

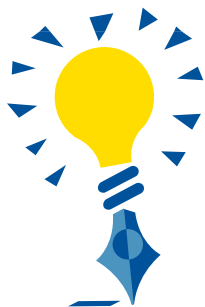
December 14, 2007

Building an Entrepreneurial Drive in Ugandan Youth through Education and Community Support

David Musiime

Article at a glance

- In Uganda, young people lack the skills and resources to become entrepreneurs.
- Youth-oriented programs would create a business climate more favorable to entrepreneurship.
 - Business support organizations for youth
 - Entrepreneurship and business skills training workshops
 - Increased access to finance
- All stakeholders – youth, the government, and private sector leaders – must work together to achieve these goals and improve Uganda's economy.



This article is a 2007 CIPE International Essay Competition winner in the category of entrepreneurship and leadership.

To comment on this article, visit CIPE's Development Blog: www.cipe.org/blog.



published by the

Center for International Private Enterprise

an affiliate of the U.S. Chamber of Commerce

1155 Fifteenth Street NW · Suite 700 · Washington, DC 20005 · USA

ph: (202) 721-9200 · web: www.cipe.org · e-mail: cipe@cipe.org

Introduction

Young people in Uganda can play a positive role economically, socially, and politically – even beyond the borders of their home country. Unfortunately, they very often lack access to resources, training, and opportunities that would inspire them to get involved and have a positive impact. Fostering a spirit of entrepreneurship among youth in Uganda could help motivate them to take an active role in society, even where access to resources is scarce. Enhancing young people's entrepreneurship skills and developing their entrepreneurship and management capacity through trainings and relevant policy would go far toward solving these problems.

History of Entrepreneurship in Uganda

Entrepreneurship, in the form of informal enterprises, has always existed in Uganda. In the pre-independence (1962) period, the realm of entrepreneurship was dominated by the South Asian population, who had business acumen and access to capital. Business training in schools and universities was not geared toward entrepreneurship, but was instead designed to serve the interests of government and large-scale companies. Self-employment was not addressed, with the focus instead on gaining and retaining employment.

Those Ugandans who did become entrepreneurs relied on their business instincts and simple skills acquired from their parents. Even today, many entrepreneurs still rely on these sources of business know-how; for people who cannot read or write, even simple bookkeeping is virtually impossible. They suffer from a shortage of capital, and operate within a client base that is mostly limited to their immediate localities. In 1972, when the South Asian population was expelled from Uganda, the business community and then the country collapsed. The Ugandans who inherited the abandoned businesses did not know anything about entrepreneurship or business management. Those who had received formal education in business-related subjects found that their studies were purely academic and not of much practical help. It was a period of crisis for entrepreneurship in Uganda.

Young Ugandan Entrepreneurs Today

The task of an education system is to prepare youth for society and the world of work. In Uganda, according to the Uganda Demographic and Health Survey (2001/2002) by the Uganda Bureau of Statistics, youth comprise 31 percent of the population; preparing them to be productive citizens is a hugely important task. Entrepreneurship is a value, attitude, and behavior that can inspire young people to pursue self-employment and business as a career. Yet current programs in the formal education system continue to produce *job-seekers* instead of entrepreneurs.

The few young people who do aspire to start their own business are often women who start a small business with little or no formal education; they rely on natural instincts for survival. The consequences of this trend are inefficiency, low profits, and even less contribution to economic growth. Potential opportunities for youth are abundant in micro- and small enterprises, but are often unrealized. Some young people do get formal business training in school, but this training does not prepare them for work in a rural setting (even though 80 percent of Uganda's population lives in rural areas). Other youth without even basic business training run small businesses far below their potential, as they do not have the ability to use even simple business monitoring skills.

It should also be noted that HIV/AIDS has a significant bearing on young entrepreneurs in Uganda today. Young people – potentially the most productive age bracket – are unfortunately the most affected by the disease. Those who manage to save some initial capital for starting a small business can sadly end up using the funds on medical treatment and special diets when they become infected with HIV/AIDS.

Constraints to Youth Entrepreneurship in Uganda

In addition to the fact that young, would-be entrepreneurs largely have little business training or background, young people also face severely limited access to capital as they look at their prospects for

starting a business. These constraints translate into high production costs and make young entrepreneurs uncompetitive. Young entrepreneurs are acutely affected by the financial constraints faced by the business community more generally. These include:

- **Limited sources of long-term finance:** Uganda's financial sector is dominated by commercial banks. As a result, small-scale entrepreneurs frequently use the more readily available, short-term financing/loans even for medium- to long-term investment projects. Apart from reducing profitability and requiring large payments, this type of investment gives less incentive for capital-intensive ventures such as industry, and more for small-scale trading.
- **Lack of acceptable collateral:** Most young people lack collateral acceptable to commercial banks. While microfinance institutions could help some small borrowers, the financing requirements of many young borrowers are outside the scope of microfinance providers. Microfinance that is short-term or that has very high interest rates is unsuitable as a funding source for most young entrepreneurs.
- **Poor information sharing between banks and small-scale entrepreneurs:** Inadequate information escalates the cost of and constrains access to credit. In Uganda, banks usually do not supply all of the lending information to small borrowers; beyond lending rates, other fees are not mentioned. Conversely, small borrowers do not supply all the information required by banks. Banks perceive small borrowers as highly risky clients.
- **Insufficient depth of the financial sector:** The business needs of small entrepreneurs are varied. In order for these needs to be adequately addressed by the financial sector, it must be equally diverse. The financial sector must be able to account for a wide variety of long-, medium-, and short-term products, and should provide a healthy combination of debt and equity instruments as well. The financial markets sector

in Uganda offers only a few standard services and this limits the options available to young entrepreneurs.

In addition to these financial challenges, young entrepreneurs face other hurdles as well:

- Poor accounting skills and inadequate comprehension of capital
- Lack of appropriate technology to meet market standards
- High levels of corruption and cumbersome bureaucracies (especially in taxation and business licensing)
- Inadequate and expensive utilities, including power and telecommunications
- Poor incentives for local investors
- Limited understanding and implementation of sound corporate governance; this limits small entrepreneurs' participation on the stock market
- Nascent savings and credit management culture
- Lack of capacity and motivation to form business support organizations

Young Entrepreneurs Can Overcome These Challenges

Young people can take an active role in eliminating the constraints they face as entrepreneurs, and can partner with other groups to more effectively advance solutions. Achieving the following goals will require the commitment of all stakeholders.

Improved financing options for young entrepreneurs

Young entrepreneurs lack capacity to organize and keep business records, which affects their access to credit. They cannot establish their performance in terms of revenue and profitability over time, a key requirement for lending by banks. It is crucial that small borrowers understand these connections. Greater emphasis should be put on controlling risk and improving a repayment culture by educating young entrepreneurs in how to maintain sound business records.

Young entrepreneurs need to understand the connections between past performance and future

Starting a Business

Despite significant challenges, young people can use the few resources they already have to become successful and sustainable entrepreneurs in their communities. Dedication from the very beginning is key to making an enterprise successful.

Market Assessment

Would-be entrepreneurs must conduct some research to get to know their market. They should find out who are their likely customers, how they can reach these customers, how much customers will pay for the product or service, who are the competitors, and how the business will be marketed.

Choosing the Right Business

A young entrepreneur should find a business that is compatible with their strengths, needs, and goals. They should consider both what kind of business to start and whether to buy an existing business (such as a franchise) or build one from scratch. In thinking about what kind of business to start, the young person should get to know their potential customers, and evaluate what these clients might want that is not currently being provided to them. Unfortunately, many young entrepreneurs fail each year because their business choice did not match their own skills or their client base. Young entrepreneurs can learn from the experiences of those who have gone before them.

Practical Example from the Metal Industry

The metal and metal products industry in Uganda offers high potential for the enterprising young person with the right skills. There is a high demand for these products, so businesses in the sector have high potential to make a profit, expand and create more jobs, and attract private investment.

Currently, many metal products are imported to Uganda from other African countries and East Asia. Since there is such a high demand for metal products like cast iron cookers, tools, and hardware, a local manufacturer could potentially leverage a number of competitive advantages: land for workshops and raw materials (scrap metal) is cheap and readily available, as is a large labor pool with the relevant skills. By localizing the metal products industry, an enterprising young person could provide a much-needed product as well as employment for others, having a positive impact on Uganda's economy.

opportunities. This is particularly relevant to young businesspeople as they have a tendency to shift businesses; there is need to set up a framework to follow up on loan performance.

A longer-term vision is important to securing other sources of capital as well. There is a need to review and expand financial instruments and improve long-term access to business finance for youth. Specifically, this includes opportunities like equity financing and direct participation in capital markets by small-scale entrepreneurs. The capital markets industry in Uganda is only 10 years old, following the establishment of the Capital Markets Authority in 1997. As it grows further, there is a need to encourage larger firms to float shares on the Uganda Securities Exchange as a means of increasing the equity base of small-scale firms. Young people could also participate in the establishment of a fund that would provide finance to small-scale entrepreneurs for business start-up costs.

Formation of business support organizations for youth

Young entrepreneurs and the business community as a whole need to form and strengthen business support associations. This is crucial for sharing information on access to finance, inputs, leases, equipment, markets, business knowledge, and technology. Sharing information and support improves productivity, profitability, and competitiveness.

Access to technology

Technology is one of the key drivers of industry and economic growth. The fact that the cost of acquiring production, processing, and management technology is out of reach for young entrepreneurs in Uganda means that huge portions of global resources are just not available to them. The government and the private sector could work together to increase young entrepreneurs' access to hardware and software at subsidized costs.

Access to resources for business start-up and improvement

Through public-private partnerships (PPPs), the government and established private sector groups could facilitate youth entrepreneurship. Through PPPs, these groups could evaluate and provide feedback on young entrepreneurs' business plans, and help provide initial start-up capital for qualifying business ventures. Other types of assistance could be to offer other assets like furniture and equipment, even on loan for initial set-up. PPPs could also provide:

Entrepreneurship training workshops: These workshops would give an opportunity to participating youth to become more familiar with the habits of successful entrepreneurs. Young entrepreneurs would in turn apply the skills and behaviors as they returned to their own businesses. The workshops would have benefits for individual entrepreneurs, and would also create trust and networking bonds among the young entrepreneurs. Participating young entrepreneurs could organize for mutual support, exchange of information and experiences, and collective formulation of developmental entrepreneurship ideas.

Business opportunity identification: The PPP arrangement could also help young entrepreneurs by assisting them to identify and analyze a variety of opportunities and interests. Each young entrepreneur could be taken through a process of idea generation, idea screening and testing, business profiling, and idea selection. At the end of the process, these young entrepreneurs would be able to develop a business plan for a specific business venture.

Preparation of business plans: Young entrepreneurs would then be aided in their preparation of viable planning documents, which would also be useful for management orientation and resource mobilization from investors and bankers.

Accounting and bookkeeping training: Sound bookkeeping practices are essential for young entrepreneurs to get their businesses started with the right direction. This would further improve the credibility of their businesses.

Understanding and implementation of corporate governance

Young entrepreneurs need the skills to implement sound business and management practices. These include accountability, financial probity, transparency, and ethical conduct. The Institute of Corporate Governance of Uganda is taking the lead in building understanding of and capacity for corporate governance, but more efforts are required. Enhanced implementation would position young entrepreneurs to attract investment partners from Uganda and abroad.

Conclusion

In order for young people to become successful entrepreneurs, they need access to resources and training and exposure to opportunities. In partnership with the government and private sector leaders, young people can overcome the challenges of the Ugandan business environment to bring their ideas into reality. Working together, the government, the private sector, and youth can create a business environment that allows young entrepreneurs to turn their skills and excitement into viable businesses. When young entrepreneurs put their talents and knowledge into practical business activities, this will in turn boost Uganda's economy and society.

References

- www.enterprise.co.ug *Enterprise Uganda*
www.eprc.or.ug *Economic Policy Research Centre – Faculty of Economics and Management Makerere University*
www.fin.go.ug *Ministry of Finance Planning and Economic Development*
www.icgu.or.ug *Institute of Corporate Governance of Uganda*
www.makerere.ac.ug/psforum *Makerere Private Sector Forum*
www.psfuganda.org *Private Sector Foundation of Uganda*
www.ubos.org *Uganda Bureau of Statistics*
www.worldbank.org.ug *World Bank Uganda*

CIPE's 2007 International Youth Essay Competition asked young people aged 18-30 to share their ideas about citizenship, democratic and market-oriented reform, and youth leadership. David Musiime's essay, which won first prize in the 'Entrepreneurship and Leadership' category, was written in response to the following question: What needs to be done in your country to provide youth with the opportunity to become entrepreneurs and/or leaders in their communities? To learn more about the essay competition, visit www.cipe.org/essay.

David Musiime holds a bachelor's degree in social sciences (economics/administration) from Makerere University in Kampala, Uganda. During his years at the university, he completed a variety of internships, most notably at the Institute of Corporate Governance of Uganda (a business association that partners with CIPE) and at the Capital Markets Authority. Mr. Musiime enjoys research, debate, and discussing current global issues.

The views expressed by the author are his own and do not necessarily represent the views of the Center for International Private Enterprise. The Center for International Private Enterprise grants permission to reprint, translate, and/or publish original articles from the Economic Reform Feature Service provided that (1) proper attribution is given to the original author and to CIPE, and (2) CIPE is notified where the article is placed and a copy is provided to CIPE's Washington office.

The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 1,000 local initiatives in over 100 developing countries, involving the private sector in policy advocacy and institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE provides management assistance, practical experience, and financial support to local organizations to strengthen their capacity to implement democratic and economic reforms. CIPE programs are also supported through the United States Agency for International Development.