

# White Paper on Supporting Youth-led Businesses in Nigeria



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## Problem Statement



Source : FATE Foundation

Youth-led businesses account for about 67%<sup>1</sup> of MSMEs in Nigeria. Data from the 2021 National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) MSME Survey report shows that 96.9% of the current 39,654,385 Micro, Small and Medium Enterprises in Nigeria operate at the micro business level. Reports also show a high level of youth participation operating within the micro level segment. Despite the challenges within the entrepreneurship ecosystem, these MSMEs contribute over 50% to Nigeria's GDP and provide 80% of jobs. This underscores the need for the implementation of effective and sustainable youth-centered policies and programs to scale the impact of youth-led businesses on economic growth and job creation.

# Methodology & Approach

## The FATE Institute Policy Workshop Series:

### A Focus on Youth-led Businesses



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Source : FATE Foundation

The methodology and approach adopted by the FATE Institute in developing this White Paper include desk research and stakeholder engagement to understand the pain-points of youth-led businesses and identify recommendations were as follows:

1. Collation of feedback across our youth-led programs within the FATE School of FATE Foundation
2. Holding a Policy Workshop on youth-led businesses which had over 100 youth entrepreneurship stakeholders in attendance, including the Youth Business International (YBI) Enactus Nigeria, Junior Achievement Nigeria and the FATE School, amongst others.
3. Review of insights, perspectives and recommendations from the workshop session in addition to findings from our desktop research to develop this white paper.

# Background on Youth-led Businesses in Nigeria

For purpose of this white paper, youth entrepreneurs are entrepreneurs aged 18 – 35<sup>2</sup>. Nigerian youth entrepreneurs are famed for their dynamism, creativity, innovation, and a determination to thrive against all odds. Despite the challenges within the Nigerian entrepreneurship ecosystem, youth entrepreneurs are optimistic about the future of their businesses as reported in the State of Entrepreneurship 2021 report which showed that 92% of youth entrepreneurs expressed optimism about the future of their businesses. This demographic segment often experience challenges around capacity building, business support, access to finance, access to markets, policy & regulation etc. Sadly, these challenges were exacerbated by the impact of the Covid-19 pandemic with youth entrepreneurs identified as a vulnerable segment<sup>3</sup> within the ecosystem.

A major highlight of the pandemic however has been the rise in technology adoption and the agility of Nigerian youth entrepreneurs in adopting technology. The State of Entrepreneurship 2021 report shows that 70%<sup>4</sup> of youth entrepreneurs adopt technology in their business operations. In leveraging technology, Nigerian youth entrepreneurs have and continue to provide innovative solutions across sectors such as the financial sector, education, health, agribusiness, creatives etc.. giving rise to new industries like FinTech, EduTech and AgriTech which provide tech-enabled solutions that are applied across traditional sectors. This surge in technology adoption and innovation has also attracted the international community as Nigerian youth entrepreneurs have remained a dominant force within the African tech ecosystem and consistently accounted for much of the funding that has been invested in the continent<sup>5</sup>.

In 2021 alone, Nigerian startups raised \$1.5bn out of \$4.3bn that was invested in the continent. Since the turn of 2019, Nigerian startups have raised more than \$3.5bn in Africa<sup>6</sup>.

Despite this promising outlook, the current macroeconomic in Nigeria poses more problems for youth entrepreneurs around accessing markets, policies & regulatory support, accessing finance etc. because of a poor business environment that is driven by foreign exchange instability and inflationary pressures; increase in taxes to mitigate dwindling government revenue; as well as socio-economic issues like insecurity, unemployment and inflation which are on the rise. However, with the impact of youth entrepreneurs and the potential they wield, youth-led businesses have demonstrated the capacity to significantly impact Nigeria's GDP and contribute to providing jobs. Against this background, it is strongly recommended that a strategic approach be adopted in addressing the gaps mitigating the growth of youth-led businesses to drive economic growth in Nigeria. Policies like the Startup Bill Nigeria are a positive step in the right direction but implementation is critical to harness the goals of the Bill. Also, there needs to be implementation of sustainable programs and policies to address the myriad of issues impacting youth entrepreneurs.

This White Paper looks at the case for investing in youth-led businesses; the challenges youth-led businesses face and recommendations on mitigating those challenges.

# The Case for Supporting Youth-led Businesses



Source : The FATE Institute

The following points make a case for supporting Youth-led Businesses:

**Strong Entrepreneurship Mindset and Drive:** Nigerian youths possess a strong mindset and drive for entrepreneurship. Unlike in some other climes where young people need to be cajoled to think entrepreneurially and even coaxed with incentives, Nigerian youths possess a natural drive for entrepreneurship. It is not uncommon to see or hear of several cases of youth entrepreneurs starting their businesses in the university, some even earlier and expanding operations after post-graduation.

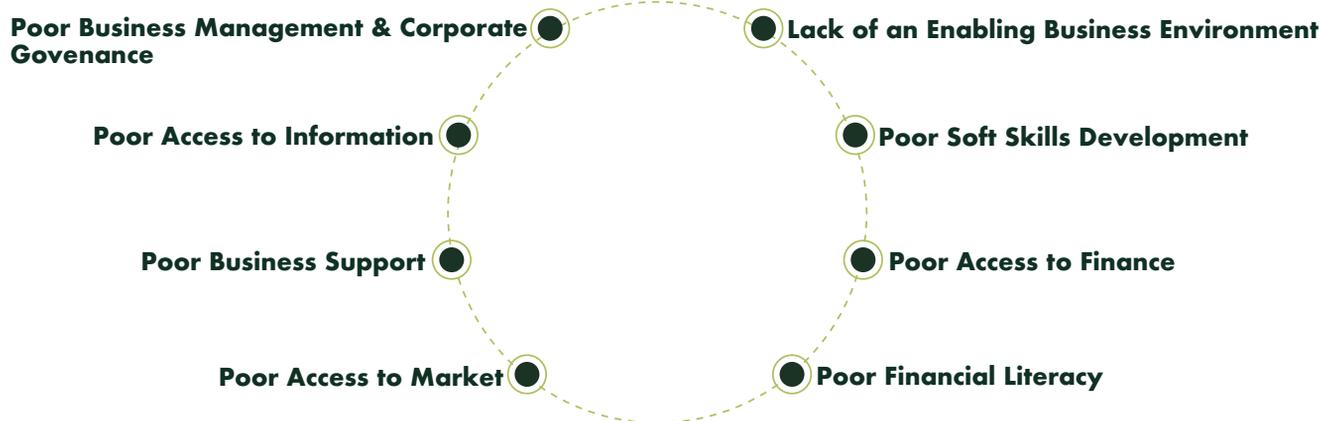
**Innovation and Agility to Technology Adoption:** Nigerian youth entrepreneurs have demonstrated strong innovation and technology adoption tendencies and continue to push the boundaries in innovative thinking. This is as seen in the number of technology driven businesses springing up rapidly across various spaces such as the Financial services, Education, Health, Legal, Retail, Agriculture etc.

**High Risk Tolerance:** Nigerian youth entrepreneurs have a high-risk tolerance and are willing to test ideas even if it means failing. This high-risk tolerance needs to be matched with a supportive environment that encourages “failing forward” to spur innovation.

**Sustainable Development Focused:** More and more Nigerian youth led businesses are becoming increasingly aware of the impact of their business ideas on sustainable development and are more prone to starting, growing and scaling businesses that address the Sustainable Development Goals (SDGs) as stipulated by the United Nations, contributing to solving global issues around poverty, inequality, climate change, environmental degradation etc.

**Job creation:** As earlier mentioned, there is a high level of youth participation operating within the MSME level and contribute to creating 80% of jobs. Focus on the development of youth led businesses will therefore be instrumental in improving job creation in the country for economic prosperity.

# Challenges Facing Youth-led Businesses



Source : The FATE Institute

While youth-led businesses possess strong entrepreneurial mindset and drive; have vibrant ideas, adopt technology and innovation etc., they face a number of challenges that limit their potential. These include:

**1. Poor Business Management and Corporate Governance Knowledge:** Often, youth entrepreneurs are hasty in starting their businesses without taking the time to acquire the critical business management knowledge required to start, grow and scale a business. For example, it is important to understand certain issues like market dynamics, supply chain network, sourcing raw materials and the regulatory terrain before starting a business but not many youth entrepreneurs are patient enough to do the work. Many youth entrepreneurs also lack corporate governance knowledge which is essential for instituting corporate governance structure and lays the foundation for business sustainability, important for business expansion especially with regards to accessing funding sources like equity funding.

While in the last couple of years, the ecosystem has witnessed an increase in the number of entrepreneurship courses for youths, there are still gaps around business knowledge and corporate governance for youth entrepreneurs.

**2. Poor Access to Information:** For many youth entrepreneurs, access to critical information particularly with regards to specific sectoral operations is a challenge. For example, accessing specific data and information across various sectors around market size, market entry dynamics and even competitors is quite challenging for youth entrepreneurs because there are little to no consolidated sources of data and information to guide youth entrepreneurs as they explore innovative business ideas across sectors. In some cases where information does exist, the presentation of the data and information is not coordinated reducing access to information.

**3. Poor Access to Finance:** Access to Finance is probably the most persistent challenge youth-led businesses face. This multi-layered challenge can be viewed from two perspectives. Looking at the problem from the perspective of funding providers within the ecosystem, we can identify gaps around the debt financing system which currently excludes youth entrepreneurs considering that many youth entrepreneurs cannot afford the high interest rates and collateral required by banks. On the other hand, there is a dearth of funding options like grants, crowdfunding, cooperatives, equity funding, equipment financing etc. From the perspective of the youth entrepreneurs, there are gaps around financial literacy and investor-readiness which makes it difficult to access funding the various sources mentioned.

**4. Poor Financial Literacy:** While young people find access to finance and funding opportunities challenging, there is also a financial literacy gap among them. In certain cases, where young people have access to funds, there is still a lack of knowledge about how to prepare financial records, and books as well as how to manage financial resources for their businesses, preventing them from accessing the various sources mentioned in the previous point.

**5. Poor Access to Markets:** Access to markets is a critical component of business growth for youth entrepreneurs. For many youth entrepreneurs, they are faced with stiff competition from foreign brands and products that are produced outside of the country and sold in the country at cheaper rates. While there are conversations around driving made in Nigeria products and enforcing policies and strategies that enable access to markets for Nigerian entrepreneurs, there is hardly any implementation around this. The African Continental Free Trade Agreement (AfCFTA) is an exciting opportunity that youth entrepreneurs can leverage to access markets outside of Nigeria but there are gaps around MSME competitiveness and issues around standardization for export.

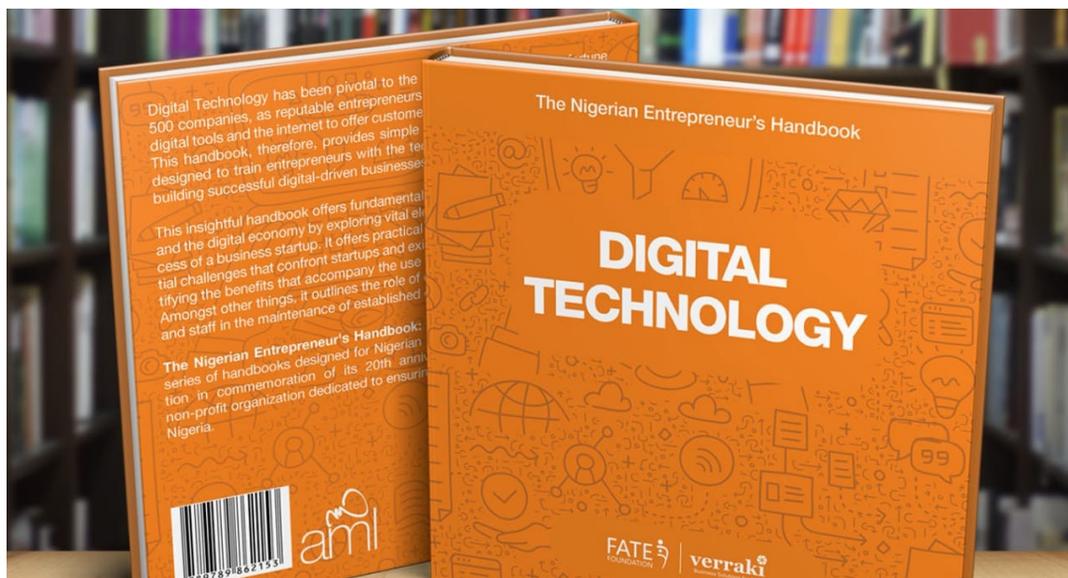
programs be developed with the goal of bridging these knowledge gaps, while also providing training on internationally acceptable business methods and certification processes.

**6. Lack of an Enabling Business Environment:** The lack of an enabling business environment is a major mitigating factor to the growth of youth-led businesses. From unstable government policies, cumbersome and costly regulatory processes, licensing challenges to multiple taxation, poor energy and infrastructural facilities and the current macroeconomic environment, youth-led businesses are left vulnerable and often expend more to provide alternative solutions in the absence of government intervention.

**7. Poor Soft skills development:** Business success depends strongly on the hard and soft skills of the entrepreneur. For many youth entrepreneurs, emphasis is often placed on developing hard skills while soft skills development is overlooked. Hard skills like business plan development, financial literacy, marketing skills, hiring management etc. are crucial to business success but soft skills like intra and interpersonal relationship skills, communication, leadership, stress management, problem solving etc. are equally as important. Soft skills will enable youth entrepreneurs build influence and the right network while also developing capacity to inspire and lead their teams.

**8. Poor Business Support:** Even with the possibility of favorable government policies, as well as availability of funds and markets are made available to youth-led businesses, there is still a lack of access to advisory services and handholding support from mentors and BDOs to help these young entrepreneurs start and scale their businesses. This issue can also many times be caused by these businesses' inability to follow through with the correct process/engagement required by them. It is critical that business training

# Recommendations on Supporting Youth-led Businesses in Nigeria



[www.fatefoundation.org/books](http://www.fatefoundation.org/books)      FATE Foundation

Source : FATE Foundation

**1. Bridging the Business Knowledge and Corporate Governance Gap through Capacity Building Programs:** To effectively support youth entrepreneurs, ecosystem players are encouraged to adopt an intentional approach to capacity building programs and curriculum design using evidence-based approach that shows where the business knowledge gaps are while adopting strategies that address the gaps identified. For instance, survey findings by Enterprise Support Organizations (ESOs) may show that youth entrepreneurs need information on understanding markets and/or financials. The program curriculum is then designed to address that gap. In addition, program delivery approach such as delivery style, channels, methods etc., should be considered as part of the program design process considering that youth entrepreneurs are known to have short attention span. Programs also need to be inclusive to address business knowledge gaps within the informal sector.

**2. Business Support and Advisory:** Business support and advisory which comprise mentoring, consulting, advisory etc. work best when there is a foundation laid after undergoing business management training. This should be an integral part of youth entrepreneurship programs as it ensures continued learning for youth entrepreneurs and provides support where and when needed.

**3. Leveraging technology to bridge Financial Literacy and Investor-readiness gap:** Technology can be leveraged to improve financial literacy and investor-readiness outcomes using applications and software. With more ecosystem players providing quick, easy tech options to bridge the financial literacy gap, this will contribute to improved access to finance rates for youth entrepreneurs.

**4. Design and Implementation of Access to Funding Models for Youth Entrepreneurs:** To address the access to funding gap for youth entrepreneurs, funding programs need to be designed bearing in mind the funding risks associated with youth-led businesses.

For debt financing options with collateral requirements, enforcing the Moveable Collateral Registry initiative introduced by the government will ease constraints in this regard. Other funding models that need to become more commonplace include refundable and non-refundable grants; equipment financing e.g., BOI loans; equity funding etc.

**5. Intentional Approach in Policy and Program Design:** Policies and programs should be designed using an intentional, inclusive, and accessible approach that involves getting the perspectives of youth entrepreneurs and taking cognizance of the risks and peculiarities associated with the segment. These policies should cover issues such as multiple taxation, protection of intellectual property, funding, accessing information, and capacity building programs etc.

**5. Boost Competitiveness for Youth Entrepreneurs to Improve Access to Markets:** For youth entrepreneurs to compete favorably and effectively leverage the AfCFTA agreement, there is a need to assess and enhance their competitiveness by addressing gaps around standardization issues, packaging, export licensing and processes etc.

There is also the need to boost technological support as technology will play a major role in youth entrepreneurs leveraging the AfCFTA opportunity.

**6. Enhance Innovation and Technological Support:** Seeing that youth-led businesses are innovation and technology inclined, government is strongly encouraged to implement policies that enable innovation to thrive including the creation of an enabling environment to fail forward and provide technology infrastructure such as broadband to drive innovation within the space.



## Acknowledgements



Source : FATE Foundation

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<sup>1</sup> The State of Entrepreneurship in Nigeria Report 2021, The FATE Institute, Page 18, Accessed August 10, 2022 – [www.fatefoundation.org/2021soe](http://www.fatefoundation.org/2021soe)

<sup>2</sup> The State of Entrepreneurship in Nigeria Report 2021, The FATE Institute, Accessed August 5, 2022 – [www.fatefoundation.org/2021soe](http://www.fatefoundation.org/2021soe)

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<sup>5</sup> Nigeria's Most Promising Tech Startups by Hi5, Accessed on August 10, 2022- <https://www.hi5.team/blog/nigerias-most-promising-tech-startups/>

<sup>6</sup> Report stated on 'Africa: The Big Deal', a database and insights firm which focuses on startup funding above \$100,000 on the continent, coined from Punch Online news, dated 28th June, 2022, Accessed Friday, August 5, 2022. <https://punchng.com/how-corporate-governance-can-save-startups-from-implosion/>



## About The FATE Institute

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The FATE Institute is the research, policy and advocacy arm of FATE Foundation which leads innovative thinking and creates platforms to enable idea exchange and problem-solving strategies to foster sustainable entrepreneurship in Nigeria.

Since inception in 2015, the FATE Institute has published 12 thought leadership reports on Nigeria's Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs; held a yearly Policy Dialogue on Entrepreneurship; and in 2021 launched a quarterly Policy Workshop series. The Institute also recently developed the Enterprise Data Map platform to track data and insights within the ecosystem.

The FATE Institute is a member of the Global Entrepreneurship Research Network (GERN), Aspen Network of Development Entrepreneurs (ANDE) West Africa and also the Facilitator of the Nigerian Economic Summit Group (NESG) MSME Community of Practice.





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