentoring and other wrap-around services will drive greater benefits for Australia.

Recommendation

Explore targeted initiatives to improve the business start-up environment for young people – from information brokering to full wrap-around business services.

FYA's ambition is to see the needs and aspirations of young people considered in any major economic or social policy in Australia. In this submission, we have kept our recommendations brief and focused, in line with the Productivity Commission's lines of inquiry. We welcome the opportunity to discuss our ideas for change in more detail.

For further information, please contact: Nicola Hazell, FYA Head of Partnerships and Public Affairs

¹⁴ Ernst & Young (2014), Avoiding a lost generation: Ten key recommendations to support youth entrepreneurship across the G20, EYGM Limited.



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