

Generating Jobs through Entrepreneurship

Presentation for the Pre-G20 Summit Conference “G20 Partnership for Growth and Jobs” by Victor Sedov, President, Center for Entrepreneurship (Russia), Chairman, G20 Young Entrepreneurs’ Alliance 2013 – 2014

Ladies and Gentlemen, it is an honor and a pleasure to be here.

I represent G20 Young Entrepreneurs’ Alliance (G20 YEA), whose mission is to be the voice of young entrepreneurs with the G20 Leaders. We have had four summits since 2010. Last year’s summit was held in Mexico, with President Calderon personally receiving our Summit’s final communiqué.

This year, we held the G20 YEA Summit in Moscow under the auspices of the B20, which allowed us for the first time to be integrated into the official G20 outreach strategy. Our Summit gathered 400 young entrepreneurs from all G20 countries, and results of their work were summarized in the final communiqué, that was handed over personally to Mr. Shokhin. We are glad that B20 has listened to our recommendations and has integrated many of them into B20’s White Book.

The Center for Entrepreneurship, as host of this year’s G20 YEA Summit, has produced a detailed report to back up Summit communiqué’s recommendations. This report was developed by Institute for Facility Management, key consultants of it being Rector of St. Petersburg State University of Economics professor Igor Maksimtsev and professor of Moscow Theological Academy archdeacon Andrey Kuraev (<http://g20yeasummit.com/en/>). We also had two global consulting firms - Accenture and E&Y - produce analytical papers in partnership with G20 YEA. Finally, G20 Research Group keeps providing G20 YEA with invaluable insights and visibility, including this high-level conference.

My task here it so speak about young entrepreneurs’ role in job creation. Well, as the voting during the report of the Job Creation and Investment in Human Capital Task Force (of which I was a member) at the recent B20 Summit has shown, 49% of participants saw an “enabling environment for entrepreneurship” as the main tool for fostering job creation (this answer drew the majority of votes, with other two options lagging behind; the nearest “broader access to quality education” got 35%).

So combined, 84% of global business community believe that access to quality education and enabling environment for entrepreneurship are the solution for job creation.

Obviously, these two measures speak in favor of youth entrepreneurship as a tool for job creation, especially for the youth. This might be a surprising conclusion to many, but, as G20 YEA’s combined experience demonstrates, young entrepreneurs create very dynamic and high growth businesses (if the abovementioned enabling environment is in place), and one thing they need first and foremost is adequate education, both for themselves and for the employees, usually also young people, they are hiring.

Hence our message to G20 leaders and other stakeholders: job creation through youth entrepreneurship.

Let me go a little bit more into detail.

I will not bore you with statistics, we’ve got a lot of numbers in the reports I referenced above (which I encourage you to read), but just a couple of numbers from our background report to demonstrate our cause.

From the OECD/European Union, Policy Brief on Youth Entrepreneurship, 2012: of the newly born enterprises, only 50% survive after 5 years. However, young people's businesses that do survive have more growth potential than those of older entrepreneurs on average. Among businesses that survived three years, those run by people under 30 years old had an average growth rate of 206% which is almost double the growth rate of businesses run by those over 40 (114 %). This suggests that young entrepreneurs are a high risk but high reward type of entrepreneurs.

This is in large part because young entrepreneurs often start in more innovative and promising sectors, such as IT. They are creators who find effective solutions to problems they solve. They are at the forefront of structural changes that our economies need to modernize and start growing again. Entrepreneurship, especially youth entrepreneurship, describes mobility of thinking and lack of stereotypes, which are the qualities that play a crucial role in the development of economies.

Another piece of data: According to a recent study conducted by the Young Invincibles and funded by the Ewing Marion Kauffman Foundation, 54 percent of USA's recent graduates either want to start a business or have already started one. These percentages vary across countries (some cultures are more risk averse than others, you can look in our reports), but generally a very high percentage of college graduates want to start a business.

Finally, there are a lot of studies for the U.S., EU and other countries that demonstrate that the net job growth over the past 20-30 years is created by SMEs, not big corporations, which on the net basis have not added any jobs.

It should be noted though, large firms tend to hire younger employees than smaller firms do. Still by themselves, according to the final report of the Small Business Taskforce, 2013, large firms will not produce jobs for millions unemployed young people displaced by the on-going economic malaise.

Of course, there is also the government sector out there to create jobs, too, but there are two factors to keep in mind that should prevent this from happening this time: first, the ongoing government debt crisis that leaves government finances extremely strained, so generally governments have to cut spending on their bureaucracy, not enhance it. And, secondly, bureaucratic apparatus does not produce gains in productivity, and hence is not a positive factor in wealth creation.

But, governments have a major role to play in creating framework conditions for young entrepreneurs to start and grow their ventures. As President Nixon once said, "we are all Keynesians now," meaning that politicians need to do something.

What makes the economy really tick is how this "something" is understood. Will government action stimulate private initiative or inhibit this vital resource?

There is no doubt that in times of systemic crisis of the global economy there is a strong need for development of a global action plan, and a clear desire to implement it. Not without reason, economists involved in building models, inadvertently keep referring to the "Platonic" ideal of how things should work. What is important is that the greatness and scale of the objectives are not to crush an average person, but to protect him/her. It is important that rational logic of global planning calculations leave room for personal projects and unpredictable human creativity.

So, to prevent social unrest, to get fiscal situation under control, to ensure that our youngsters have a future and our economies are suited for the post-industrial challenges of the 21st century, we need to take a hard look at how to foster youth business on a broad scale. Entrepreneurship is not a magic wand for solving youth employment issues, but it is still an important tool that provides targeted support for

those who are currently unemployed or underemployed and have high potential in the innovation economy.

Following the recommendations of our Summit's communiqué, addressed to G20 leaders, I can say that first and foremost access to digital infrastructure and services have been identified as a universal requirement of young entrepreneurs across all G20 countries. This is something that requires coordination from the government level. On this point our communiqué and our own report's findings diverge with E&Y's report, but coincide with findings of Accenture.

Secondly, we are finding ourselves in a world in which talent and knowledge is capital. Human capital is a basis of entrepreneurship. As such, it acts as an obvious priority for social and economic policies of the G20. Especially, development of entrepreneurship in the sphere of innovation creates a growing need for staff with modern higher education. The quality of education determines the quality of entrepreneurship growth, and the two sides of the equation must develop together.

Even in the USA, according to a recent Forbes article, the share of college graduates who cannot find work in their field has reached 60%. The question is, does the educational system provide the knowledge, networks and innovation skills needed in the modern economy? It is no longer sufficient to have quality undergraduate training in a specific area. One needs skill sets that transcend one's major or desired profession. Many young people often lack basic training in 21st century tech skills, such as programming. In addition, few non-MBA graduates have training in finance, marketing, project management, and business administration, which are important skills for a would-be entrepreneur.

There is an array of practical recommendations in our communiqué, taken from young entrepreneurs, on how to address the problem of education to provide knowledge, networks and innovation skills, and to foster entrepreneurial culture.

But even if one got the needed education, training, attitudes and skills to be a successful entrepreneur, an enabling environment, including regulations and taxation, is a very important factor of success. As I said before, talent is today's key competitive factor of business, especially for young entrepreneurs, for who knowledge is their main asset. Governments need to take a hard look at how they are taxing and regulating labor relations, particularly in young start-ups in such priority areas as innovation and social business.

Taxes are important for a government to function, but they should not be a break for broader social development, nor an unbearable burden on the economic prospects of the younger generation.

Finally, in our communiqué we noted the importance of access to finance for start-up and growth ventures. Especially today, when the velocity of money in some key economies has fallen by 50% and we face a risk of spiraling into a hyper-deflation, it is important to look at innovative funding mechanisms that will help stabilize the velocity of money at a more reasonable level and help young people create businesses and generate wealth. However, contrary to E&Y, we have access to finance on last position in between our recommendations, and not as the first priority. This is because the majority of good ideas find funding if appropriate conditions (enabling environment, education, taxes) are in place.

In conclusion, let us not forget that every country has its own regulatory system and laws. Often, such laws look like products of sophisticated cabinet-thought rather than political wisdom. They are easy and enjoyable to learn, but difficult to execute, and they are designed for the abstraction, not the specifics. A perfect society is required for their implementation - a society, which does not need any laws. But, entrepreneurs are real people, who do not need the abstract patterns of freedom and equality, but rather insist on an open space for business initiatives and safety of persons and property.

Today, one of the most important characteristics of economic relations is the degree of paternalism in the relationship between states and entrepreneurs. Governments are obliged to take responsibility for the economic situation, or rather to make a choice between different goals and methods of economic policy in terms of entrepreneurial development, especially for the youth.

Ladies and gentlemen, I believe I have exhausted the limits of your patience with my presentation, so let me stop here and take questions, if there are any.