

# PEP research in action

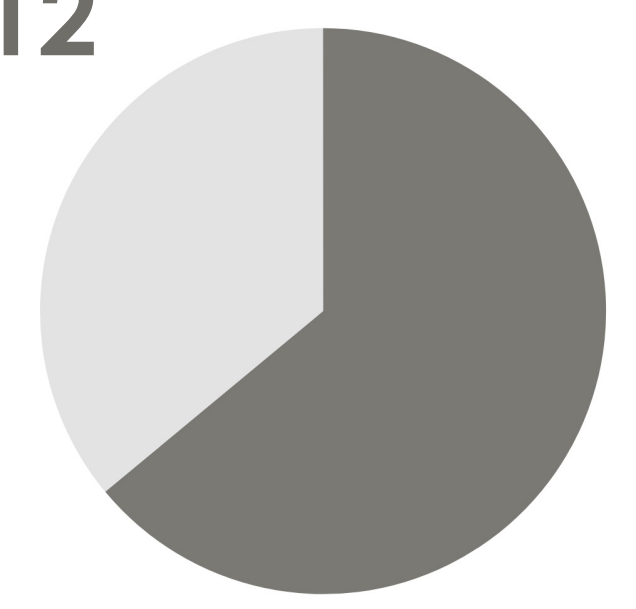
## Understanding risk tolerance to boost Uganda's young entrepreneurs



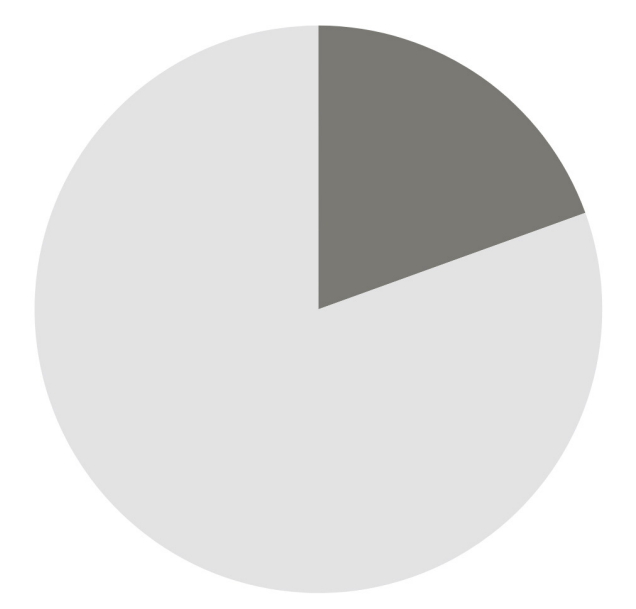
Building capacity for local and sustainable development solutions

[www.pep-net.org](http://www.pep-net.org)

2012



64% of Uganda's unemployed are aged 18-30<sup>1</sup>



19.5% of population live in poverty<sup>2</sup>



Ugandan government launches the Youth Venture Capital Fund (YVCF) to provide credit and mentoring for young entrepreneurs

! Low uptake    ! High default rate

Local PEP researchers **investigate risk tolerance and the role of credit counseling** for young entrepreneurs.

### Recommendations for policymaking

- **Incorporate credit counseling, financial management and soft-skill training** (planning, communication, negotiation, risk management, etc.) **into all vocational courses and entrepreneurship programs that target and aim to empower youth.**

## Informing national policies

Throughout the project the team consulted with:

- Office of the Prime Minister
- Ministry of Finance, Planning and Economic Development (MOFPED)
- Ministry of Gender, Labour and Social Development (MGLSD)
- Ministry of Education and Sports
- Uganda Investment Authority

Team invited to present

- Regular progress updates to the National Evaluation Sub-committee
- Preliminary findings to the Evaluation Fraternity and Uganda policymakers in May 2014
- Findings and recommendations to senior management of MOFPED and MGLSD
  - ◊ Following PEP National Policy Conference in December 2016

### Findings help inform government's Youth Unemployment Strategy

*"I learnt how to generate business ideas, raise capital, and handle risks and uncertainties in my business at the business clinic. I am now a self-employed and my entrepreneurial skills are developing day by day."*

- Spencer Ivan from Mbarara

*"Being offered training on business and credit management before the consideration of fund acquisition in the YVCF was a very good idea. The business clinic was very useful in explaining how to better access and use credit to grow my business"*

- Sam Lubwama, 30

## Findings

Credit demand is closely linked to personal risk tolerance, which can be modified through training.

Those who attended the clinics<sup>3</sup>:

- inclined to **request significantly lower amounts of credit**
- understood the need to **use the resources responsibly**
- showed better understanding of **financial management**
- more likely to explore **other funding sources** (supplier credit, grants, family loans)

Providing **financial risk education as a complement to credit provision** for youth **can reduce the default rate while also reducing unemployment levels.**

**Experiment** - 555 people aged 18-35 from across Uganda who owned a business at the time of the study. Randomized control trial to **understand the impact of business training on entrepreneurs' demand for credit.**

- The treatment group attends a 2-day clinic on how to use credit resources

Laboratory experiment to **assess the personal factors associated with risk tolerance among entrepreneurs.**

- 10 combinations of safe and risky investment options. The payoff and the uncertainty of returns on investment increase as the participant progresses.

<sup>1</sup> Uganda Bureau of Statistics, 2012    <sup>2</sup> World Bank, 2012    <sup>3</sup> Compared to those who did not receive credit counseling



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#### PEP publications

Working paper 2016-22  
Policy brief 151

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