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CREATING YOUTH EMPLOYMENT THROUGH ENTREPRENEURSHIP FINANCING: The Uganda Youth Venture Capital Fund

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ABSTRACT

Youth unemployment continues to be a developmental challenge not only in Uganda but in several sub Saharan countries. At least 64 percent of the total unemployed persons are youth aged 18-30 years. As the government struggles to look for solutions to the unemployment challenge, one approach has been the promotion of self-employment through the establishment of National Youth Funds. Specifically, the Youth Venture Capital Fund (UYVCF) worth UGX 25bn (about US$ 10 million) was introduced in 2011 and more recently, in September 2013, government significantly boosted youth schemes by allocating UGX 265 billion (about US$ 100 million) to the Youth Livelihood Programme (YLP) over a five-year period. The major pillars of these initiatives are: enterprise development, job creation and business skills training and development. Using the UYVCF as a case study, this study examines the level and determinants of youth participation in the fund and evaluates the operations of the fund against the initial guidelines and design as stipulated in the Aide memoire[1] between the Ministry of Finance Planning and Economic Development (MFPED) and the participating banks. The study majorly relied on secondary data provided by Centenary Bank, the largest commercial bank participating in the fund and was complemented by a survey of beneficiaries as well as potential beneficiaries. The data sourced from the commercial bank provides an overview of the fund beneficiaries by basic socio economic characteristics while the field survey data was used to compare the activities of beneficiaries vis a vis non-beneficiaries.

Results indicate that participation in the youth fund program is positively and significantly influenced by the age cohort of the youth entrepreneur (the older youth aged 26-35 years are more likely to access the fund compared to the younger youth (18-25 years), location of the business (urban based businesses have a higher chance of accessing the fund), type of business enterprise (those in services are more likely to access the fund loan) and business maturity. Although there has been some positive effect of the fund on business expansion, we do not find significant evidence of the youth fund effect on jobs creation. It was also discovered that the major role players are not entirely fulfilling their mandates and some have sidetracked from the initial objectives. On the policy front, we propose that for the youth fund to have a lasting impact on its intended objectives, the promotion of youth entrepreneurship should be approached comprehensively (not only the credit component) and it should target productive sectors with high employment creation potential. A strong institutional framework and elimination of obstacles to self-employment are other recommendations arising out of the study.

Key words: Youth, Youth Fund, Employment Creation, and Entrepreneurship

1 http://www.finance.go.ug/index.php?option=com_content&view=article&id=112:the-youth-venture-capital-fund&catid=8:in-the-press, last accessed on 30th June 2014

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1 INTRODUCTION

Youth unemployment continues to be a developmental challenge in several African countries despite the positive economic growth rates experienced over the past decade. There are indicators that this growth has not generated sufficient and decent employment opportunities for the youth (AfDB et al., 2012; UNECA, 2011). As a result, unemployment, working poverty, vulnerable employment and underemployment are widespread amongst Africa's youth. Moreover, demographics indicate that Africa is going through a youth bulge with a large proportion of its population below 25 years of age (Kararach, 2011). This demographic shift presents opportunities for a growth dividend if combined with the right capital and technology – as the case of East Asia - but it can also represent a major threat (Brooks et al., 2012). Insufficient employment opportunities amidst a rapidly growing young labor force can lead to social unrest and political instability (Ministry of Gender, Labour and Social Development (MoGLSD), 2011; Page, 2012). The difficulties faced by young people in most developing countries in finding work are attributed to limited expansion of employment opportunities, skills mismatches and limited or no work experience (AfDB et al., 2012). As a result, most African youth engage in low quality informal sector jobs. The informal sector accounts for about 90 percent of the jobs created in the continent (World Bank, 2009). Although Uganda has maintained positive economic growth rates during the past decade, the country's pace of economic advancement has not been matched with a growth in new employment opportunities. Uganda's Gross Domestic Product (GDP) growth rate has averaged 6.7 percent per annum during the 2003-2012 period (Ministry of Finance Planning and Economic Development (MFPED), 2013). On the other hand, the pace of creating new employment opportunities has lagged behind labour force growth. According to the 2007 World Bank report, the labour force in Uganda grew at an annual rate of 3.4 percent resulting in 390,000 new job seekers and yet only 8,120 jobs were being created each year.

In an effort to create jobs for the youth, various measures addressing the demand side and supply side of labour have been implemented. Promotion of entrepreneurship financing and overall self-employment through targeted youth funds are increasingly considered as viable options. Indeed, previous research shows that in addition to job creation, entrepreneurship has the potential to improve livelihoods and economic independence of young people (Schoof, 2006). In the recent past, the Government of Uganda (GoU) has also initiated programmes to support youth entrepreneurship and self-employment. Starting with the 2011/12 national budget, UGX 44.5 billion (about US$ 18 million) was allocated to youth entrepreneurship promotion programmes. An extra UGX 3.5 billion (US$ 1.5 million) was earmarked in the 2012/13 budget (MFPED, 2012). More recently, in September 2013, government significantly boosted youth schemes by allocating UGX 265 billion (about US$ 100 million) over a five-year period.[2] The major pillars of these initiatives are: enterprise development, job creation and business skills training and development. The youth schemes in Uganda are based on the premise

2 Under the revised scheme, youth can borrow up to UGX 12.5 million (US$ 5,000) with the loans capped at UGX 24.4 million (US$10,000) and there is limited use of commercial banks

that micro, small and medium enterprises (MSMEs) are likely to play a leading role in employment generation given that they comprise about 90 percent of the private sector (MFPED, 2012).

Despite the Uganda Youth Venture Capital Fund's (UYVCF) commendable progress, not much is known about the scale and outreach of the fund in terms of geographical distribution, age, gender and type of business enterprise, among other characteristics. It is important that after more than one year of implementation, a short term process evaluation is conducted to understand whether the fund is functioning /operating as designed or whether the fund is on course as far as attainment of its objectives is concerned.

This study reports the results of an analysis conducted on the operations of the Uganda Youth Venture Capital Fund. The objectives of the study included: First, profiling the UYVCF beneficiaries as of January 2013, by social economic characteristics (e.g. gender, geographical location, portfolio/amounts and type of business enterprises) to get an overall picture of who is accessing the funds. Second, we assessed the factors influencing youth participation in the youth fund. Thirdly, the study evaluated the operations of the youth fund against the initial design (guidelines and procedures).

The rest of the paper is organized as follows, section 2 discusses relevant literature, and the data and methods used in the study are presented in section 3. Section 4 discusses the study findings prior to conclusions and policy recommendations in Section 5.

2 LITERATURE REVIEW

2.1 Why youth funds?

The growing level of youth unemployment in different countries has been the major motivation for the setup of youth funds. In an environment where economic growth has not greatly reduced unemployment levels, the governments have resorted to use of targeted short-term job creation interventions. Globally, enterprise support and promotion has been identified as a strong component under the Youth Employment Network (YEN) of the United Nations, ILO, and World Bank. Through their partnership under the Youth Employment Network, the above institutions identified entrepreneurship as a key priority in the promotion of youth livelihoods and employment (Schoof, 2006). This dialogue has led to the introduction of entrepreneurial skills development programmes and entrepreneurship development funds in many African countries.

National youth funds can generally be defined as financial resources contributed by governments through annual budgets – in some cases through public private partnerships, with the private sector and NGOs- mainly to support the growth of Micro, Small and Medium Enterprises (MSMEs). The youth funds may be in form of loans or grants depending on the objectives for which they were set up in different countries. However, most youth funds are geared towards employment creation through support to MSMEs development, by using financial instruments, and business support services among other tools (ILO, 2012).

For example the Kenya Youth Enterprise Development Fund and Namibia Credit Schemes were set up in 2006 to create youth employment opportunities and promote an entrepreneurship culture through structured and comprehensive support (Kenya Youth Enterprise Development Fund status report, (2009); Namibia Youth Credit Scheme Policy, (2008). The objectives of these funds go beyond enterprise financing to provision of business development support services (mentoring, coaching, incubation). The Umsobomvu Youth Fund (UYF)[3] in South Africa was a comprehensive program set up in 2001. It had several services aimed at making the young people employable through vocational training and skills acquisition, enterprise finance and promotion of community service (Umbsombuvu Youth Fund Annual Report, (2008/9)). In contrast, some youth funds, however, have been set up without largely focusing on entrepreneurship development. For example, the Tunisia Youth Fund was developed with the objective of linking unemployed graduates with potential employers. The major activities of the Tunisia Youth Fund are to create a database on available job opportunities and linkages and partnerships with relevant data on employment opportunities (ILO, 2012).

Cognizant of the fact that the youth disproportionately comprise about 64 percent of the total unemployed persons in the country, the Government of Uganda (GoU), has recently embraced youth entrepreneurship for jobs creation in addition to other interventions. Indeed, the current National Development Plan (NDP) 2010-2015 and the National Youth Policy (2011) identify entrepreneurship as a key strategy towards solving youth unemployment. The GoU envisions developing a pool of non-formal employable skills in the country by promoting non-formal skills development, promoting institutionalized entrepreneurship, development, training and promoting start-ups and youth entrepreneurship products (GoU, 2010). A four pronged youth employment creation strategy worth UGX 44.5bn (about US$ 18 million) was introduced in 2011/12. The four components were; the Youth Entrepreneurship Venture Capital Fund, Youth Entrepreneurial Training Programme, Business Development Skills Clinics and Market Infrastructure Development.

Under the UYVCF, the Government engaged in partnership with three commercial banks to provide the youth with access to low interest credit (15 percent compared to the average market rate of about 23 percent); either as individuals or as organized entities (groups). A set of procedures and eligibility criteria were defined as pointed out in Box 1. About 56.2 percent of the job stimulus funds (UGX 25.0 billion) was allocated to the Youth Entrepreneurship Venture Capital Fund, undertaken in partnership with the participating banks. The resources under this category were earmarked to support the growth of business ventures. About 7.8 percent (UGX 3.5 billion) was allocated to Enterprise Uganda for the Youth Entrepreneurial Training Programme to train the youth on business management skills, enable them to enter the job market or create their own enterprises. One billion (UGX) was allocated for the creation of business development skills clinics. The remaining 37.1 percent of the funds

3 The Umsobomvu Youth Fund was merged with the National Youth Commission to create the current National Youth Development Authority (NYDA), South Africa with a broader mandate beyond youth employment creation.

(UGX16.5 billion) was allocated to Kampala City Authority (KCCA) for establishing markets in Kampala, in which the youth and other small scale manufacturers would undertake manufacturing and other processing activity (Budget Speech, MFPED, 2011/12). However, this study is biased towards the UYVCF since by 2012/13, there wasn't much information/data on the other components of the Youth Enterprise Scheme.

Box 1: THE UGANDA YOUTH VENTURE CAPITAL FUND

GOVT of Uganda in Partnership with DFCU Bank, Stanbic Bank and Centenary Bank has made available a venture capital fund of UGX 25 Billion. The Fund will be used to support growth of viable and sustainable SMEs by the youth in the private sector.

Objective:
To provide venture capital debt finance to viable projects proposed by the young entrepreneurs as well as enable the youth benefit from associated mentoring services from the participating bank. The Fund therefore is aimed at supporting the growth of viable and sustainable SMEs in the private sector.

Focus Sectors
The Fund is available to support the business Ventures owned by young entrepreneurs. Eligible sectors will include: manufacturing, agro-processing, primary agriculture, fisheries, livestock, health, transport, education, ICT, tourism, construction, printing and service contractors among others.

Eligibility:
The eligible youth entrepreneurs should be aged between 18 and 35 years.

Basic Requirements
a. Eligible borrowers shall be expected to comply with their local business licensing requirements.
b. Eligible enterprises must have been in operation for a minimum period of three (3) months.
c. Each business project should be able to provide employment to at least four (4) people by the end of the loan period.
d. Each borrower shall present at least two guarantors who must be persons of good repute within the local community.
e. If approved, Eligible beneficiaries should be willing to receive advice and be ready to participate in financial skills training and mentoring for proper business management.

Other requirements:
1. ***Individuals:***
a) Proof of age.
b) Proof of nationality and residence e.g. passport, birth certificate, voters' card, utility bill or parents' bill, Local Council letter or tenancy agreement.
c) CRB card. Required from successful applicants only. This is available at all bank branches at a once-off payment of UGX 50,000

2. ***Companies/Partnerships:***
a) Certificate of registration, incorporation or partnership deed
b) Certified Memorandum and Articles of Association,
c) CRB Card at a once off payment of UGX 60,000 , Required from successful applicants only, Available at all bank branches.
d) Any other requirements under the relevant laws of Uganda.

Features:
1. **Purpose:** Business growth/expansion
2. **Currency:** Uganda Shillings
3. **Loan Amount:**

Ten (10) times the existing value of the business including owners cash
(a) Range of Minimum of UGX 100,000 and Maximum of UGX 5,000,000 (individual).
(b) Minimum of UGX 500,000 and Maximum of UGX 25,000,000 for a Legal entity with at least five partners/shareholders.

4. **Features:** ***Loan period:***

Maximum tenure of 4 (four) years inclusive of a maximum one year grace period.

5. ***Interest Rate:*** Interest rates under this facility are fixed. In other words, the interest rate quoted for a specific loan will stay the same over the entire loan period. The fixed rate applicable to loans granted before June 30, 2010 is 15%.

Government and participating banks will review and agree by July 1st, 2012, applicable rate for all loans that will be approved in the following 12 months i.e. between July 1, 2012 – June 30 2013. Thereafter, the rate borrowing applicable will be fixed on July 1st of each year for the next 12 months.

7. ***Origination Fee:*** A once only fee (1% of the approved loan amount) shall be charged and is payable only on approval of the loan.

8. ***Loan Security:*** Personal guarantees of the eligible borrowers and the assets of the borrowing enterprise

9. ***Borrowing:*** Each Borrower will benefit from the Fund only once.

10. ***Disbursement Method:*** Loans will be disbursed through bank accounts systems as required by law.

Source: Ministry of Finance, Planning and Economic Development, 2012

2.2 Impact of microfinance programs on economic outcomes of youth

Emerging literature on the impact of interventions directed at youth start-ups, self-employment and business expansion is still limited. Programs aimed at getting the unemployed youth into the labor market include those that offer the youth financial services (loans, unconditional cash grants, in-kind grants, savings, and insurance), life skills and vocational/technical training and business development services (mentoring, coaching, advisory services, business training) or a combination of the above. We provide an overview of evidence on how microfinance programs can impact on economic outcomes of the youth.

Access to formal financial services remains limited in Uganda and the situation is worse for the younger people. Findings from the latest 2013 FINSCOPE III survey indicate that that only about 5.7 per cent of the adult population in Uganda had accessed credit from formal bank institutions, and about 4.1 per cent for the youth aged 18-30 years (FINSCOPE III, EPRC, 2013). This is because youth are not considered a viable market as they often lack collateral, verifiable credit history or steady employment, among other requirements required by formal financial service providers. Moreover, the FINSCOPE survey findings indicate that the youth are more likely to borrow to finance business start-ups and expansion. Increasing access to financial services may have positive development outcomes like starting and expanding business, income diversification among other labour market outcomes. Indeed, provision of micro finance has become a common intervention for promoting self-employment and entrepreneurship in general.

Recent evidence from a randomised controlled experiment in Uganda indicates that provision of loans complemented by training is a better intervention compared to loans only. The provision of unconditional grants yielded no positive results on the program participants. Fiala et al., (2013) evaluate a youth microfinance intervention in Uganda that is geared toward micro enterprise growth through provision of loans, unconditional cash grants and training or a combination of these programmes. The intervention provided microenterprise owners from semi-urban locations in Central and Northern regions of Uganda with loans of US$180 to US$220, unconditional cash grants equal to US$200 and ILO-Start Your Business training (SYB). The authors find that that men with access to loans and training report significantly higher profits (54% greater profits). This effect increases slightly over time and is driven by men with higher baseline profits and ability. The loan-only intervention had some initial impact, but this does not persist nine months to the follow- up. The authors find no impacts from the grant intervention and no effects on women for any of the interventions. Family pressure appears to be detrimental to the growth of women businesses. The results suggest that highly motivated and skilled male-owned microenterprises can grow through finance, but the current finance model does not work for female-owned enterprises. Contrary to the above findings, Blattman et al., (2013) find positive results from the provision of cash grants to the very poorest and most excluded young adults, mainly women in Northern Uganda. Blattman et al., (2013) investigate the impacts of giving cash grants (US$ 150), and business skills training, supervision and business advising. The study shows positive impacts of the cash transfer on entrepreneurship, hours worked, individual earnings, and household consumption. Regarding the impacts of unconditional and in-kind cash grants; Fafchamps et al., 2011, compare the impact of cash grants and in-kind grants on male and female owned micro enterprises in urban Ghana and their findings suggest that in kind grants perform better than cash grants. The results from the evaluations above confirm the importance of business/entrepreneurship training. Nascent entrepreneurs who receive financial help coupled with training seem to perform better than those that receive only the financial intervention. Regarding the provision of grants, supervised and in kind grants or those that have a strict eligibility criteria like approval of business plan for business use are more likely to be successful than unconditional grants. Compared to males, the female businesses may be affected by family pressure and thus may need a different model than that of their male counterparts. This calls for more support –in form of business mentoring and advisory-to the female entrepreneurs if their businesses are to flourish.

Research has shown that there is a positive relationship between business assistance and sustainability of business among the young people (Schoof (2006). Those who receive business development services support in terms of mentoring, networks and advisory services are likely to grow their business over time. Survey results from a process evaluation of the Enablis East Africa services highlight the impact of a business support and peer-networking program on young entrepreneurs. The survey results show that being a member of Enablis supports business growth and development as well as the entrepreneur's ability to create wealth for oneself. As at 2013, Enablis members were employing an average of 12 employees in the businesses they own and operate, up from an average of 8 employees in 2012. This represents an employment growth rate of 54 per cent. Overall, 74 per cent of members are satisfied with Enablis services. About 54 per cent of the mentees grew their turnover by more than 25 per cent over the 2012 period (Enablis East Africa, 2013). Further evidence on the importance of provison of business development assistance is from the Micro, Small and Medium Enterprise (MSME) in Kenya. The MSME program provides business mentoring to young entrepreneurs aged 18 to 35 years old with an aim of creating sustainable MSME business growth and jobs by qualifying potential mentors to advise entrepreneurs from the MSME sector. The role of the trained business mentors is to advise and provide technical support on growth opportunities and possibilities of financial and other support services on a regular basis to entrepreneurs – and especially young entrepreneurs. By December 2012, over 80 professional business mentors had been trained and the program has impacted over 215 mentee enterprises so far. Evaluation results show that (i) 87 per cent of the mentee enterprises have been formally registered. (ii) 45 per cent of mentees reported a 78 per cent increase in gross annual turnover. (iii) 22 per cent of mentees reported an increase in number of employees by between 1 and 4 full time employees. (iv) 45 per cent of mentees reported increase in number of individual /institutional customers. (v). 30 per cent of mentees reported an increase in business assets. (vi) 37 per cent of mentees reported an increase in the level of business investments other than loans. (vii) 72 per cent of mentees reported the overall mentorship support as being excellent (Youth Employment Inventory website, 2014).

2.3 Emerging practices from African countries implementing National Youth Funds

This sub section presents a synthesis of three case studies from African counties where national youth funds have been implemented for more than five years. We point out the advantages and disadvantages and of the different implementation frameworks. We present experiences from Kenya, Botswana and South Africa. The case studies were chosen based on; comprehensiveness in their responses to employment needs of the young people, operation at national scale, working to achieve or have achieved financial and program sustainability and high levels of effectiveness in meeting their goals, and those that have been in operation for at least five years.

KENYA

Source of Funds

The Government of Kenya provides the main funding for the Youth Fund with financial institutions providing additional funds.

Features of the Fund

- ❖ Loans are provided to individuals and youth groups either through constituency loans and through financial intermediaries
- ❖ Loans can be accessed for startup and business expansion purposes
- ❖ Pre funding training program, networking forums and mentoring services through selected government service providers and external consultants
- ❖ Fund supports youth to market their products through trade fairs

Advantages

- ❖ Decentralization - constituency loans and use of lower level financial intermediaries improves outreach to rural and remote areas
- ❖ Involvement of the private sector unlocks resources, capacities and taps into the diverse capacities that different stakeholders can offer
- ❖ Good mix of financial and non-financial services to ensure business sustainability and reduces chances of business failure

Disadvantages

- ❖ M&E of the different activities is a challenge as different programs and services are delivered through external partners. Without a good M&E framework, it may be hard to determine the cost effectiveness of the program.

BOTSWANA

Source of Funds

The Botswana Youth Fund is 100 percent funded by the Government and implemented by the department of Youth under the Ministry of Youth, Sports and Culture. The Youth Development Fund is 50 percent grant and 50 percent interest free loan of the total approved amount

Features of the Fund

- ❖ Requisite training is provided prior to the disbursements of funds.
- ❖ Funding is targeted for unemployed youth, out of school youth, underemployed youth, youth aged between 18 and 29 years and companies owned by youth
- ❖ Youth can access the fund as individuals or as groups
- ❖ Has a monitoring and evaluation component undertaken through district structures

Advantages

- ❖ Reduced fund management cost as government directly pays to the beneficiaries
- ❖ Government ownership reduces the private sector profit maximization tendencies that normally exclude marginalized youth
- ❖ Payments to successful projects are made directly to suppliers who in turn provide assets to the beneficiaries; reducing the risk of misuse of grants for the youth.

Disadvantages

- ❖ Government's presence in the implementation may promote failure of youth borrowers to service their loans, government presence creates a culture of entitlement
- ❖ Grant financing is not sustainable
- ❖ The fund may not grow in real terms since the 50% is a grant and the other 50% is interest free.
- ❖ Absence of other players limits the diverse experience from other stakeholders in the provision of business development support services and resources leveraging

SOUTH AFRICA

Source of Funds

The Government of South Africa initially funded the Umbsombuvu youth fund at its inception in 2001. However over time, the fund attracted substantial private investment partnerships.

Features of the Fund

- ❖ Training component that focused on developing vocational, life and entrepreneurial skills; this is aimed at solving the skills mismatch between young people and the demands of employers in the labor market
- ❖ Offers a variety of programs, including entrepreneurship education, business development support services and mentorship
- ❖ Provides enterprise financing
- ❖ Identification of business opportunities and employment opportunities for opportunities for young entrepreneurs

Advantages

- ❖ Benefited from both public and private investment in its programs and services
- ❖ Nationwide presence as a result of a good partnership strategy
- ❖ Comprehensive range of services for youth employment and enterprise development

Disadvantages

- ❖ M&E of the different activities was a challenge as different programs and services are delivered through external partners

3 DATA AND METHODS

In order to accomplish the objectives of the study, comprehensive desk research was combined with a survey of youth entrepreneurs (both youth fund beneficiaries and non-beneficiaries), and stakeholder consultations.

3.1 Data

Analysis was aided by a number of data sources: Secondary data from Centenary Bank - one of the three implementing banks- was used to provide a situational analysis of the UYVCF beneficiaries. While such data sources are often limited in terms of coverage, data from the Centenary Bank can be regarded as largely representative given that the Bank had loaned out 80 percent of the funds by clientele and 67 percent by value by December 2012 (MoFPED, 2013). In addition, a field study was undertaken was undertaken in May 2013 to corroborate the findings and also answer other objectives of the study.

Centenary Bank provided a sampling frame of youth fund beneficiaries from which a random sample was drawn. The first stage involved choosing two districts with the highest number of UYVCF beneficiaries from each of the four administrative regions of the country namely (Northern, Eastern, Western and Central). The beneficiaries from the sampled districts were then randomly selected using random numbers. The non-fund beneficiaries, yet eligible as per the stipulated UYVCF accessibility criteria and guidelines were identified with the help of youth leaders in the selected districts. The sample of non-beneficiaries was purposively sampled from districts that had the least proportion of UYVCF beneficiaries according to the national data provided by MFPED. The comparison group consisted of youth who had operated businesses for at least three months. In total we used a sample size of 168 youth entrepreneurs.

Qualitative data: The paper complimented the quantitative data with qualitative data through stakeholder consultations and Youth Focus Group Discussions. The aim was to obtain more insights on the operations and feasibility of the fund. Key Informant Interviews (KI's) were conducted to provide information on the implementation modalities of UYVCF. KI's were drawn from Enterprise Uganda, DFCU bank, Centenary bank, the Youth desk at MFPED, and the Youth council officials at MGLSD.

3.2 Methods

Descriptive approach: Using a descriptive approach, we analyse the scale and outreach of the fund, and profile the beneficiaries according to specified social economic characteristics (e.g. gender, geographical location, type of business enterprise).

Econometric approach: ILO (2012) stipulates that the youth are not a homogenous group and variables like age, gender, geographical location, schooling status and business ownership may influence participation, and should be considered in the design of youth funds. Based on this background, using field survey data, the paper employs a probit model to analyse a set of individual, firm level and community factors that determine youth participation in the UYVCF. The survey data captures the individual level variables (e.g. age, sex, marital status, education levels) and firm level variables like age of business and value of business.

Probit Model: Discrete regression models e.g. the Probit and Logit models are ideal to use when the dependent variable is a binary choice. Generally, either of the two models can be used, as they tend to generate more or less similar results (Gujarat 2003, Wooldridge 2009). In this paper, we employ the probit model to examine factors that are likely to influence the decision of youth to (or not to) participate in the UYVCF. The model is specified as;

$$P(Y_i = 1|X_i) = Z(\propto +\beta_i X_i + \varepsilon_i) \qquad (1)$$

Y = 1 if the youth is a beneficiary of the youth fund and zero otherwise. P_i is the probability that the i^{th} youth participates in the youth fund. The explanatory variables that include individual youth characteristics, firm level and community factors are represented by X_i. The parameters to be estimated in equation (1) are α and β. The error term is included in the equation to take care of any other factors that might have not been included in the model but may influence youth participation in the youth fund program.

The explanatory variables in equation (1) are individual characteristics, which include age, education level and marital status. Firm level characteristics include age of business, type of enterprise and value of business. Other variables include geographical location (rural or urban).

Qualitative approach: To evaluate the design and functionality of the youth fund, we critically studied its operations against the initial objectives, procedures and criteria as outlined in the Memorandum of Understanding (MOU) between the participating banks and MFPED. Key questions answered ranged from whether the youth fund is operating as designed institutionally; whether the designed set of procedures were followed and whether the role players were fulfilling their mandates as set out in the design. We majorly relied on FGDs and Key Informant Interviews to answer these questions.

4 RESULTS AND DISCUSSION

4.1 Scale and Outreach of the Uganda Youth Venture Capital Fund

This section presents a snapshot of the fund beneficiaries in terms of location, sex, age, and bank where loan was sourced. As evidenced in Table 1, an estimated 3,984 business enterprises had borrowed money from the youth fund by close of December 2012[4]. In terms of value/money, just about UGX 16 billion, had been disbursed by the three participating banks. Centenary Bank disbursed about 81 percent of the total amount of released funds- this translates to about to 67 percent –about 11bn- of the total value lent out by Dec 2012. From the field discussions held, the beneficiaries indicated that Centenary Bank was their bank of choice because most were already running accounts with it. Other beneficiaries pointed out the rather lengthy and stringent lending procedures at other participating banks while some lacked the knowledge that other two banks (DFCU and STANBIC) were implementers of the UYVCF.

4 Although the Minister of Finance, in her 2013/14 budget speech put the amount at 21 billion, we could not use this figure since we did not have its disaggregation according to different characteristics that we are interested in.

Table 1: Access of youth funds by number of clientele and value of portfolio (UGX)

National disbursements by implementing banks as of December, 2012				
	Clientele	**Clientele (%)**	**Value (000')**	**Value (%)**
Bank				
Centenary	3,207	81.0	11,185,390	67
DFCU	604	15.0	4,249,548	26
Stanbic	173	4.0	1,214,260	7
Total	3,984	100	16,649,198	100
Centenary Bank disbursements as of February, 2013				
	Clientele	**Clientele (%)**	**Value (000')**	**Value(%)**
Region				
Central	1,100	31.1	3,927,450	31.8
Kampala	903	25.6	3,765,600	30.4
Eastern	476	13.5	1,326,500	10.7
Northern	223	6.3	650,100	5.3
Western	819	23.3	2,700,090	21.8
Sex				
Female	1,035	29.4	3,727,800	30.1
Male	2,480	70.4	8,622,440	69.7
Male and Female owned	6	0.2	19,500	0.2
Total	3,521	100.0	12,369,740	100

Source: Based on data provided by MFPED (all banks data) and Centenary Bank, 2012

The above results indicate skewed partnerships since only one bank had invested a substantial amount of resources. In order to leverage private sector into contributing to the fund, there is need for inclusion of a risk management strategy from the government's side. The Tanzania youth development fund is a good example where risk management is catered for through a government credit guarantee fund.

Although the fund was expected to have a national outreach, it is highly dominated by the youth in the central region, urban areas and males. Table 1, above reveals an uneven regional access to funds. The central region, Kampala inclusive, had utilized about 61 percent by value while the youth enterprises in Kampala had accessed about 30 percent of the loan portfolio by February 2013. This is not surprising given the high concentration of commercial banks in the central region. Another finding from the field survey reveals that the fund procedures are not applied in a consistent manner. While some youth in Kampala were able to access the fund loan based on presentation of only two guarantors (as per the initial guidelines/ design), bank officials in more remote areas insist on securities in form of land titles, houses and other assets.

Furthermore, 78 percent of the beneficiaries are urban based. This could be attributed to the fact that a number of banks are located in the urban district centres with no or little coverage in rural areas. Information asymmetry also came out as a strong factor. Although most (95 percent) of the youth from the control group knew about the existence of the UYVCF, only 63 percent reported to have information on how to access it. The media (TV, radio and newspapers) and youth leaders were cited as the commonest sources of youth fund related information. There is, however, a need to put in place a clear communication strategy so that information from the government and the implementers (banks) is harmonized. While it may not be profitable for the commercial banks to reach out to the remotest of areas, it is important that a public policy like the UYVCF serves the marginalized and excluded youth irrespective of their geographical location. Government could explore ways of working with lower financial intermediaries like microfinance institutions and SACCOs to achieve a greater outreach to the rural youth.

Although the fund was not set up with a special gender consideration, gender disaggregated analysis is important given the prevailing evidence of women exclusion in credit markets. Indeed male owned enterprises were more likely to access funs from the UYVCF by value and clientele (about 70 percent). This is not surprising given that fact that females are less likely to own property/assets that are required by banks as collateral for loan acquisition[5].

Furthermore, majority of the female youth are largely involved in primary agricultural production, yet, from the field discussions and as figure 2 shows, the banks are less likely to fund primary agricultural production enterprises as they render them risky and not credit worthy. In addition, more males (61 percent) reported to have information on how to access the youth fund compared to only 30 percent for females. This calls for tailor made programs to support female youth in setting up and running businesses

5 Banks require applicants to present collateral although the design as presented by the MFPED did not have a provision for this.

under entrepreneurship programmes like UYVCF.

Eligible sectors for youth fund loan include; manufacturing, agro processing, primary agriculture, fisheries, livestock, health, transport, education, tourism, Information and Communication technology (ICT), construction, printing and service contractors (MFPED, 2012). However, as Figure 1 shows, more than 50 percent of the funded youth enterprises were classified under retail trade, which is not employment intensive. This finding raises concern as to whether the youth fund will meet its number one objective of jobs creation when a large number of funded enterprises have less potential to create jobs. The youth who earn their livelihood from agriculture are less likely to be funded citing the seasonality nature of the sector.

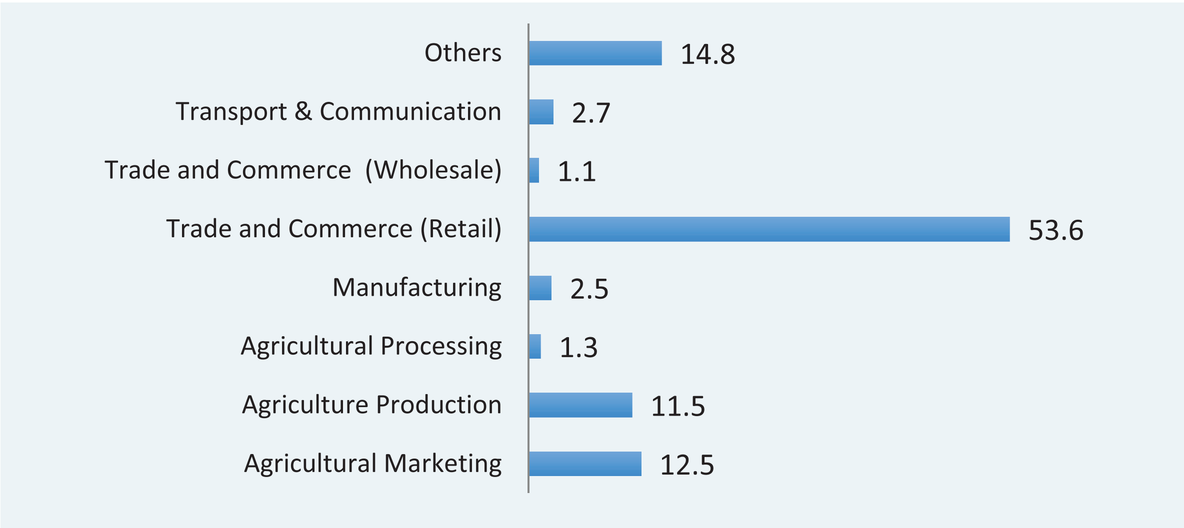
A specific agricultural loan could be thought about to rectify this situation since more than 65 percent of the youth are engaged in agriculture-mainly crop production (Ahaibwe et al., 2012). An example of sector specific support is the Young Farmers Fund in Botswana which provides access to finance and entrepreneur training to youth farmers in order to equip them with the requisite skills for running sustainable agricultural activities and farming businesses. Alternatively existing government policies like the Agricultural Credit Facility should have a component targeting the youth.

4.2 Factors influencing youth participation in the youth venture capital fund

The results in Table 2 indicate that participation in the youth fund program is positively and significantly influenced by the age cohort of the youth entrepreneur, location of the business, business maturity as measured by the squared age of the business and type of business.

There is a positive and significant relationship between youth fund participation and age cohort of the youth entrepreneur. Compared to the younger youth cohort

Figure 1: Type of businesses funded under the UYVCF (%)



Source: Author's calculations based on Centenary data, 2012 aged 18-26 years, the older youth aged 27-35 years are more likely to participate in the youth fund. This finding could be attributed to the fact that as the youth grow from budding to established entrepreneurs, they tend to be more mature and more likely to run more viable businesses compared to the younger budding entrepreneurs in the formative and growth stages. Indeed, Chigunta (2002) clearly states the youth entrepreneurs cannot be clumped into one group and believes that entrepreneurship characteristics vary according to age.

Like the descriptive results, the probit model results confirm a higher probability of youth fund participation for the urban entrepreneurs compared to their rural counterparts. Indeed close to 80 percent of the UYVCF beneficiaries were urban based. This finding is not surprising given that the participating banks are largely urban based and thus the urban youth have more accessibility to the banks. On another note, the rural youth are largely engaged in agricultural activities that are less likely to be funded under the youth venture fund. Indeed results from table 2 further confirm this finding. Compared to the youth with business enterprises that are classified under the services sector, those involved in agricultural related enterprises are less likely to participate in the youth fund (significant at 1 percent level of significance).

Table 2: Factors influencing youth participation in the youth venture capital Fund

Dependent variable: Participation in the Youth Fund = 1			
Explanatory variable	**Coef.**	**Std. Err.**	**P>z**
Age cohort (cf: 18-26 years)	0.988	0.327	0.002***
Location (cf: rural)	0.620	0.293	0.034**
Value of business (ln)	0.088	0.153	0.566
Age of business	-0.525	0.214	0.014***
Age of business (square)	0.041	0.017	0.017***
Marital status (cf: married)	-0.616	0.263	0.019***
Type of business enterprise (cf: services)			
Agriculture	-0.917	0.283	0.001***
Industry	-0.112	0.452	0.805
Education attainment dummy (cf: secondary)			
Primary school	0.404	0.379	0.286
Technical/Vocational	-0.429	0.331	0.195
University	0.096	0.316	0.761
Intercept	-0.649	2.019	0.748
Number of observations = 146			
Pseudo R^2 =0.21			

Author's calculations based on field survey: ***, ** and * represent 1%, 5% and 10% level of significance respectively

Maturity of the business seems to be an important factor too as far as youth participation in the fund is concerned. Although the variable 'age of business ' is negatively correlated with youth fund participation, the variable 'age of business squared' is significant and positively correlated with youth fund participation. This implies that there is a certain threshold of business maturity after which it becomes highly likely to be a youth fund participant. Indeed the mean age of businesses that were funded under the youth venture fund had been in existence for about 4.3 years. As per the funds objectives, support is meant for business expansion not start ups, and indeed the results indicate that the fund is indeed bent towards helping those who have already gained experience, skills and capital to enable them run their own businesses. Although the funded businesses are meant to create jobs for their unemployed counterparts, this is unlikely to happen in the short run. As such the government could think of funding start-ups as well, with a view to directly create jobs for the enterprising youth with viable business ideas. And as pointed out in literature business training and business development support should be complemented with finance provision.

4.3 Is the Uganda Venture Capital Fund operating as designed?

For this objective, our measure of success refers to the way the youth fund mechanism is working, with a set of procedures, applied in a transparent and fair manner, reaching out to the youth as defined in its mandate, and providing the services that correspond to the needs of the beneficiaries. At its inception, the Youth Fund had three main players namely the Government of Uganda through the MFPED and Ministry of Gender, Labour and Social Development (MGLSD), the implementing banks (Centenary Bank, Stanbic Bank and DFCU Bank) and Enterprise Uganda. MFPED was responsible for providing 50% of the funds as well as the overall policy framework and guidance of the program. Although MFPED was mandated to monitor the program, there is no evidence of a strong monitoring and evaluation framework (M&E) to measure the success of the fund beyond credit provision to number of jobs created, type and quality of jobs created to mention but a few.

In addition to resource contribution, the implementing banks were mandated to conduct youth tailored money/business management clinics to increase chances of business management success. Beyond credit provision, there is limited evidence to support the participating banks' mentoring role as per the fund design. Only about 37.0 percent of the youth fund beneficiaries surveyed reported to have had training/ mentoring/coaching before or after starting their businesses. Yet, access to business support services such as mentoring, support networks, business clubs and incubators by young people, increases the chances of sustaining their enterprises beyond start up stage. Yet, as alluded to earlier, given the limited experience of youth and high business failure rates in Uganda, mentoring is a useful tool if youth entrepreneurship is to thrive. For every business started, nearly one other closed (Global Entrepreneurship Monitor, 2004).

At the inception of the UYVCF, Enterprise Uganda was vested with the mandate for conducting youth entrepreneurship training. Although pre-funding entrepreneurship training was a requirement at the start of the intervention, it was later scraped. While the MGLSD in partnership with Enterprise Uganda and ILO-SIYB program normally conduct entrepreneurship trainings, the trainings are rather random and not necessarily attached to accessibility of the fund. We propose that the entrepreneurship-training component be reinstated as a prerequisite for accessing the UYVCF or any funds provided by the government including the recently introduced Youth Livelihood Programme (YLP).

Are the procedures being adhered to by the implementing agencies? The fund was set up with a list of procedures to guide the implementation. One of the salient features was the recognition that the youth as nascent entrepreneurs may not be in possession of security or collateral to hedge against risk associated with borrowing. Borrowers were only required to present at least two guarantors –persons with good repute within the community, in addition to the business assets. However, the condition has been bypassed and collateral is required in most instances. While banks request for these securities to avoid financial risks associated with borrowing, the youth are less likely to be in possession of such requisite collateral. It is thus imperative that government thinks about a credit guarantee scheme to mitigate the fears of the commercial banks.

Loan period: The youth fund guidelines indicated a maximum tenure of four years repayment period inclusive of a maximum one year grace period. The extended loan repayment and grace period were designed to give the young nascent entrepreneurs enough time to invest and reinvest the borrowed money. In normal circumstances, grace period is given to firms to grow before they can start to repay their loans. However, from field discussions, the UYVCF beneficiaries are rarely given the one-year grace period. Yet short payment periods constrain youths' ability to use a bigger percentage of the loan on investment and may use part of the loan to meet the lenders' repayment obligations. On a positive note, other procedures like the 15 percent interest rate, age category (18-35 years) are being followed.

Have jobs been created for the youth? The rationale for the creation of the youth venture fund was premised on two objectives namely; job creation and business expansion. Using 2011 as the base year (i.e. before the fund was introduced) and 2013 (one year after the introduction of the UYVCF), we tried to compare the average increase in the number of people employed by the UYVCF participating and non-participating businesses as a proxy for job creation. Although we did not undertake a rigorous evaluation, the descriptive comparisons provide useful insights. The employment creation results based on years 2011 and 2013 indicate that the base year average number of employees was just about the same (not significantly different) for both the youth fund beneficiaries and non- youth fund beneficiaries at an average of three employees per enterprise. The results are not surprising given the fact that more than 50 percent of the youth fund beneficiaries are under the trade and commerce category -mainly of retail nature- and small loans to such enterprises are less likely to have significant impact on new jobs creation. Although benefiting businesses were required to create employment for at least four people by the end of the loan period, there is no framework to monitor the jobs created because no baseline study was undertaken by the lead agency or implementing agencies. It is highly unlikely that this condition has been/ or will be met by the funded youth enterprises as most surveyed enterprises had completed their loan payments and others were in their second and last year of loan repayment.

We further analyzed business expansion as measured by the monetary value of business stock in 2011 and 2013. The mean value of the businesses (in nominal terms) for the fund beneficiaries and non- beneficiaries in 2011 was UGX 2.7m and UGX 3.5m, respectively (no significant difference). It is interesting to note that youth businesses have been growing over time and in 2013, the mean value of businesses for the control and treated groups were UGX 5.1m and UGX 7.4m (significantly different, P=0). The results above may imply that the UYVCF is likely to improve productive employment / reduce under employment as opposed to new employment generation.

5 CONCLUSIONS AND POLICY RECOMMENDATIONS

5.1 Conclusions

The youth fund was anticipated to have a national outreach and impact at its inception. However, fund usage continues to be dominated by the central region in general, and Kampala in particular. Businesses that are urban based are likely to access the fund compared to those situated in rural areas yet more than 75 percent of the youth reside in rural areas. Compared to the older youth cohort aged (26 -35 years), the younger youth (18-25 years) are less likely to access the fund. This could be attributed to the fact that the older youth are likely to have more viable businesses that are likely to attract funding. Compared to those owning service-based enterprises, the youth in agricultural based enterprises are less likely to participate in the fund. Business maturity is yet another factor that influences fund participation. On average youth enterprises that were funded under the youth venture loan had been in existence for at least four years.

Regarding the operation of the fund, our synthesis found that the implementing agencies are generally not following the initial set of procedures as stipulated in the Aide memoire between the Ministry of Finance Planning and Economic Development (MFPED) and the participating banks. This deviation is likely to make the fund miss the targeted population. The major objectives of youth fund creation were employment creation for the unemployed youth, business expansion and business skills development. The results indicate the youth fund has not yet had significant positive effects on jobs creation, although there seems to be increased investment among the fund beneficiaries. This is not surprising given the fact that the beneficiaries are mainly retail traders who may not necessarily employ extra people because they have invested an extra amount (on average UGX 3 million) into their businesses.

5.2 Lessons for Future Youth Funds

Although the youth fund and youth entrepreneurship should not be looked at as a panacea to unemployment, it is part of the solution. Below are the recommended policy actions to sustainably promote youth entrepreneurship.

The promotion of youth entrepreneurship should be approached comprehensively to achieve lasting impacts. A mix of financial and non-financial support has proven to be a key factor influencing the success and sustainability of youth funds. The youth who have access to a comprehensive entrepreneurship package are likely to acquire the requisite skills, attitude, knowledge, support services that increases their chances of starting/sustaining businesses and being employable. Indeed, research conducted by Umsobomvu Youth Fund has proven that in some contexts, delivering unilateral enterprise development products does not fully realize the growth potential of youth-owned enterprises. Government should engage multiple stakeholders in form of Public Private Partnerships (PPPs) to ensure greater outreach and sustainability. In addition, different stakeholders bring in diversified resources like business development services and capacities like entrepreneurship training, mentoring and business incubation that are critical for the successful implementation of the youth fund. This is likely to stimulate sustainable business expansion and have a lasting impact.

Emphasize lending to productive sectors with high job creation potential. Support should be refocused on productive sectors with greater employment potentials for example manufacturing, construction and agriculture -higher value labour intensive value chains for selected agricultural commodities- should be prioritized. Agriculture has not been given the attention it deserves yet it is the major source of employment in the Ugandan context at least in the short run.

Targeting is paramount: To achieve a national outreach and impact, the design of UYVCF should take into account the heterogeneity of young people in terms of location (rural and urban), gender and stage of business. Other tailored products for startups should be considered for the youth with viable and bankable business ideas but who lack the seed capital to implement them. Almost all countries with similar youth funds have a loan product for startups alongside expansion loans. To improve overall coverage especially in places where the three banks do not exist, lower level financial intermediaries like microfinance institutions and prominent SACCOs could be considered for the youth in rural and semi urban areas.

Eliminate the obstacles to self-employment, making this an easier and more attractive option. There is considerable evidence that although Ugandans are good at starting businesses, very few live to see their first birthday. Challenges like poor infrastructure, inadequate power supply, poor road network, regulatory requirements, inadequate markets to mention but a few make it harder for small and medium enterprises to emerge and prosper. The government should thus create an enabling environment and emphasize youth entrepreneurship training, mentoring and coaching for businesses to flourish.

Put in place a strong institutional and M&E framework: An effective M&E framework with measurable indicators should be designed to monitor performance of the UYVCF. The framework should be able to track number/quality of jobs created, gender distribution of jobs, job creation per region and cost per job created among other indicators.

Not all youth can be entrepreneurs: Promoting self-employment/ entrepreneurship or 'do it yourself employment strategy' through youth funds is not a holistic panacea to youth unemployment. Regarding the demand side of the labour market, government should continuously implement policies that will attract more Foreign Direct Investment (FDI) and boost industrialization. Government programmes like Uganda Investment Authority mandated with enhancing private sector investment and jobs creation should engage in PPPs to expand beyond their current reach.

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APPENDICES

Appendix 1: Description of variables used in the Probit model

Variable	Measure	Proportion (%)	No. of observations
Dependent variable			
Youth Fund Participation	Yes=1, No=0	51.8	168
Independent variables			
Youth characteristics			
Education level of youth	1= Primary, 0=others	10.1	168
	1= Secondary, 0=others	43.4	168
	1= Diploma , 0=others	18.4	168
	1= University, 0=others	27.9	168
Marital status	1=Single, 0=Married	27.8	2033
Age cohort of youth	1= Age =(18-26) years,0=others	71.4	168
	1= Age =(27-35) years, 0=others	28.6	168
Type of business enterprise	1= Agricultural ,0=others	26.9	167
	1= Industry, 0=others	8.3	167
	1=services, 0=others	64.6	167
Household characteristics		*Mean*	
Age of business	Age of business in years	4.0	167
Value of business	Monetary value of business	3,111,477	149
Geographical characteristics		*Proportion (%)*	
Substratum	1= Urban, 0=Rural	68.0	166

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