EPRC POLICY BRIEF

Issue No. 47 JUNE 2014

Promoting self-employment through entrepreneurship financing: Lessons from the Uganda Youth Venture Capital Fund.

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Introduction

Youth unemployment continues to be a developmental challenge not only in Uganda but in several sub Saharan countries. Ugandan youth (18-30 years) are twice likely to be unemployed compared to their older counterparts (31-64 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.[1] 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 brief examines the level and determinants of youth participation in the fund and evaluates the operations of the fund against the initial guidelines and procedures as stipulated in the Aide memoire [3] between the Ministry of Finance Planning and Economic Development and the participating banks. Furthermore, this brief summaries lessons on emerging youth fund implementation practices in a few chosen countries that could inform the improvement of existing youth funds in Uganda. We majorly relied on secondary data provided by the largest commercial bank –Centenary Bank- participating in the fund and was complemented by a survey of beneficiaries as well as potential beneficiaries.

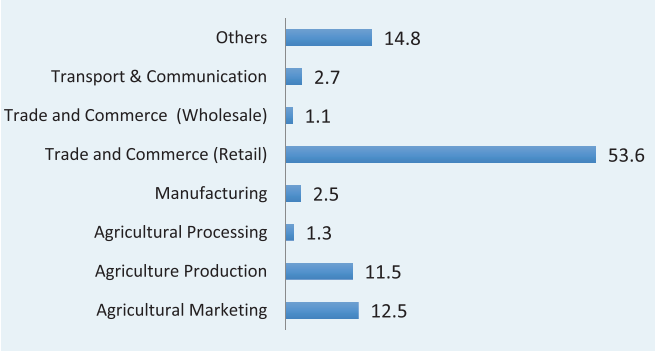
Why youth funds?

The growing level of youth unemployment has been the major motivation for the setup of youth funds. 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. 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 environment where economic growth has not greatly reduced unemployment levels, the government has resorted to using targeted short-term job creation interventions aimed at promoting self-employment. The promotion of youth enterprise in Uganda is based on the premise that micro, small and medium enterprises (MSMEs) are likely to play a leading role in employment creation amidst limited labour absorption capacities in the formal economy.

Who is likely to access the Uganda Youth Venture Capital Fund Loan?

Sector: 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 (MoFPED, 2012). However, nearly 54 percent of the actual funded youth enterprises were classified under retail trade (Figure 1), 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 and risks associated with the sector.

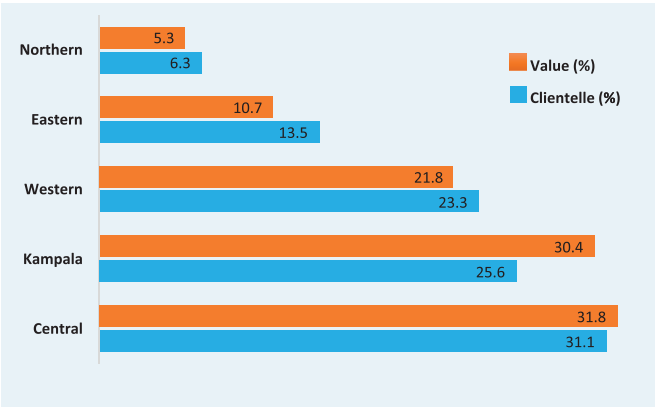
Figure 1: Type of businesses funded under the UYVCF (%)



Source: Author's calculations based on Centenary Bank administrative data, 2012

Geography: Although the fund was expected to have a national outreach, it is highly concentrated in the central region and urban areas. The central region, Kampala inclusive, had utilized about 61 percent of the fund value while the youth enterprises in Kampala had accessed about 30 percent of the loan portfolio by February 2013. 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. While 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, about 70 percent of the youth fund (by value and clientele) was accessed by male owned enterprises. This is not surprising given the fact that females are less likely to own property/assets, which are required, by banks as collateral for loan acquisition and are also highly engaged in agriculture which is less likely to be funded by banks.

Figure 2: Scale and outreach of the fund by value and clientele by region (%)



Source: Author's calculations based on Centenary Bank administrative data, 2012

In-depth analysis reveals 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.

Is the Uganda Youth Venture Capital fund functioning and 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 MoFPED and Ministry of Gender, Labour and Social Development (MoGLSD), the implementing banks (Centenary Bank, Stanbic Bank and DFCU Bank) and Enterprise Uganda. MoFPED was responsible for providing 50% of the funds as well as the overall policy framework and guidance of the program. Although MoFPED 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 no evidence to support the participating banks' mentoring role as per the fund design. 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)

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 re-

quired 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.

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 UYF beneficiaries are rarely given the one-year grace period. 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?

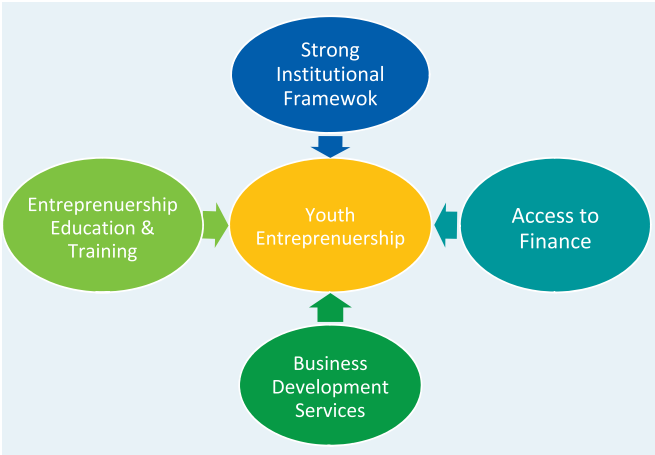
The rationale for the creation of the youth venture fund was premised on two objectives namely; job creation and business expansion. Using 2011 as the base year (i.e. before the fund was introduced) and 2013 (one year after the introduction of the UYF), we tried to compare the average increase in the number of people employed by the UYF beneficiaries and non- participating businesses as a proxy for job creation. 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.

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 beneficiaries and non-beneficiaries were UGX 5.1m and UGX 7.4m (significantly different, P=0). The results above may imply that the UYF is likely to improve productive employment/reduce under employment as opposed to new employment generation.

Emerging good practices on youth entrepreneurship

A synthesis of literature from African countries that have implemented youth funds reveals that for youth entrepreneurship to thrive, access to finance should be complemented with other non-financial services like entrepreneurship education and training, business development services and support, and a good institutional and administrative framework. Although Uganda has to a large extent rolled out the credit component, other components are still inadequate. For example pre-funding training on entrepreneurship is not a requirement for Ugandan youth to access funds as is the case in Namibia, Kenya, Botswana and South Africa where similar youth funds have been implemented. 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.

Figure 3: Factors influencing youth entrepreneurship



Source: Synthesis from literature

Emerging issues

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. 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 entre-

preneurship training, mentoring and business incubation which 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.

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 UYF. 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

Targeting is paramount: To achieve a national outreach and impact, the design of UYF 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.

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 supply side of jobs, government should continuously implement policies that will attract more Foreign Direct Investment (FDI) and boost industrialization. Government agencies like Uganda Investment Authority mandated with enhancing private sector investment and jobs creation should engage in PPPs to expand beyond their current reach.

Footnotes

1. 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
2. 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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