

Policy Paper

Incentivizing and supporting green and social business models among young entrepreneurs to advance the Sustainable Development Goals.

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Business
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 **DEVELOPMENT
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Overview

Young green and social entrepreneurs are agents and leaders of change, creating vital economic and employment opportunities in the process.

There are approximately 10 million social enterprises around the world, generating around \$2 trillion in revenue each year and creating almost 200 million jobs, according to the World Economic Forum. These impact-driven businesses have the potential to redefine the very fabric of our economy, ensuring that prosperity is not only measured in economic terms but also in the well-being of our societies and the health of our planet. They are critical to sustainable economic development and key to achieving the Sustainable Development Goals (SDGs).

Despite this, young entrepreneurs around the world face significant barriers that prevent them from starting and scaling a green or social business. Investment decisions are often profit-driven which places businesses that prioritise impact over profit at a disadvantage. Measuring and evidencing impact can be

challenging for young entrepreneurs who are just starting out. Availability of support, including financial, capacity building or mentoring, varies greatly across the world and is particularly scarce in low-income countries where less than 15 per cent of social enterprises have access to adequate financing, according to the World Economic Forum.

In this paper, Youth Business International (YBI) and Development Solutions, our member organisation in Mongolia, call for increased support and incentives for youth-led green and social businesses.



Introduction

Traditional business models that prioritise profit over all else have significantly contributed to many of the social and environmental crises we face today.

Unsustainable practices, excessive waste production, and exploitative labour conditions have driven pollution, resource depletion, and deepened social and economic inequalities. However, businesses also possess the potential to lead transformative change. By prioritising environmental stewardship, fostering economic inclusion, and enhancing social well-being, businesses can become powerful agents for positive impact.

Examples of this include M-KOPA, a Kenyan company that provides affordable solar-powered systems to off-grid households in East Africa, connecting over 1 million homes to electricity, or The Ocean Cleanup, which develops advanced technologies to remove ocean plastic, with the goal of eliminating 90% of floating ocean plastic by 2040. Achieving the Sustainable Development

Goals requires that businesses redefine success—not just in terms of financial profit, but through their contributions to societal welfare and planetary health. An urgent global shift in business practices is essential to secure a sustainable and equitable future.

Young entrepreneurs are particularly well placed to lead this global shift. Many young people around the world care deeply about social and environmental issues and are motivated by the desire to make a meaningful impact through their work.

Deloitte's 2024 Gen Z and Millennial Survey found that approximately

62%
of Gen Zs

&

59%
of millennials

feel anxious about climate change and are using their career choices to drive environmental action.



Research commissioned by YBI in 2022 found that in the UK, young entrepreneurs under 35, compared to those over 35, are twice as likely to say their business's primary aim is to solve a social or environmental problem and over 40% stated that their business focuses on promoting diversity and social good, even if that comes at the expense of profit.

Young entrepreneurs are not only driven by a strong desire to create positive change but also bring innovative perspectives and solutions to complex problems. They tend to be less bound by traditional methods and more willing to experiment with emerging technologies and novel business models that effectively address environmental and social challenges. Having grown up in the digital era, these entrepreneurs skilfully harness technology—leveraging social media, data analytics, and tech-driven products—to drive impactful change and promote sustainability.

Today's youth are also more globally connected than ever and aware of international issues allowing them to comprehend and tackle challenges that transcend borders. This global outlook fosters international collaborations and solutions with far-reaching impact. Simultaneously, young entrepreneurs maintain strong ties to their local communities, which enables them to understand and respond to specific needs with tailored, sustainable solutions. Their unique combination of global awareness and local insight positions them as powerful agents of positive change in the pursuit of a more sustainable future.



Defining a green or social business

YBI distinguishes between a responsible, sustainable business and a social or green enterprise.

A responsible, sustainable business is defined by its approach and decision-making processes, rather than its primary purpose. These businesses operate across various sectors, adhere to all legal requirements, uphold human rights and decent work standards, and actively consider their impact on people and the environment. They strive to mitigate negative effects and achieve net positive outcomes, but their main focus is not on addressing social or environmental issues.

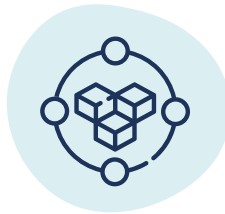


In contrast, social and green enterprises are fundamentally driven by their mission to tackle specific social or environmental problems.

For YBI, these enterprises are characterized by:



Purpose-Driven Approach: They are inherently designed to address social or environmental challenges, with this purpose central to their vision and mission.



Purpose Integration: Their social or environmental goals are embedded in their vision, mission, values, and business model.



Purpose-Driven Decision-Making: Their mission to solve social or environmental issues guides their business decisions.

Social and green enterprises can operate in various legal forms, including both non-profit and for-profit models, provided they are financially sustainable and have strong commercial activities as revenue drivers.

Barriers to green and social youth entrepreneurship

Starting any kind of business from scratch is a daunting task that comes with many challenges, particularly for young people who are new to the world of business.

Starting a business with a green or social mission, however, comes with an additional, unique set of challenges, including:



Access to funding

Securing initial capital is a significant challenge for many young entrepreneurs. Due to their age and limited experience, they often lack the credit history, collateral, or networks needed to attract investors or obtain loans. Young people wanting to start an impact business with a green or social mission face even greater challenges in accessing venture capital and traditional bank loans due to perceived lower profitability and longer

return on investment periods. In 2023, venture capital investment in climate tech reached \$50 billion, according to PwC, yet this constitutes only a small fraction of overall VC funding. Government and international support, like the Green Climate Fund, exist but are challenging to navigate for many young entrepreneurs. Additionally, there are significant regional disparities in access to finance between developed and developing countries. In OECD countries, green finance is more accessible due to mature financial markets and supportive regulatory environments. In contrast, a 2023 Climate Policy Initiative report reveals that African green businesses receive less than five per cent of global climate finance, despite growing needs. The UNCTAD World Investment Report 2023 highlights a persistent \$3 trillion annual investment gap in developing countries to achieve the Sustainable Development Goals (SDGs), an increase from previous years. Beyond funding challenges, businesses prioritizing environmental or social impact often face

longer timelines to generate consistent revenue compared to those focused on profit alone.



Market Penetration and Acceptance

Entering established markets with eco-friendly or socially responsible products can be tough due to consumer loyalty to established brands. Green and social startups often lack the brand recognition and marketing budgets of larger, established companies. Changing consumer behaviour is another major challenge. A 2023 report by Deloitte highlights that while 65% of consumers express a preference for sustainable products, only 30% consistently make purchasing decisions based on sustainability. Reasons for this include price sensitivity and consumer scepticism. Green products often come at a premium price, which can be a deterrent for many consumers. A 2022 study by the International Trade Centre (ITC) found that price sensitivity remains a significant barrier to

the adoption of sustainable products, with 55% of consumers unwilling to pay more for green alternatives.



Regulatory and Policy Barriers

Navigating complex and often ambiguous regulatory frameworks presents a significant challenge for young green and social entrepreneurs. The lack of tailored legal structures, along with bureaucratic hurdles and inconsistent policies, can impede the operational efficiency of their businesses and limit access to necessary resources. Clear and supportive legal frameworks are crucial for establishing the legitimacy of green and social enterprises and fostering a conducive environment for their growth and impact.



Supply Chain Challenges

To maintain the green and social integrity of their business, young entrepreneurs must ensure that all parts of their supply chain adhere to environmental and social

standards. However, this is both challenging and expensive. A 2023 survey by Deloitte highlighted that 64 per cent of companies struggle with tracking and verifying compliance with environmental and social standards across their supply chains due to the lack of transparency and traceability. A 2022 survey by the World Economic Forum (WEF) found that 70 per cent of businesses reported increased costs associated with ensuring their supply chains meet environmental and social standards. Maintaining environmentally responsible and ethical supply chains becomes even more difficult as businesses grow to meet increased demands for their products, requiring innovative approaches and additional resources.



Impact Measurement and Presentation

Effectively measuring and compellingly presenting their business's environmental or social impact is essential for young green and social entrepreneurs to attract investors and customers but can be a significant challenge. The lack of standardised metrics for measuring impact can complicate comparisons

and credibility. Different organisations use varied frameworks and benchmarks, making it difficult to compare results across companies or industries. This inconsistency can undermine the credibility of the reported impacts. Without a unified set of standards, stakeholders find it challenging to assess and compare the impact claims made by different businesses. According to a survey by Social Enterprise UK, 60 per cent of social enterprises reported challenges in measuring and proving their impact, which affects their ability to secure funding and support. Many young green and social entrepreneurs also lack the necessary resources and expertise to conduct thorough impact assessments. This limitation is compounded by the need for specialized tools and methodologies, which are often expensive and complex to implement.



YBI's Green and Social Entrepreneurship Toolkit

Recognising the challenges of young green and social entrepreneurs and the urgent need for tailored support, YBI developed a Green and Social Entrepreneurship Toolkit in partnership with nine of our members (enterprise support organisations) from Africa, Asia, Europe and the Caribbean.

The toolkit builds on YBI's and our members' knowledge and experience of what works and doesn't work when supporting young green and social entrepreneurs and is aimed at enterprise support organisations (ESOs) who want to start or improve their support in this area. As it was co-created with YBI members from four different regions of the world, the toolkit is usable and relevant for young green and social entrepreneurs in various country contexts.

It compiles tools covering six key areas:

- 1 Personal development and self-knowledge
- 2 Business and impact ideation
- 3 Business model
- 4 Business validation
- 5 Legal, governance, and finance
- 6 Impact measurement and growth

One of the YBI members who co-developed and tested YBI's Green and Social Entrepreneurship Toolkit is Development Solutions in Mongolia, an established not-for-profit organisation that provides an integrated package of business development support to aspiring entrepreneurs, including skills training, start-up financing and mentoring.



Spotlight on Mongolia

Youth entrepreneurship in Mongolia is experiencing significant growth and is a key driver for the country's sustainable development.

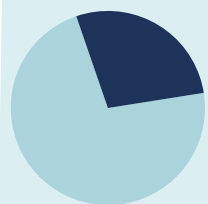
Youth aged 15-34 make up about one-third of Mongolia's population, highlighting the substantial potential for youth-driven economic and social progress. Social entrepreneurship is in particular closely linked to Mongolia's cultural heritage and socio-economic changes since the 13th century.

The Mongol empire's Ikh Zasag Law emphasized collective responsibility, fairness, and sustainable resource use, principles aligned with modern social entrepreneurship.

The economy, shaped by nomadic traditions and Silk Road trade, encouraged the exchange of goods and ideas, fostering social and green development. Caravanserais, as key trading hubs, exemplified community engagement and accessible state policies—elements that remain crucial in today's social entrepreneurship ecosystem.



Today, innovative green and social business solutions are urgently needed to address Mongolia's environmental and social issues. Climate change has caused a significant increase in average temperatures, exacerbating desertification, pasture degradation, water scarcity, and the frequency of extreme weather events. At the same time, poverty remains a significant issue in Mongolia.



The United Nations' Common Country Analysis for 2023 indicates that about **27.8%** of the population lives below the national poverty line.

Disparities between urban and rural areas are pronounced, with rural populations often lacking access to basic services such as healthcare and education. As rural livelihoods become increasingly untenable, there is a significant trend of rural-urban migration, with thousands of young people leaving their homes in search of better opportunities in cities, according to findings by the International Federation of Red Cross And Red Crescent Societies.

To enhance social well-being, economic growth, environmental sustainability, and cultural preservation, Mongolia co-sponsored the UN resolution on "Promoting the Social and Solidarity Economy for Sustainable Development" adopted by the UN General Assembly in April 2023. This commitment reflects Mongolia's dedication to integrating social entrepreneurship principles into national policies, enhancing sustainable development and decent work opportunities for disadvantaged young people.

Despite this, young green and social entrepreneurs in Mongolia face significant barriers. High-interest rates, as seen with Mongolia's central bank raising rates to 15 per cent in recent years, make it difficult for young entrepreneurs to secure affordable loans for business expansion.

While some countries offer low-interest options for social and green enterprises, this is not the case in Mongolia. The lack of dedicated funding for green and social enterprises further compounds this issue. The market for green products is growing but still nascent, making it difficult for new entrants to establish a foothold and attract a significant customer base. Balancing social or environmental goals with profitability remains a core challenge. Many social and green enterprises in Mongolia, such as those focusing on sustainable agriculture or eco-friendly products, find it difficult to achieve financial sustainability while maintaining their social or environmental missions.

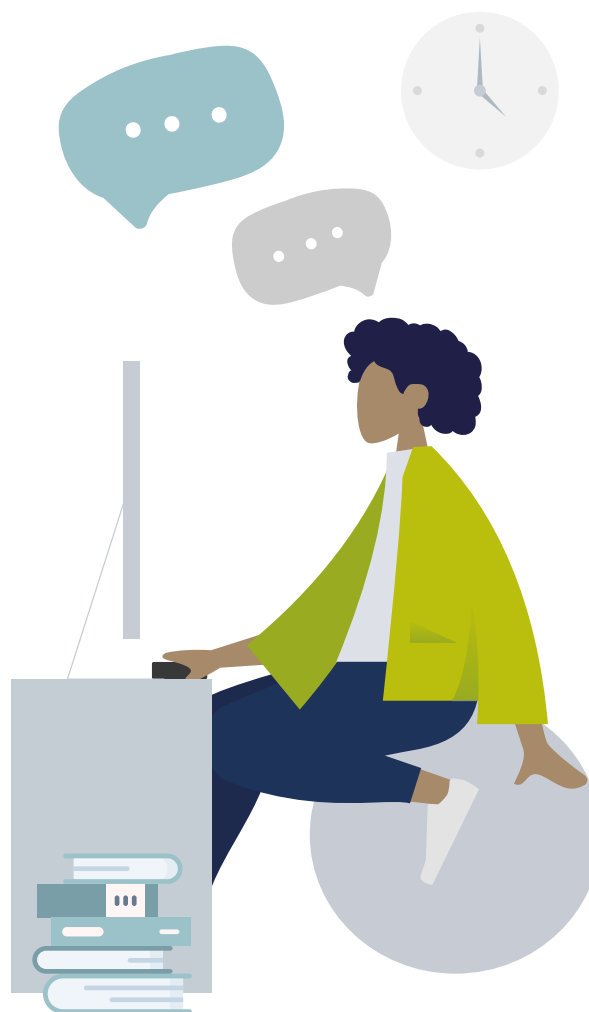


Development Solutions' Green and Social Entrepreneurship Toolkit pilot in Mongolia

To address the challenges outlined above, YBI member in Mongolia, Development Solutions, contributed to co-developing YBI's Green and Social Entrepreneurship Toolkit, particularly leveraging their expertise on financing models and financial management for social enterprises.

In May 2023, Development Solutions launched their Green and Social Entrepreneurship Toolkit pilot to promote sustainable development and empower underserved young entrepreneurs and startups with social missions.

Across two cohorts, Development Solutions piloted the toolkit with over 200 participants from 14, primarily rural, regions of Mongolia who received tailored training, online mentoring and instructional videos.



These resources covered all six key areas of the toolkit with the self-reflection framework, social business model canvas and the accessing finance tool receiving the most pick up. These tools empowered young entrepreneurs to create a solid business model for their enterprise, understand what financing stage their business is at, what type of finance to seek accordingly, and what they need to have in place to access this type of finance. As a result, 23 entrepreneurs trained and mentored through the pilot successfully secured financing through various sources, ranging from grants to concessional loans amounting to over USD 500,000 in total. This financial support has enabled them to advance their social missions and enhance their green practices.

The pilot culminated in Development Solutions' Social Entrepreneurship Forum 2023, which brought together over 150 social and green entrepreneurs from across Mongolia to showcase their business models and impacts. It also provided a platform for 50 social enterprises from the pilot to connect with key stakeholders, including government representatives, financial institutions, and NGOs, and present their positive social and environmental outcomes. This not only sparked stakeholder interest in these businesses but also highlighted the need for supportive policies and frameworks to help social enterprises thrive, raising awareness of the role of entrepreneurship in tackling social challenges and driving inclusive economic growth in Mongolia.

As a result of the forum, an initiative was launched to establish the **Mongolian Social Enterprise Association**, aimed at creating a robust legal framework and network for social enterprises.





Case study Ariyabazar Erdenebayar



Case study: Ariyabazar Erdenebayar

Arya Café, nestled on the shores of Khuvsgul Lake in Mongolia, is more than just a coffee shop; it is a vital hub for community development and empowerment, particularly for Indigenous children and youth from remote areas.

Founded by 32-year-old entrepreneur Ariyabazar Erdenebayar, the café aims to support the education and cultural enrichment of local youth while promoting sustainability. Development Solutions' Green and Social Entrepreneurship Toolkit training and mentoring support enabled Ariyabazar to apply an innovative social enterprise business model to her café and secure a concessional loan. This transformation not only enhanced the café's operations but also deepened its commitment to social responsibility. Currently, Arya Café employs 30 young people across three locations, providing them with valuable catering skills and steady jobs. This initiative not only improves their economic prospects but also instills a sense of pride and purpose, making them role models for the children in their community.

Since its inception, Arya Café has supported a total of 1,200 children through various educational programmes. The café offers English Speaking Clubs that enhance language skills and Book Clubs that foster a love of reading, empowering local youth to dream big and explore new opportunities. In addition to its focus on education and youth empowerment, Arya Café is dedicated to sustainability. By sourcing ingredients locally and implementing eco-friendly practices, such as discounts for customers who bring reusable cups, the café minimizes its environmental impact while setting an example for the community.

Arya Café is making a lasting difference in the lives of Indigenous children and their families. It is a powerful example of the impact youth-led social enterprises can have on fostering a brighter future if they are given the right support to scale.



Recommendations

To support and incentivize more young people to start and scale green and social businesses, Youth Business International (YBI) and Development Solutions call for governments, financial institutions, and development agencies to:

1

Create government-backed and international youth-focused green and social investment funds that specifically target young entrepreneurs and provide tax incentives or subsidies for investors who support young entrepreneurs in green or social enterprises. Additionally, establish dedicated funding for enterprise support organizations that specialize in supporting young green and social entrepreneurs.

2

Introduce subsidies or tax incentives for businesses that produce sustainable products, helping to offset the higher costs associated with green production and simplify the process for obtaining green certifications and labels, particularly for small and youth-led businesses.

3

Develop tailored legal frameworks and streamline regulatory processes to create a supportive and consistent environment for green and social enterprises.

4

Provide tools, incentives, and partnerships to help young entrepreneurs ensure transparency and adherence to environmental and social standards throughout their supply chains.

5

Promote standardized impact measurement frameworks and offer training and financial support to help young entrepreneurs effectively measure and communicate their environmental and social impact.

6

Include green and social entrepreneurship skills in school curricula and adopt strategies to regularly collect, analyse and report data on green and social enterprises.





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