Investment Climate and Business Environment Research Fund

Rural Youth Entrepreneurs in East Africa: A view from Uganda and Kenya

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Executive Summary

This report is a result of a project titled Entrepreneurship empowering marginalized groups. The project was made possible through funding from the IDRC Trust Africa Investment Climate and Business Environment- Research Fund. The overall objective of the project was to explore the entrepreneurship initiatives that marginalized groups which included women, rural youth and the disabled are engaged in.

From earlier studies it is evident that governments are aware of the looming youth problems especially the rising unemployment and entrepreneurship is being considered as a measure to mitigate the crisis.

This report is intended to document the rural youth entrepreneurship situation in East Africa, the Ugandan and Kenyan contexts in particular, looking at why rural youth engage in entrepreneurship and what benefits arise there from. The report explores several facets of entrepreneurship as it compares rural youth activities and behaviors in Uganda and Kenya. It examines the socio economic environment in which these young people operate. Further, the report highlights the current policy gaps in youth entrepreneurship by exposing the unique challenges they face and assessing if the initiatives that have been devised have indeed worked. Proposals to achieve entrepreneurship for sustainable growth are then outlined.

It is important to understand what kind of enterprises the rural youth entrepreneurs (hereinafter referred to as RYEs) set up and why they do so. In a bid to investigate this we sought to identify the kind of businesses they managed, the age and sizes of these enterprises their previous engagements before the businesses were started, how they acquired their businesses and if they had closed up any businesses before their current ones as well as who they typically employed in their ventures.

Data were collected from both countries using mixed research methods. Surveys, in depth interviews and focus group discussions were conducted in all regions of the two countries.

Socio demographic results showed that almost two thirds of the Ugandan respondents were married and had children while fewer than one half of the Kenyan respondents were married with one half of the Kenyan respondents with children. In terms of education two thirds of the

Kenyan respondents had completed lower secondary education yet in Uganda less than one third of the respondents had done so.

There were no differences between Ugandan and Kenyan respondents regarding age of enterprise with almost half the respondents in both countries owning new businesses aged 1 to 3 years while a third owned established businesses. 8 in 10 Ugandan respondents had not registered their businesses yet in Kenya 7 in 10 had registered their businesses.

Only a third of the Ugandan respondents had received a specific skill or training for their business while in Kenya almost a half of the youths interviewed claimed to have received training in doing business. In both countries apprenticeship dominated as the form of training received.

While a half of the respondents in Uganda got their start up capital from their savings the percentage in Kenya was two thirds with minimal contact with financial institutions in both countries being registered. Belonging to an association was not popular among the Uganda respondents with more than a half of them stating that they did not belong to any such group. In Kenya though, almost a half of the respondents belonged to an association citing financial support as the main benefit of belonging to these groups.

A general classification based on the GEM opportunity-necessity dichotomy of the reasons why these entrepreneurs started these businesses has opportunities dominating by 2:1 in Kenya. While in Uganda the ratio was 3:2 with almost three quarters of the respondents stating they were still in business for opportunity based reasons.

In both countries an overwhelming number of respondents had growth aspirations for their businesses. While few had intentions of hiring more staff most intended to start and own several other businesses.

The major challenges the study identified that are facing the RYEs included rising commodity prices, poor infrastructure, stringent financial institution requirements, extreme weather conditions, pests, diseases and idle fellow youths who destabilize their business activities.

The report ends with recommendations for the improvement of rural youth entrepreneurship which included; decentralization of the business registration services to the rural areas, training, tailoring credit facilities to rural youth's unique circumstances, provision of affordable business development services and developing the talents of gifted youths through talent building programs.

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1. Introduction

Up to 84 per cent of the youth population is resident in the developing world (United Nations, 2010). It is estimated that by 2025 one in every four young people in the world will be from sub-Saharan Africa (World Bank, 2008), a region where most people are poor and live in rural areas. This part of the world has a considerably big proportion of youth who are estimated at 62 percent of the total population. According to Owualah (1999), entrepreneurship has been accepted worldwide as an important way of integrating more young people into the economic environment. In developing countries the engagement of marginalized sections of the population in entrepreneurship can empower these peoples and subsequently contribute to economic growth (Muller and Thomas, 2000).

Increasingly, a special form of entrepreneurship –youth entrepreneurship, has been advocated for by several scholars, civil society organisations and policy makers as a tool for improving livelihoods of youths in sub-Saharan Africa (Chigunta, Schnurr, James-Wilson & Torres, 2005; Youth Business International, 2011; International Labour Organisation, 2005). This form of entrepreneurship creates employment for the youth (Curtain, 2000); provides valuable goods and services to society (Organisation for Economic Co-operation and Development (OECD, 2001); and promotes innovation and resilience (White & Kenyon, 2000). Because youths are more likely than adults to be unemployed, entrepreneurship gives them livelihood alternatives, economic independence, and positive psychological capital which will integrate them into the mainstream economy (Schoof, 2006; Chigunta, 2002).

Youth in Uganda are described as young adults between 18 -30 years (Ministry of Gender, Labour and Social Development, 2002) while in Kenya the Ministry of Home Affairs, Heritage and Sports (2002) describes the youth as persons aged 15-30 years. Youth make up 21.3% of the total population in Uganda (UBOS, 2010) while in Kenya youth account for 30.1% of the total population (KNBS, 2006).

Uganda and Kenya are among the many countries in sub-Saharan Africa where youth entrepreneurship is receiving significant attention because of its potential to avert the unemployment problem and create economic opportunities for the young people. The effort is reflected in the countries' strategic plans - Uganda National Development Plan, 2010/11 –

2014/15 and the Kenya Vision 2030 where specific youth development initiatives are emphasized to increase access to business enterprise funds, skills training, and business development services. In both these countries youth entrepreneurship is important because of the big youth cohort and the high unemployment levels among the youths. This unemployment problem is increasing the dependency problem and is increasingly becoming a political burden to both governments.

The World Bank (2007) shows that the labour force in Uganda is growing at a rate of 3.4% per annum resulting in 390,000 new job seekers and yet only 8,120 jobs are created each year. Young people in Kenya on the other hand are faced with an unemployment rate of 78%. The high rates of unemployment and underemployment amongst youth, and the challenges this presents for themselves, their families and society, have been extensively documented (Garcia & Fares, 2008; World Bank, 2007).

Whereas efforts have been made to promote entrepreneurship among the youth, most of them seem targeted at the urban youth who are a small proportion of the overall youth population. Besides, overall, the concept of youth entrepreneurship has received limited attention and in-depth analysis from researchers since youth are often treated as a general homogeneous adult group (Schoof, 2006; Chigunta, 2002). Previous studies have emphasized the differences between developed and developing countries but have not gone further to differentiate rural and urban youth entrepreneurs within countries.

Rural areas are resource constrained with relatively low infrastructure facilities (De Walt & De Walt, 1987). We focus on the environment of business because businesses are neither independent nor completely isolated from the internal and external environment within which they function (Fry, Stoner & Hattwick, 2003).

In the current East Africa context, the Micro Small and Medium Enterprises (MSMEs) are understood to be independent business undertakings where operational and administrative managements are in the hands of one or two persons usually the owner(s) / manager(s) who are also responsible for making the major decisions of the enterprise. These MSMEs are in both formal and informal sectors engaging in farm and non-farm economic activities such as manufacturing, mining, commerce and social services. MSMEs are more effective in the utilization of local social and natural resources using simple and affordable production technology.

Supporting youth entrepreneurship in Africa is crucial in fostering the creation of sustainable livelihoods. The challenge stands in instilling an entrepreneurial culture through education and skills development, mentorship programs, physical and monetary support and attitudinal shifts which eventually will lead young people to choose entrepreneurship as a career option. For young people, self-employment can increase their confidence, help them achieve economic independence and create employment not only for themselves but for others as well.

This study therefore is an attempt to investigate the entrepreneurial environment in which Ugandan and Kenyan rural youth operate to expose their unique challenges, motivations and growth ambitions with a view to making policy recommendations to support them.

1.1 Problem and Justification of the Study

Unemployment indicators for sub Saharan Africa reveal that youth constitute 47 percent of the unemployed, even when they represent only 32 per cent of the working age population. Moreover, young people are more likely to lack the skills, the experience and social networks that provide access to jobs and long-term job security (Elder et al., 2010) making youth unemployment one of the major challenges for African governments. One approach to tackle this crisis that has gained popularity among both academics and policy makers is an inquiry into youth entrepreneurship and how it can mitigate societal needs. In spite of the apparent benefits of entrepreneurship, there is little empirical data on how far the perceived benefits of youth entrepreneurship are realized in Africa (Chigunta et al., 2005) especially in rural areas where empirical research data is hard to come by. If we believe that entrepreneurship may provide a solution to the youth unemployment crisis in rural areas we need to understand the related issues of entrepreneurial environment, the youth entrepreneurs' motivations and growth aspirations.

1.2 Purpose and objectives of the study

The study was conducted to explore rural youth entrepreneurs, entrepreneurial motivations, challenges and growth aspirations in both Uganda and Kenya.

1.3 Research objectives

a) To explore the entrepreneurial environment of rural youth entrepreneurs in Uganda
b) To explore the entrepreneurial environment of rural youth entrepreneurs in Kenya
c) To investigate the motivations and growth aspirations of rural youth entrepreneurs in Kenya and Uganda
d) To establish the challenges faced by rural youth entrepreneurs in Uganda and Kenya and recommend policy interventions

1.4 Research Questions

a) How do rural youth perceive the entrepreneurial environment in Uganda?
b) How do rural youth perceive the entrepreneurial environment in Uganda?
c) What are the motivations and growth aspirations of rural youth entrepreneurs in Kenya and Uganda?
d) What are the challenges faced by rural youth entrepreneurs in Uganda and Kenya and what are the possible policy recommendations or interventions to these challenges?

2. Methodology

2.1 Research Design

A combination of the positivist approach (associated with quantitative studies) and the interpretive approach (associated with qualitative studies) was used in this study. The quantitative paradigm was the dominant approach and was based on a survey design. A survey was undertaken because of its strength to gather information that may not exist from other sources. The qualitative paradigm was used as a less dominant approach to compliment the quantitative data. Literature in the social sciences is rife with justification for the use of both quantitative and qualitative research methodologies in a single research design (Campbell and Fiske, 1959, Denzin, 1970). This was done to address the non-overlapping weaknesses of each design together with their complementary strengths (Brewer & Hunter, 1989).

2.2 Population, Sample size and Procedure

The population of the study was the rural youth entrepreneurs. The Uganda Bureau of Statistics (2002) defines the youth as young adults aged 18-30 years. However, the Kenya National Youth

Policy (2002) defines a youth as one aged 15 - 30 years. The exact population of rural youth entrepreneurs was not available from statistical records in both countries (Uganda and Kenya) by the time of survey. However, according to Krejcie & Morgan (1970), a sample of 384 is sufficient for any population above 100,000. In this study we used a sample of 1,100 respondents split almost equally between the two countries.

To select the respondents, we used a multi stage stratified sampling method. We split Uganda into four regions (central, east, north, and west). From each region, we selected three districts based on the existence of government programmes for the youth. This made a total of 12 districts (see appendix for list). In each district we selected one sub-county and a parish using simple random sampling method (see appendix for topographic maps). From each parish we selected three villages to create separate clusters. We worked with the district top leadership who guided us to the local leaders who provided security clearance, additional information about the villages and played a role in facilitating entry into the villages.. In instances where a given village did not have any youth entrepreneur or the sufficient number required, we moved onto the next village. We obtained a total of 45 rural youth entrepreneurs from each district.

In Kenya, we used a two stage non-probability sampling method (quota sampling and convenience sampling), whereby Kenya was first divided into regions of Central, Nyanza, Rift valley, and Coast. We then selected a rural town from each of these regions based on the categorization by the Ministry of Youth Affairs for the most economically active towns (see appendix for list of provinces and rural towns we visited). We targeted 500 youth and we achieved 100% response rate. The District Youth officers were approached to provide information on the entrepreneurial activities of their respective areas which information then formed a basis for identifying the entrepreneurs to be interviewed in the respective towns.

In both countries the research assistants were specifically instructed to purposively select interviewees who met the criteria: youth entrepreneur and were operating a business in the selected rural towns. A total of 15 rural youth entrepreneurs were then selected from each village with emphasis on gender balance and diversity of trades. A semi-structured interviewer-administered questionnaire was administered to the respondents.

2.3 Data Collection

We collected primary data over a period of three months, from May 2011 to August 2011. The data mainly came from primary sources where we used questionnaires with both closed and open ended questions; interview guides and checklists. The questionnaire was interviewer-administered in the form of face-to-face interviews. It was used to gather data on the environment of business, business activity, motivations and growth aspirations of the youth entrepreneurs. We conducted four in-depth interviews with youth entrepreneurs in each region, making a total of 32 in-depth interviews in both Uganda and Kenya. We identified the participants in the interview based on the nature of business activity (the diversity was a major selection criterion) they were engaged in. Special consideration also was given to size of enterprise where we considered a mix of both micro and small enterprise owners. We conducted interviews to obtain detailed information about the environment of business, specific challenges, motivations and growth ambitions of the youth entrepreneurs. We also used focus group discussions to further generate ideas and collective opinions from youths in different sectors. In each region we conducted one FGD with the rural youth entrepreneurs. In the FGD, there were between 8-10 participants at a time. These participants represented most of the trades in the particular village.

To further enhance the data set we conducted interviews with experts. These were people who worked in government, non-government organizations, private enterprises, financial institutions and academia and were knowledgeable about rural youth entrepreneurship through directly interfacing with these entrepreneurs. These expert interviews were conducted after the field survey of youth entrepreneurs to enable the sharing of the youth opinions sourced from the field study with the experts and to generate meaningful solutions. Here, we were able to gather more in-depth information on specific environmental aspects that affected youth entrepreneurship.

2.4 Operationalisation and measurement of variables

Environment of business

In this study we evaluated the environment of business using a modified version of Africa Development Bank / International Labor Organization (AfDB/ILO) integrated framework for entrepreneurship environment. Although the framework categorizes the environment into ten elements, we selected only seven elements which, after critical literature review (e.g. Zahra, 1993; Gnyawali & Fogel, 1994; Fogel, 2001) that appeared to fundamentally influence operations of youth entrepreneurs. The AfDB/ILO integrated framework was rigorously developed by Stevenson & St-Onge (2003) and Stevenson & Lundstrom (2002) through the late 1990s and tested in more than ten countries including Uganda and Kenya as a practical, integrated approach for supporting the start-up and growth of women-owned enterprises in underdeveloped regions. These studies confirmed the validity of the framework (Stevenson & St-Onge, 2005). To avoid common method bias which is common in cross sectional studies (Spector, 2006), we used different scales, where some were dichotomous while others were likert and ratios (see appendix for questionnaire). We also adhered to Davidsson (2002) who advocates for purposive focus on the individual entrepreneur.

2.5 Validity and Reliability

To ensure validity of the instrument, we adopted and revised instruments that had been used previously in related studies in the developing world. The adjustment was further informed by theory which was complemented by expert reviews and opinions.

In terms of qualitative data, different methods were used in order to corroborate data sources so as to validate and triangulate findings. Using multiple sources and data collection strategies provided considerable saturation and triangulation of data. There was agreement of different data sources on particular issues, thus making the interpretation of the data more reliable. All interviews and focus group discussions were audio recorded and the researchers kept a diary to note down comments and thoughts throughout the research process. This was done in order to ensure consistency in the data collection and maintain a chain of evidence.

2.6 Data Analysis

Quantitative Analysis

All filled questionnaires were checked for completeness before they were entered into the SPSS (19) software for analysis. A filled questionnaire was entered into the software if it had over 75% of the items answered (Sekaran, 2003). A missing value analysis (MVA) was then performed to establish whether the missing values were missing completely at random (MCAR). MVA was also performed to avoid committing Type I and Type II errors, and to increase statistical precision. The EM (Expectation-maximisation) method was used to perform MVA. All MCAR results were significant ($p<0.05$) implying that there was no need to replace the missing data. In this study we did not perform inferential statistics as most of the objectives could be answered with measures of central tendency, charts and graphs.

Qualitative Analysis

The data was analysed using the NVivo to identify themes. In thematic analysis the data collection and analysis were done simultaneously. The researchers repeatedly refered to transcripts, memos, notes and the research literature. After transcription of the interviews, the data were then coded into patterns. Themes were then grouped together into sub themes. Reference was again made to the literature to obtain a valid argument for the selected themes (Boyatzis, 1998).

2.7 Ethical consideration

In undertaking this project we followed the general ethical guidelines of informed consent, right to privacy and protection from harm (physical, emotional or any other kind). In addition to this we were conscious that our study population is a marginalized group, and therefore other ethical concerns that applied to them were considered. These included the best interests of the respondents as the primary concern in all actions of the research, and granting them the right to express and voice their views freely in matters affecting them with the option to opt out of the exercise whenever they felt uncomfortable.

3. Results and Discussion

3.1 Introduction

This chapter contains results from the study and the corresponding discussion. It is organized as follows: the first part focuses on the entrepreneurial environment of RYE in Uganda and Kenya; the second part addresses the motivations and growth aspirations of the study population; the next section discusses the challenges faced by rural youth entrepreneurs in the two countries under study; and the final part contains overall conclusions, recommendations and limitations of the study.

3.2 Entrepreneurial Environment in Uganda and Kenya

In this section we discuss findings on the environment of business with specific emphasis on the regulatory and legal environment; access to enterprise education and training; access to credit; access to business networks; and role models.

3.3 Legal and regulatory environment

We assessed the environment in which the RYEs operate with a focus on the legal environment. Emphasis was placed on issues of registration, the ease of doing business and benefits there from. It was important to assess the legal and regulatory environment because it impacts on the cost of doing business and even if regulations are uniform across the country, differences in implementation can mean that the burden varies significantly between regions. Cognizant of the fact that the reach of the registrar general's chambers was limited, we adopted an inclusive definition of registration which included registration with the government, local authorities and within any framework. As seen in figure 1, most Ugandan respondents (81%) did not operate registered enterprises. This finding is consistent with the national average of registered businesses which are only 25,000 of 500,000 businesses in Uganda (Uganda Bureau of Statistics, 2011).On the contrary in Kenya, almost three quarters of the youths interviewed said their businesses were registered with a little under two thirds of these youths saying that registration was easy. For those whose enterprises were not registered, almost a half said that the main reason for this was that they did not need to register. In Uganda, the majority of the RYEs felt they did not need to register their enterprises either because the registration procedure did not cater for their nature of enterprise or because no one had approached them to register. More than a quarter felt it was expensive to go through with the registration while almost one in eight said registration was complicated.

These opinions have been reflected in other studies (e.g Stevenson & St-Onge, 2005) which have shown that business registration is bureaucratic and complicated in Uganda. The World Bank's Doing Business 2012 Report ranks Uganda 112th out of 183 countries and singles out problems with registering businesses (bureaucracy and corruption) as key impediments to business growth. For the RYEs, the problems are compounded by the fact that they live and operate in rural areas. The Investment Climate Assessment Report (2009) shows that it takes between 40 -61 days for someone outside Kampala, Uganda's capital city to register a business compared to just 25 days for people in Kampala. We found that the government of Uganda is making efforts to create business registration reforms through the Uganda Registration Services Bureau Act, 2004. Some of the proposed reforms include opening up regional business registration offices.

In Uganda two thirds of the respondents who had registered their businesses said it was easy while three quarters who had not registered said they did not perceive any benefits of registration. The western region dominated those who found it easy to register while the East dominated those who perceived no benefits of registration. The East on the other hand is close to the border where smuggling is rampant. Eastern ethnic groups also are mainly engaged in cattle keeping of a nomadic kind which may influence this perception. Further to this the infrastructure in the East is relatively underdeveloped in the Eastern part of the country with a lot of the land being low lying and therefore susceptible to flooding yet also part of the area is of a mountainous kind prone to mudslides.

For those who had registered their businesses in Kenya, they were asked to indicate the ease with which they found the registration process. In this regard, most youth (62%) indicated that they found the registration process easy. This could be explained by the fact that in the last two years there have been a series of business reforms in Kenya aimed at making it easier to do business in Kenya. For instance, an effort is underway to contribute to the government's target of reducing regulatory burdens of businesses by 25% through the abolition of the single business permit fees, decentralization of the issuance which has led to cost savings and reduction in the time taken to get a business permit from 5 days to 1 (IFC, 2011).

When asked what benefits they received from registering their businesses, 37% of the Kenyan respondents cited confidence with other stakeholders as the main benefit while 31% said it allowed them access to finance related opportunities. Yet in Uganda almost three quarters of the respondents did not think there were benefits of registering their businesses. We found that one out of every ten registered enterprises did not benefit from the registration and only 5% benefited by getting access to government contracts.

We also assessed RYEs perception of access to property rights. This perception is important because most youths are energetic, creative and vibrant (Africa Commission, 2009), engage in unique unusual activities (YBI, 2011) and may need access to property rights, intellectual and otherwise. The East African Common market protocol emphasizes setting up open liberal and transparent investment policies that foster rights to private ownership and establishment and full protection of property rights. We wanted to establish whether RYEs have access to such rights. In Uganda we found that the majority of the respondents felt that they had equal access to property under the law except for the RYEs in northern Uganda which may be explained by the political history and the cultural norms in the region with communal land ownership predominant in the rural areas.

In Kenya on the other hand 64% of the respondents denied the existence of equal opportunities with their urban counterparts. 61% of the youths further asserted that they do not have equal rights to property under the law with more than 70% of them saying taxes paid do not help in the growth of their business and more than two thirds disagreeing that youths receive justice in business disputes. In Uganda we found that apart from the respondents in western Uganda, more than half of the respondents in other regions believed that taxes did not favour the growth of their enterprises.

Table 1: Perceptions of RYE on specific legal indicators by region

Legality of enterprise	Uganda (%)	Kenya (%)
Business not Registered	81	73
Reasons for failure to register		
No need to	38	42
Expensive	27	21
Complicated	12	10
Ease of Registration		
Easy to register a business	66	62
Benefits of registration		
No or few benefits of registration	73	56
Access to government contracts	5	7
Access to finance related opportunities	30	26
Confidence with other stakeholders	32	31
Support and opportunities		
Perceive less opportunities compared to urban youth	57	64
Received financial support	67	24
Received government support	3	1
Equal rights to property under law	77	96
Taxes do not favour business growth	60	72
Youth receive justice when they have issues to address in courts of law	70	67

Access to Enterprise Education and Training

The United Nations Economic Commission for Africa (UNECA) estimates that 18 per cent of young men in Africa and 27 per cent of women are illiterate; suggesting that many of the youth in this region are unprepared to meet the demands of the labour market. Young entrepreneurs often need tailor-made training and counseling which is vital to particular business situations. Schoof (2006) suggests that some of these business situations include technical aspects of starting up a business like business plan preparation, project formulation, start-up administration, procedural details, what to do and in what order, accountancy and taxation). This training is further important because young entrepreneurs tend to be attracted to more unusual sectors (Darby, 2004). It is therefore evident that access to enterprise training and education plays a significant role in the success of youth entrepreneurship. Such training increases allocative efficiency and can help build entrepreneurship competences (Izquierdo, Deschoolmeester & Salazar, 2005).

We assessed RYEs access to enterprise education and training and found that 70% of the RYEs in Uganda had never received any specific skills training for their business. A bigger percentage of the youths interviewed in Kenya claimed to have received training in doing business. Of the Kenyan respondents who had received training 42% did through apprenticeship and 35% formal vocational training with the majority (40%) having received less than 3 months of training. In Uganda, of the 30% respondents who had received specific enterprise training up to 44% of them received apprenticeship training with almost another one quarter (26%) having undergone formal vocational training.

These statistics may be explained by the lack of training institutions in the vicinity and the demand the businesses put on the time of the entrepreneur. With very few of these businesses having few employees and non-formalized structures, presence of the owner at the business premises is crucial at all times.

Although most of this training was short term in nature, the majority of the respondents stated that their businesses benefitted from the training.

Youth Business International (2011) indicates that enterprise training tailored to the youth makes a positive difference to business than money; enables the youth to solve significant operational challenges; improves access to credit and loan repayment rates; and improves young entrepreneurs confidence in business. In our study, results indicate that apprenticeship compensates for the relatively weak educational infrastructure and YBI (2011) shows that such training compensates for weak entrepreneurial ecosystems as well. When asked if they knew where to receive business and skills training only a quarter of the RYEs in Uganda responded in the affirmative. The major reason accounting for RYEs inaccessibility to training was inability to pay for the training.

Table 2: Regional comparisons of access to enterprise education and training environment

Education and Training	Uganda %	Kenya %
Have received specific skills training	30	47
Involved in apprenticeships	44	42
Vocational	26	35
Duration of training		
Less than three months	39	41
Between 3 months and one year	29	24
Benefitted from the training to some extent	98	93
Institution from which Training was received		
Government institution	26	14
Other private institutions	64	70
Financial institutions	2	10
Youth association	9	6
Know where to receive business training	25	52
Can afford to pay for their training	46	45

In Kenya, youth polytechnics, which started as low-cost, post-primary training centers in rural areas in the 1960s, have increased significantly over the years with the major objective of helping stem the problem of low enrollment in secondary schools.

These institutions, whose major aim is to absorb young people who fail to enroll in secondary schools, are however located in provinces, with very few found deeper in rural areas. They specialize in courses such as carpentry, accounts, welding, mechanics, catering and teaching and have been Kenya's most important institutions providing vocational skills. The government intends to upgrade youth polytechnics and also offer training in electrical technologies, construction, refrigeration and air conditioning technology, food processing, information and communication technology, and leather technology.

Access to Finance

The current study sought to establish how or from who rural youth entrepreneurs had either accessed startup funds or what/who they resorted to when in need of more capital for their enterprises.

We found that half of the respondents in Uganda got their start-up capital from own savings. These savings were either from previous employment, business or savings from household purchases (for the case of home makers). What was evident is the fact that formal financial institutions (banks, micro finance institutions and Savings and Credit Cooperative Organizations) accounted for only 4% of the source of startup capital, a proportion that was three times less than the national borrowing average of 13% for micro and small enterprises (Private Sector Foundation Uganda, 2010). This finding indicates the extent of marginalization of the rural youth entrepreneurs. This level of marginalization is appreciated when we consider that generally 55% of Ugandan enterprises (PSFU, 2010), compared to 96% of the RYEs, do not take part in the financial sector. On the other hand almost two thirds of the Kenyan respondents said their main source of startup capital was savings with another one in five respondents stating that they derived it from close relations. Here we see the dominance of filial relations in accessing funding to start businesses. These statistics are an indictment of financial institutions that continue to fail to reach out to the rural communities especially for startup activities. While efforts like micro finance have come in to mitigate this situation, interest rates are very high thereby discouraging these youths from accessing funds through them. Micro finance institutions, they said, set stringent conditions like requirements to form groups and the need to save for a certain period before accessing credit.

42% of the Ugandan respondents attributed their inability to access commercial finance to lack of collateral. This figure was higher in Kenya with two thirds of the respondents citing this as the main reason. This impediment is understandable given the fact that most rural youth are inexperienced, have a poor background with few assets that can serve as acceptable collateral. We found that while many of the rural youths may have had property like land or livestock, the lack of title and the rigidity of the financial institutions made it hard for these to be accepted as collateral. By rigidity, the RYEs meant the many requirements (information about cash flows, legal status, guarantors, business plans, etc) which financial institutions advanced as a precondition for borrowing. FGDs and in depth interviews revealed that banks also charged a high interest rate which RYEs could not readily afford. Expert interviews with commercial bank managers revealed that they incur high costs associated with the identification of creditworthiness, registration of collateral and the physical costs of doing business in up country areas with poor roads, electricity and other infrastructure. They therefore consider rural youths who lack collateral, experience and guarantors as high risk.

Table 3: RYEs ease of accessing Finance

Source of startup capital	Uganda %	Kenya %
Savings	51	64
Spouse	7	4
Other relative	12	16
SACCO & MFI	3	3
Other business	19	6
Bank	1	3
Other sources	7	5
Ease of accessing finance		
It was Difficult to access funding	70	45
Why is it difficult?		
Rural youth	5	3
No security	42	36
Don't know where to get the loan from	8	1
Fear of getting a negative response	2	8
Fear of default	2	16
Lenders are rigid	9	17
Business is small	13	10

Access to social networks and business contacts

While rural societies are known to be closely knit around cultural issues, for example the communal tilling of land, hardly any literature has explored this with regard to youth entrepreneurship.

Social networks provide firms with access to markets, resources and ideas (Birley, 1985; Hoang & Antoncic, 2003) and may contribute to the survival and growth of new firms (Bruderl & Preisendorfer, 1998). This may be especially so in a resource scarce environment. Entrepreneurs are dependent on their networks of personal relationships, especially informal networks, when making decisions (Shaw, 2006; Taylor & Thorpe, 2004). Literature also states that it is through networks that entrepreneurship occurs since they are the key to unlocking and gaining access to other resources (Anderson & Park, 2007).

For the RYEs that belonged to networks, most included people of equal status with them. This finding implies that in case of need for a solution or resources that surpassed any group members' capability, no one was able to resolve the issue.

Granovetter (1973) classified network ties as either weak or strong. Relationships with friends and family were categorized as strong ties because of frequent contact. In contrast, ties between business associates, were classified as weak ties because of less frequent contact. He argued that "the strength of weak ties" was related to diversity in sources of knowledge in that individuals with few weak ties would be deprived of information from distant parts of the social system and limited to the views of their close friends.

We found in this study that more than two thirds of RYEs social groups were able to discuss business issues; shared business ideas; and accessed customers for their businesses. More than half of them managed to get financial support from these networks (See Table 4).

Table 4: RYEs social networks: benefits and characteristics

Reasons for not belonging to Social networks	Uganda%	Kenya %
No knowledge of a social network	41	15
Time consuming	10	9
Expensive	14	10
Do not want to	9	22
No value addition	8	18
Other	13	10
Don't Qualify	5	4
Characteristics of association		
Mixed status	22	39
Equal status	68	59
At least discus business issues within the association	73	86
Have received useful business advice from the network	67	85
Have accessed customers through the network	66	82
Benefits for membership		
Financial support	51	68
Social support	17	10
Information and ideas	9	19
Business growth	5	2

During the in-depth interviews and focus group discussions, when asked about membership to social networks, most of the respondents said they did not belong to any social network. Their perception of a social network was summarily described as a social organization within the community, which provides economic support to its members. The examples cited herein included, revolving funds, SACCOs and NAADs. Moreover, it was evident that most of them were supported by strong ties; it was a relative who either introduced them to the trade or supported them to some extent by provision of funds, equipment, space or advice. They also excluded other associations like self-help groups or clubs they belonged to, and their membership was only revealed after probing.

Generally, the RYE expressed mixed feelings about the advantages of being in a social network, some had benefitted from the groups especially those that were involved in agricultural groups and others felt the groups were very dishonest and expensive. It's noteworthy that some of these groups have been constituted based on the need to access funds from government and non-governmental organizations (NGOs).

In Kenya, almost half of the respondents belonged to an association which was comparable to the percentage in Uganda. For those that did not belong in Kenya, a quarter of them stated that it was because they did not want to, with another one in five saying they saw no added value while 16% said they were not aware of any such organizations. More than 41% of the Ugandan respondents said they did not know of any such groups in their neighborhood, while 14% of them felt that they were expensive to be a part of and 10% thought the activity time consuming. For those that belonged to an association, the main benefit adduced was financial support with two thirds of the respondents in Kenya attesting to this and a half of the Ugandan respondents stated likewise.

An overwhelming 80% of the Kenyan respondents claimed to have received useful advice from the association while in Uganda it was two thirds of the respondents who stated as such.

This finding is a reflection of the vast move by young people encouraged by nongovernmental organizations, government and financial institutions to form groups with the sole purpose of getting access to funds, markets, and other opportunities. The varieties of groups formed range from Youth SACCOs, Village groups, MFI co-guarantee groups and 'Merry- go- round' (popularly known as kyamas in Kenya and nigina in Uganda).

Role models

Interacting with seasoned entrepreneurs and those that act as role models helps to create acculturated entrepreneurs. Furthermore, such interactions can mobilize social support, social persuasion and vicarious experience, which are central to whether or not a person engages in entrepreneurship and does so successfully (Krueger et al., 2000; Scherer et al 1989; Van Auken et al., 2006). The mere presence of other entrepreneurs may legitimize entrepreneurial aspirations and actions (Davidsson and Wiklund, 1997; Mueller, 2006). Past studies related to entrepreneurship and role models have only suggested a link between the two (Bosma et al., 2011). The YBI (2011) survey of young entrepreneurs shows that young entrepreneurs who keep in contact with mentors have a high success chance in business rating lack of mentorship as one of the fore-most challenges afflicting youth entrepreneurship worldwide.

Most of the respondents in both countries stated that they had business role models with almost half of them stating that this role model was a friend. With a large number having their role models personally known to them, it is possible that they can seek out help and guidance directly from these individuals.

Role models play a vital role in promoting entrepreneurship especially among youth who are still at the formative stage of their careers. Successful entrepreneurs may inspire or even mentor aspiring entrepreneurs by example, advice or even resources. While the media plays a role in this, local organizations too may lend a hand in connecting youths to role models.

Table 5: Percentage representation of who RYE rely on in their businesses

Role models and support	Uganda%	Kenya%
I have a business role model I aspire to be like	84	75
My role model is		
A relative	24	27
A friend	48	48
A Stranger	24	16
A Politician	2	3
When I have a problem I rely on		
A Close friend	29	30
A Local leader	11	0.4
A Family member	43	37
Culture supports young entrepreneurs	83	82

3.4 Motivations and growth aspirations for RYE in Kenya and Uganda

What motivates youth Entrepreneurship in Uganda?

Although the youth as a group is afflicted by unemployment problems and faces difficulties accessing the labour market, it also contains some of the most dynamic and skilled entrepreneurs capable of supporting wider economic development (Zille & Benjamin, 2011). In Uganda, the second highest level of entrepreneurial activity is among individuals in the age-group 25-34 (Namatovu et al., 2011). This age group may have high entrepreneurial levels because individuals are forced into entrepreneurship as a survival mechanism since the job market is unable to absorb them. The Global Entrepreneurship Monitor (GEM) has popularised this argument in the literature referring to it as necessity driven entrepreneurship. There is a tendency to emphasise "forced entrepreneurship" in the literature on developing countries as a characteristic of entrepreneurship in these societies (Olomi, 2006), however, there has been criticism of such categorisations (Rosa et al., 2006). The reasons for entrepreneurial activities amongst these age groups should be seen as a blend of a range of factors including personal characteristics, life course events, infrastructural development, socio-cultural and economic issues (Langevang, Namatovu & Dawa, 2012). In Uganda, according to Namatovu et al. (2011), the rural youth are not only more entrepreneurial than their urban counterparts but also more entrepreneurial than other rural adults.

The results show that for almost two thirds of the Ugandan respondents, it was their own idea to start up their businesses while a quarter of the respondents were influenced by their relatives or friends. In Kenya almost two thirds of the respondents claimed that the idea to start the business was their own while a little less than one third attributed it to relatives and friends. While individual initiative is pronounced in both countries, the influence of social networks is strong a thing which is typical of rural African society.

While two in five respondents in Uganda had survival as their motivation to start their business, almost three quarters of the respondents said they were still in business for opportunity based reasons including perceived profitability of the venture. The issue of changing motivations is increasing in entrepreneurship literature as the necessity-opportunity dichotomy is being questioned (Langevang, Namatovu & Dawa, 2012).

In Kenya, opportunity as the motivation for starting the business dominated necessity by a ratio of 2 to 1. While the education system has been indicted for training job seekers, the motivation for more than a quarter of the respondents was that they had knowledge on how to start the venture.

Figure 1: **Source of business idea amongst Ugandan RYEs**

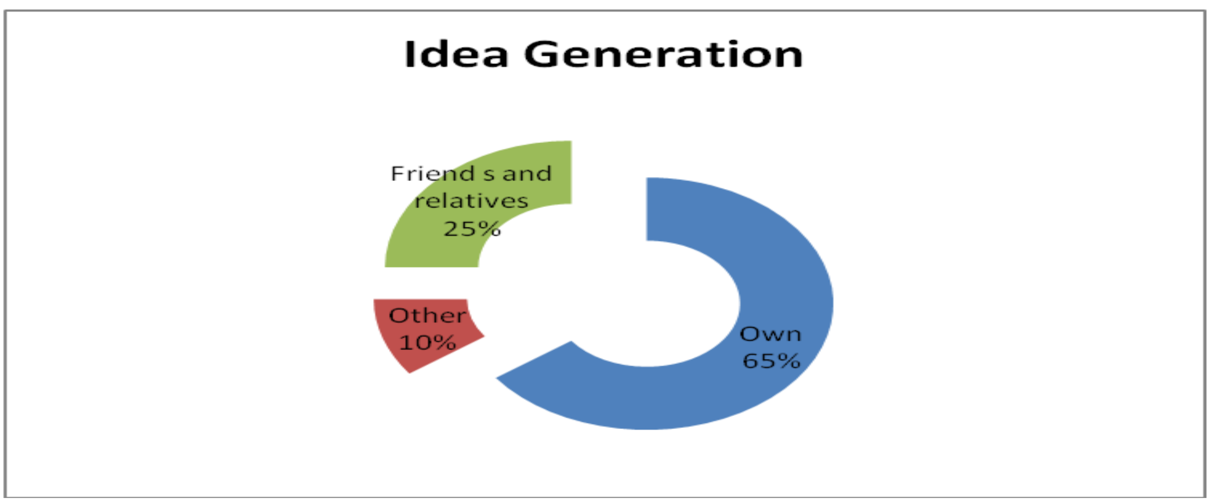


Figure 2: **Percentage representation of what motivated the RYE to engage in business**

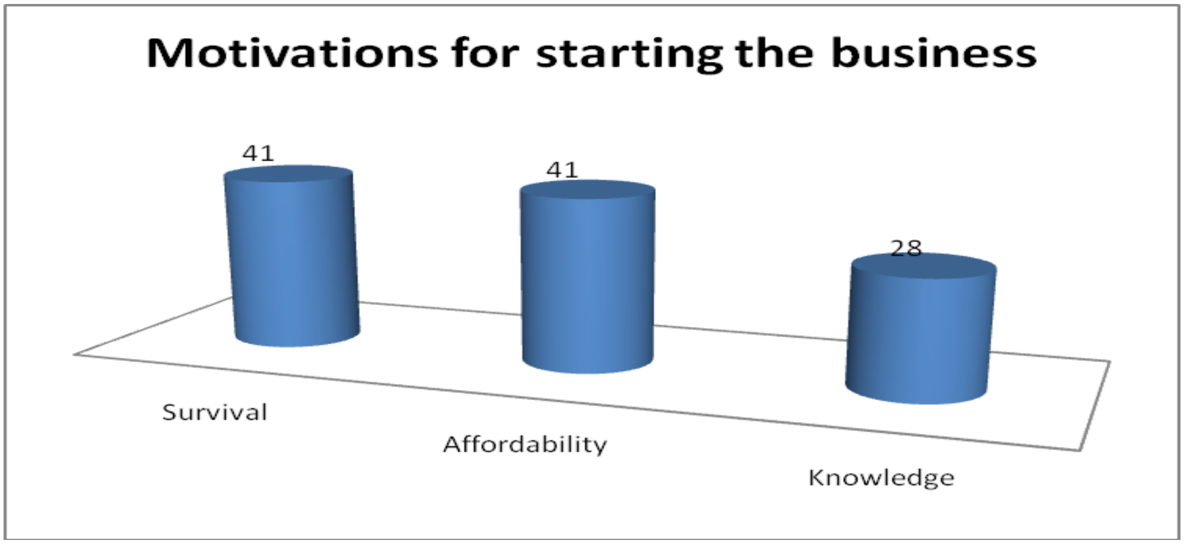
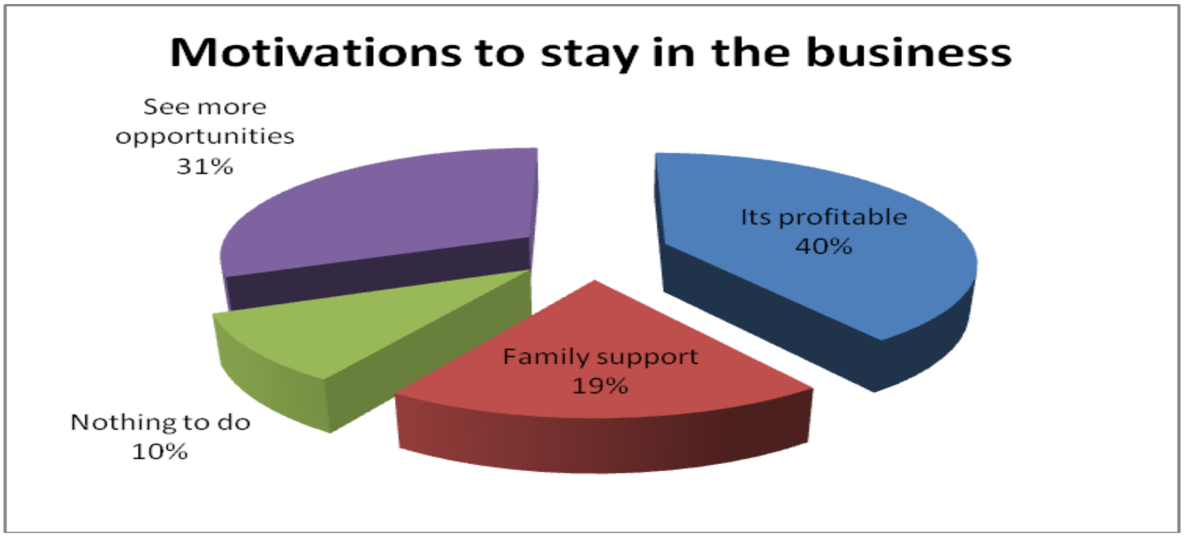


Figure 3: **Percentage representation of why RYE are still in business**



In depth interviews with some of the RYEs indicated that the business startups were mainly an option they devised to manage their circumstances. They had either left school, become parents or lost a parent. The discussions gave a general consensus that they were glad they had started and the majority of them were interested in the business more or the kind of life the business had given them.

Motivation for RYEs' starting Business in Kenya

Figure 4: **Source of business idea amongst Kenyan RYEs**

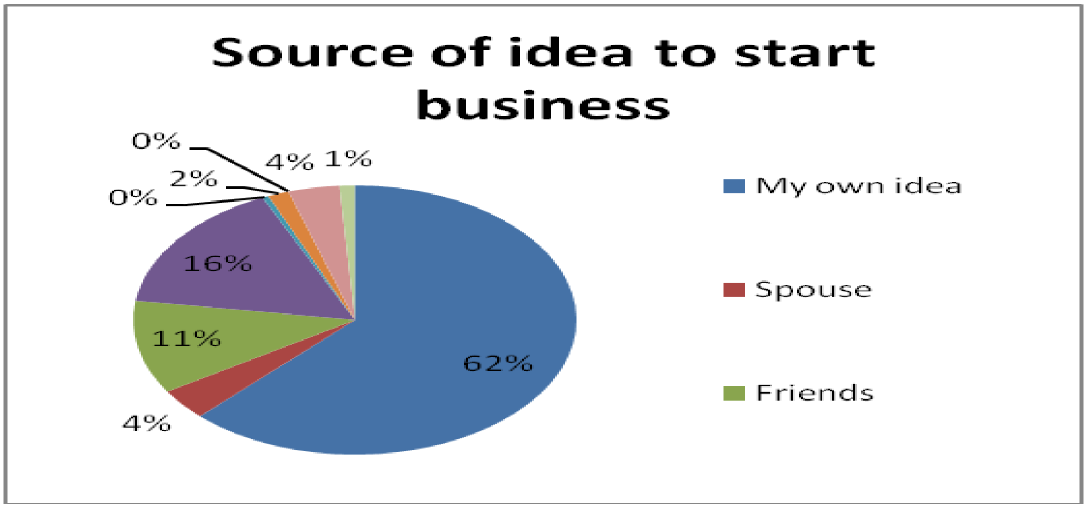


Figure 5: **Percentage representation of what motivated the Kenyan RYE to engage in business**

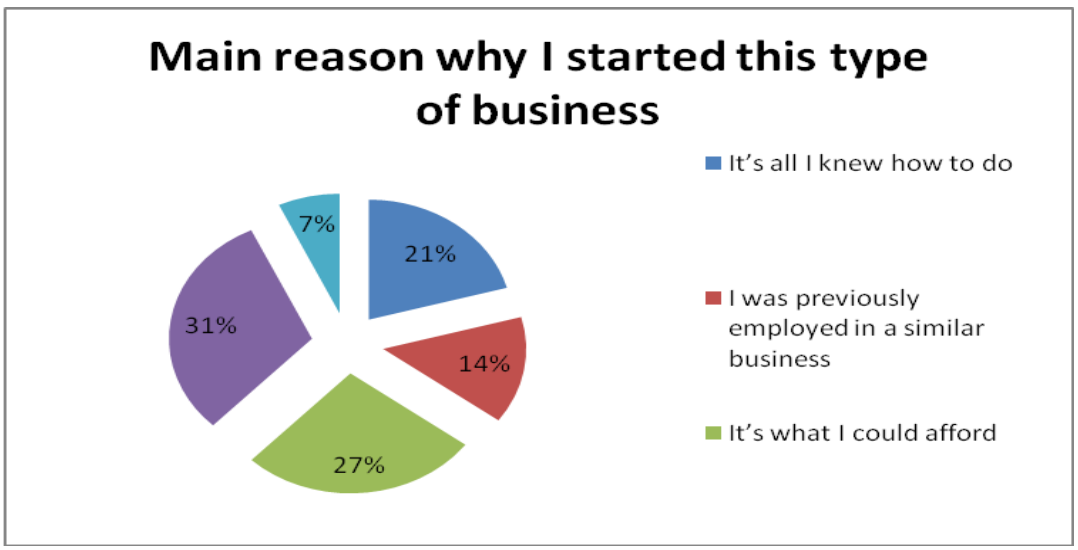


Figure 6: **Why Kenyan RYE are still engaged in the business**

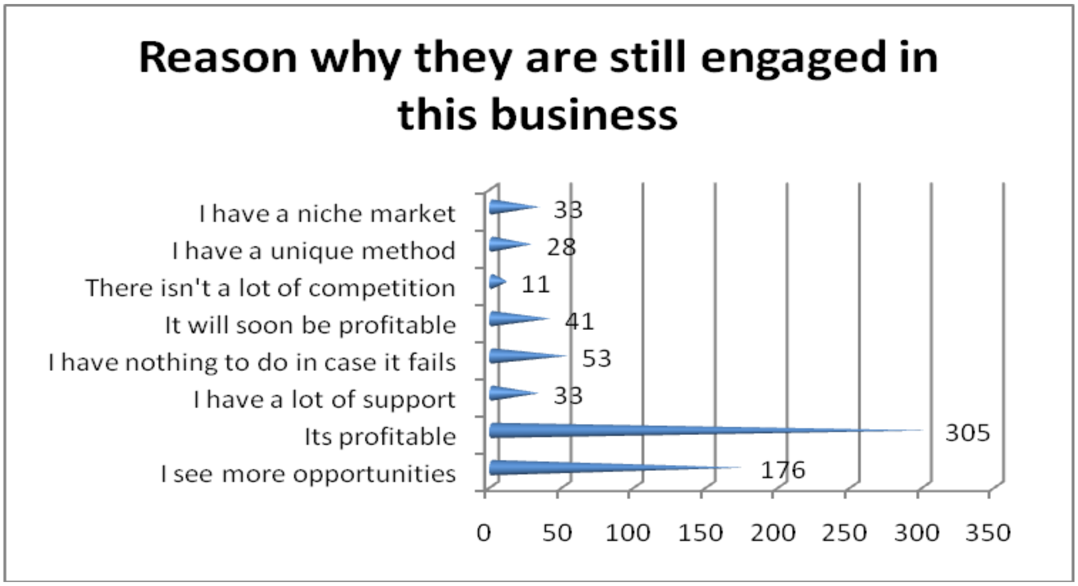


Table 6 shows that up to 87% of the Ugandan respondents had growth aspirations although most of them (18%) did not intend to employ anyone as a way of growth. Instead they had plans to either add to their services or to start up something new.

In Kenya an overwhelming majority (95%) of respondents aspired to grow their businesses. The findings from both countries is contrary to extant literature which states that business owners in the third world have no growth aspirations (e.g. Little, 1987).

Most of the Kenyan respondents had modest hiring aspirations with three quarters hoping to hire fewer than 5 employees within 5 years while only 5% hoping to hire more than 20 employees over the same period.

Opportunities for entrepreneurs in developing countries are broader in scope than in developed markets, allowing firms to pursue a portfolio approach to strategy that can efficiently manage the higher levels of business and market risk (Lingelbach, de la Viña, & Asel, 2005). The majority (80%) of the Ugandan respondents preferred having multiple businesses as opposed to single businesses and the main reason cited for the preference of this by almost three quarters of the respondents was to maximize profits. 70% of the Ugandan respondents however admitted that starting several businesses was very hard. Similarly, 81% of the Kenyan respondents preferred to have more than one business to having just one with more than one half of the respondents attributing this to the desire to maximize profit while almost another one third being driven by the need to minimize risk. Pluriactivity, described as the running of several businesses by a single entrepreneur (Evans & Ilbery, 1993) can be perceived as the response of developing country youths to the unstable business environment. This phenomenon has been described as a survival strategy (Bowler et al., 1996) and a wealth accumulation strategy (Evans & Ilbery, 1993). While this lack of specialization may curtail chances of growth of the business, the entrepreneurs' perception of livelihood from the business is an overwhelming motivation to open other businesses. Just like their Ugandan counterparts, the majority of the respondents concurred that starting several businesses was harder compared to growing a single business with only 1 in 10 of the respondents professing ease to a certain degree. While this finding is paradoxical, it fits well with the profile of the Kirznerian entrepreneurs who despite the insurmountable challenge will venture on with the hope of profit (Kirzner, 1979).

The in-depth interviews corroborated the survey findings that these young entrepreneurs have growth aspirations. The interviews and focus groups though provided a clearer picture of these growth aspirations with some respondents citing social responsibility as their objective. The need to eradicate poverty and better the livelihoods of their peers was cited in both countries. Their idea of employment was more to help others than a reflection of the growth of the enterprise. Closely tied to the growth aspirations of these youths was the need to afford social obligations like marriage. The respondents stated that they needed to grow their businesses so that they could afford to marry and maintain a household.

When asked if they knew of any business development services (BDS) in their regions, an over whelming majority in both countries stated that they did not know of any such services. Of those who were aware of these services in Uganda, almost two thirds had used the services with 9 in 10 of them stating that the services were helpful. In Kenya, only 4 in 10 respondents had used these services with under two thirds finding them useful.

Table 6: Percentage representation of growth plans of the RYE

Growth Aspiration	Uganda%	Kenya %
Have growth aspirations	87	92
Employment Plan		
None	18	9
One to five	66	69
Business Development services		
Do not know of any BDS	84	70
Used BDS	62	38
Got help from BDS	90	60
Preference for multiple business	80	74
Reason for preference of a multiple		
Maximise profit	72	55
Minimise risk	17	31
Reason for single business preference		
Less risk	66	12
Starting several businesses is hard	70	74
Would not take a job over the business	51	58
Would take a job only if it pays higher	38	27

3.5 Challenges faced by rural youth entrepreneurs in Uganda and Kenya

Rural areas face peculiar challenges which are both conducive to investment and also may discourage potential investors. These areas particularly face added economic obstacles due to geographic isolation. The in-depth interviews, expert interviews and focus group discussions conducted with the RYEs in both countries revealed several challenges which were common to youths in both countries. They included limited finances; minimal support from government or failure to reap benefits from existing government initiated youth programs; inappropriate education systems and inadequate skills training opportunities; poor infrastructure, insecurity of person and property.

Inadequate access to finance

Access to finance has long been recognized as a challenge to developing country entrepreneurs. The situation is worse in the case of rural youths. The youths as the results have shown depend mainly on their own meagre resources, yet the study results show that the rising prices of commodities have markedly reduced the profits RYEs can make on many of the goods and services that they are offering severely affecting their capital base. Financial institutions, it was found, play a minimal role in the operation of these enterprises. With only 12% of Ugandans able to borrow from financial institutions (Steadman, 2010) lack of access to finance is pronounced for marginalized sections of the society. The banks and other financial institutions, it was stated, do not grant differential consideration to youths and impose unrealistic requirements on them. These requirements included; readily resell-able collateral, a guarantor with substantial amounts of money in the bank, a training certificate from a recognized institution, a business plan and formal business registration certificate to be eligible for a loan. While the 2012 Doing Business ranking has Uganda scoring highest on getting credit (despite a 3 rank drop since the 2011 study), this is hardly reflected from the empirical data gathered in this study.

Limited access to appropriate training and education

In both Kenya and Uganda, it has been recognized that there is a mismatch between the education system's output and the labor market requirements. Many who enroll in school and drop out along the way leave without marketable skills. Yet also those who go all the way and complete are mainly prepared for white collar jobs which are in short supply. To further exacerbate this situation facilities to provide requisite skills training are few. Many youths stated that they cannot afford the training being offered.

Poor Infrastructure

Quite a number of the respondents blamed poor business performance on inadequate physical infrastructure i.e. poor roads, constant power outages, which often inhibit access to markets and impede flow of goods and services and information. The infrastructure challenges not only limits the reach of these enterprises but also the sophistication of goods and services as value addition is hampered by lack of modern machinery.

Insecurity of entrepreneur and property

In some regions the insecurity due to fellow youth who are unemployed was said to affect the conduct of business. These errant youths plunder assets and also engage in other social crimes that make it unstable for entrepreneurial activity to flourish.

Nature dependent agriculture

With 80% of the rural based population dependent on rain-fed agriculture, extreme weather conditions are a challenge which affects the yield especially for the youth engaged in agriculture and agricultural trade. Pests and diseases that affect their crops and animals have continuously been a stumbling block to the growth of their enterprises. Lack of or inappropriate storage were also cited as major challenges for mainly youths involved in agribusiness.

Limited Government Support

Many of the youth did not receive government support despite there being tailored entrepreneurship programs targeting youth. Despite the good policy performance, RYEs in both countries were not aware that these programs existed and that they could benefit from them. This could be due to abuse by implementing authorities or a lack of adequate dissemination of pertinent information.

4. Conclusions

4.1 Limitations of the Study and Areas for future research

In conducting of this study certain limitations were encountered. First, these findings are limited by the use of a cross sectional design where temporal associations are not clear, selection bias is highly likely and it only shows association, not causality. Secondly the self-report nature of the instrument may have yielded responses that tended to favor the respondent as is the tendency of entrepreneurs through selective memory, telescoping, attribution and selective memory.

Thirdly the districts and parishes were purposively selected, there was convenience sampling at the level of respondents through reliance on local leaders to lead the researchers to the entrepreneurs. In these cases there may have been a tendency of the leaders to select the more successful entrepreneurs and those sympathetic to their political causes. Though this is mitigated by Per Davidsson (2002) who states that often time random selection may not be applicable for entrepreneurship research.

4.2 Areas for future research

This research has raised many questions in need of further investigation. Further work needs to be done to establish the exact role of the different facets of the environment on rural youth entrepreneurship. A longitudinal study could also assess the actual growth of these enterprises. Large randomized clinical trials could provide more definitive evidence on interventions that may work to promote entrepreneurship among the rural youths.

4.3 Policy Recommendations

The study has identified and outlined several challenges though exploring different facets of rural youth entrepreneurship in two East African countries. While policies and programs exist to mitigate some of these challenges, implementation and reach are key to the full realization of the objectives set out. In view of this, we recommend the following which for resource-poor countries do not require significant resources but can yield major outcomes:

a) Establishment of regional business registration services to ease the formalization of upcountry enterprises
b) Institute transparent and empirical based mechanisms to ensure the proper implementation of government programs.
c) Empowering the district commercial office which should work closely with the sub-counties and civil society in identifying potential and viable RYEs to support and build their capacities.
d) Formulate and implement a national skills program to impart skills to the youth, both in business and outside through establishing and empowering regional youth entrepreneurship centers in each of the regions of the country.
e) Provision of affordable and readily accessible business development services which have immense potential to provide the necessary support to small businesses in the rural areas. Further to this, the youths need to be educated about their benefits and how to access them.

4.4 Conclusion

Creating income-earning opportunities is imperative because young people are not only the generators of ideas and innovation, but are also “the drivers of economic development” in a country. In countries where there are few employment opportunities entrepreneurship presents a real opportunity to better the livelihoods of youths especially those in the rural areas who encumbered by the additional challenges of poor infrastructure. The study explored the motivations, aspirations and business environment rural youth entrepreneurs operate in. The study found that in both Kenya and Uganda the youths were mainly motivated by opportunity to start their enterprises and most had aspirations to grow their firms. A number of challenges facing these youths were adduced and they included inaccessible government services, underdeveloped infrastructure, insecurity and lack of skills training. The study advances a number of recommendations which it is hoped will address the stated problems.

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Appendix

Table 7: Demographics of the Ugandan RYE Sample

Demographics	Region				Total
	Central	East	North	West	
Sample	134	136	135	135	540
Male	77	68	101	70	316
Female	57	68	34	65	224
%representation					
Male	24	22	32	22	59
Female	25	30	15	29	41
% Education levels					
No education	8	4	22	10	11
Primary education	48	54	41	60	51
Lower secondary	36	37	23	22	29
Upper secondary	5	2	4	2	3
Tertiary and university education	3	3	10	6	6
% Marital status					
Married	23	23	27	27	62
Single	30	25	22	23	32
Separated	14	38	29	19	4
Divorced	75	25	0	0	1
Widowed	0	66	17	17	1
% Number of children					
No children	25	25	27	23	29
1-5 children	25	25	23	27	67
6-10 children	22	33	34	11	3
% Household position					
Household heads	24	22	28	26	46
Spouse headed households	17	32	19	32	24
Parents headed households	32	28	23	17	27

Table 8: Demographic representation of the sample

Demographics	Uganda	Kenya
Gender		
Male	59%	53%
Female	41%	47%
Marital Status		
Married	62%	47%
Single	32%	51%
Nos. of Children		
None	29%	48%
1-5	67%	51%
Head of Household		
Yourself	46%	59.6%
Spouse	24%	24.3%
Highest level of Education		
Completed primary	51%	16%
Completed O' level	29%	65%

List of Provinces in Kenya from where we conducted the study and the specific towns

PROVINCE	**TOWN**
Nyanza	Migori
Rift valley	Nakuru
Coast	Mombasa
Central	Embu
Central	Thika

List of Districts in Uganda from where we conducted the study and the specific parishes

DISTRICT	PARISH
Kayunga	Kangulumira
Mpigi	Mpunge
Mukono	Ddundu
Budaka	Kamonkoli
Jinja	Butamira
Katakwi	Usuk
Abim	Aremo
Dokolo	Bardyang
Kotido	Nakwakwa
Bundibugyo	Karugutu
Kabale	Kandago
Kasese	Katholhu