

# INPUT PAPER

## Rural Youth and Business Start-ups in Rural Economy

The present Input Paper provides results of two true random sampled surveys, conducted across eight ENPARD municipalities<sup>1</sup>: One comprising 818 rural businesses registered and active in any of these municipalities, and another comprising 4,740 respondents from the population in general. Regression analysis showed that, under otherwise equal circumstances (*ceteris paribus*), there are **no systematic age differences when it comes to business performance** measured in the number of employees, employment growth, intentions to expand and a simplified business climate index (BCI) based on the highly regarded German Ifo BCI.<sup>2</sup> But there are systematic differences in some business relevant attitudes.

More young<sup>3</sup> rural people see entrepreneurship as good career choice for them than older ones (73% vs. average of 64%).<sup>4</sup> Within this group, educated young men stand out as the group most likely to consider entrepreneurship as a good choice. This points to the identified connection that men with a bachelor's degree or higher have a better business performance than women, potentially because of different subjects they study.

Among those who see entrepreneurship as good career choice slightly more young people (82.4%) than overall (78.4%) can also identify opportunities to start a business in their municipality. Generally, young and middle-aged men see significantly more opportunities than women of all age groups and old men; educated people tend to see more opportunities than others.<sup>5</sup> Among those who see opportunities, young people are more confident that they have the right skills to manage a business (87.8% vs. average 77.5%), men are more confident than women, and educated people more confident than less educated. The confidence results are reflected in the fear of failure when starting a business: This fear is significantly more common among women than men in all age groups and less common among educated people (of either sex).

**In conclusion**, the analysis of attitudinal prerequisites for starting a business shows results along the expected lines: **young, men and educated people tend to have in general more confidence than elderly, women and less educated people.** As “seeing opportunities” and confidence are however subjective and not tested by the realities of the market, these results might also reflect a tendency to over-confidence among men and younger people. As other regression results demonstrate,<sup>6</sup> there is no systematic age, gender and educational difference when it comes to business performance. **Confidence may be seen as necessary but not sufficient condition for business performance.**

**Considering the young and middle aged only, there is no systematic difference between those who have not thought about starting a business at all, wanted but were not able to start, and have started or are planning to start a business.** These groups make up 27.3%, 52.0% and 20.7% of respondents. The following analysis looks only at the first two subgroups of people.

People do not start a business out of free choice: Young men, especially those without a bachelor's degree, state significantly more frequently than others that they are satisfied with their income. Female respondents from all

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<sup>1</sup> Keda, Khulo, Dedoplistskaro, Lagodekhi, Kazbegi, Akhalkalaki, Borjomi and Tetrtskaro.

<sup>2</sup> The Ifo BCI is a leading monthly indicator for economic activity in Germany, prepared by the Ifo Institute for Economic Research in Munich. It is based on two simple questions: 1) How do you assess your current business situation? (poor/satisfactory/good) and 2) How do you expect your business to develop in the next 6 months? (worse/unchanged/better). In fact, the explanatory variable “women” was consistently one of the first ones eliminated in the regression analysis.

<sup>3</sup> Note that in these surveys, the young age bracket was identified as being under 35 years of age to obtain a large enough sample for statistical evaluation. The middle-age bracket is between 35 and 65 years and the old above 65 years of age.

<sup>4</sup> The GEM study 2014 found that on average 66% of Georgians see entrepreneurship as a good career choice for them, pointing to no differences between the rural and urban population. Lezhava, B., Brekashvili, P. & Melua, I. (2014). Global Entrepreneurship Monitor, 2014 Report. Prepared for German-Georgian Cooperation/GIZ.

<sup>5</sup> Note that in the surveyed municipalities, people in general appear to see much more opportunities than the Georgian population as a whole in 2014: 59% versus 36.6% back then.

<sup>6</sup> See UNDP/IRDG Policy Brief. (2020). “Women in Rural Businesses.”

age groups and old men report significantly more often that they do not start a business because of a lifestyle choice. These two groups represent 15% and 14%, respectively, of the sample.

Risk aversion, a perceived lack of skills and not having had a promising idea hold back 17%, 11%, and 8%, respectively, from starting a business. The patterns are each time broadly comparable to the above corresponding confidence questions “fear of failure”, “lack of skills” and “seeing opportunities”. This demonstrates that these perceptions do actually influence choices.<sup>7</sup>

The next three reasons provided for not starting a business are relevant for the promotion of business start-ups in rural areas, because programmes may have a more direct influence over them. Though only 7% of the sample respondents stated that insufficient exposure to entrepreneurship held them back from starting a business, it appears to be slightly more a problem of young and female respondents. Another gender related reason for not going into business are family obligations: Overall, 10% of respondents state this as reason, but women are overrepresented in all age groups. However, education (secondary degree, bachelor) among women reduces the effect. Finally, 75% of respondents stated a lack of resources as reason not to go into business. The related percentage is lower among the elderly (probably because other reasons may be more relevant for them), but significantly above average among persons with only secondary education (instead of Bachelor’s) and significantly stronger among female than male respondents of any educational level. This again confirms the identified lower capital endowment of female run businesses with the corresponding impact on business performance.

**In conclusion, there are almost no age-related differences holding people back from starting a business.** In terms of youth promotion, this may be a positive result: the youth is not systematically disadvantaged in starting a business. **But there are strong gender related differences.** A programme supporting business start-ups in rural areas should link especially young women to experienced entrepreneurs, e.g. through roundtables, networks, events and group-services. It should support the rural care economy to allow women to reduce their family obligations. And it should improve the access of women and lesser educated to start-up capital, taking cultural and social norms into consideration.

**When it comes to business performance, the youth has some decisive attitudinal advantages:** “Success” is slightly more important to the younger generation (of both sexes) than to the older,<sup>8</sup> and this motivation has been shown to positively influence business performance (number of employees and the simplified business climate index - BCI). Among women with bachelor’s or higher, success is more important than for their male counterparts. “Openness to change” is for young and educated of both sexes more important than for elder people. Again, openness is positively correlated to business performance (BCI and intention to expand). Finally, thinking up new ideas and being creative is significantly more important for the young (45%) than the overall sample (33%) and this attitude again influences business performance positively (BCI and intention to expand). On the other hand, negatively influencing is the higher readiness to take risks among the youth (31% vs. 22% overall) which is much stronger prevalent among men than women (25% vs. 20%) and influences negatively the BCI. Note that all three attitudinal differences (success, openness, creativity) are significantly stronger in average among business owners, though the age differences are less significant among them.<sup>9</sup>

**The sectoral choice of young people is also more promising:** Many more young people are interested in investing in non-agricultural activities -usually much more profitable than agricultural activities- than the sample in general (24% vs. 19%). They are significantly less frequently involved in the dominant rural business sectors trade and transport, both of which influence business performance negatively.

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<sup>7</sup> Differences are: Old women are less risk averse than average. In terms of lack of skills, the age-related distinction disappears.

<sup>8</sup> Note however that only 29% of respondents in the sample see “success” as an important motivator, while this may have declined from 55.2% in Georgia overall and 36.2% in the CIS countries interviewed in the World Values Survey (2014).

<sup>9</sup> Population average/young; business owners average/young: Success – 29%/38% and 46%/51%; creativity 33%/45% and 60%/67%; openness to change 39%/49% and 55%/60%.

Finally, **young people tend to have less conservative gender attitudes, thus facilitating a shift towards a better inclusion of women.** They are more likely to support working mothers, providing jobs not based on gender, and supporting female business managers. In the first two of these three cases it is however notable that business owners are more conservative than the population in general.<sup>10</sup> It is highly interesting to note that, despite otherwise conservative attitudes, all age groups, educational levels and both genders state that women make better business managers than men. Note further that lower educational levels usually imply more conservative gender attitudes, but that youth is on average getting better educated.

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<sup>10</sup> Population average/young; business owners average/young: “when mothers work, children suffer” – 59%/53% and 66%/57%; “when jobs are scarce, men should have more right to a job than women” – 69%/63% and 79%/78%; “when a woman is a manager, she is a better leader than a man” – 56%/55% and 69%/74%