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Research Topic:

*“Barriers faced by youth in their
entrepreneurial activities in Rwanda”*

SECOND PHASE OF STUDIES

COURSE: ENTREPRENEURSHIP DEVELOPMENT

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ABBREVIATIONS

- **SMESs** : Small and Medium Enterprises
- **ILO** : International Labor Organization
- **MIFOTRA** : Ministry of Labor
- **MINALOC** : Ministry of Local Administration
- **MINECOFIN** : Ministry of Finance and Economic Planning
- **NYC** : National Youth Council
- **OECD** : Organization for Economic Co-operation and Development.
- **PRSP** : Poverty Reduction Strategy Paper
- **EDPRS** : Economic Development and Poverty Reduction Strategy.
- **PDL-HIMO** : Programme de Développement locale – haute Intensité de main D’œuvre
- **HIDA** : Human Resource and Institutional Capacity Building Development Agency.
- **RPSF** : Rwanda Private Sector Federation
- **CAPMER** : Supporting centre for small and medium Businesses

FORMAT

INTRODUCTION

Internationally, the development of entrepreneurship or Small and Medium Enterprises (SMEs) has been hailed as critical in the promotion of a sustainable economic development of nations, wealth creation, and poverty alleviation (**William J. Baumol, 2007**). The SME sector is also taken to be a training ground for entrepreneurship, and could become the channel for mobilizing local savings, and ensuring a more equitable distribution of income (**I.L.O**). Moreover, with unemployment rapidly increasing especially in the less developed countries, the development of this sector has been considered as a creator of productive employment, and the generation of value added income, thus making a significant contribution towards the attempt to reach the poorest of the poor (**S Anil Kumar, 2003**). Due to the size of the enterprises in this sector, the same require a relatively small capital investment to start, thereby offering a relatively high labour – to – capital ratio. This sector has such a critical role to play in the development of an economy such that it cannot be ignored.

In Rwanda, after the 1994 genocide which vandalized the whole nation by reducing demand, halting business and taking lives of the workforce. It has been realized that entrepreneurship has become the driving force in the survival strategies of many households. To get food, shelter, clothes, rent and other basic needs for their families, most people depend on small businesses as their only source of livelihood.

Moreover, unemployment is growing at a very high rate especially among the youth both the educated, skilled and semi skilled. This is due to the fact that the job market is not expanding at the same rate as the competition. In Kigali city, unemployment rate ranges between 19% and 20%, the number of the jobless stands at 120,200 people, representing 19.93% of the urban population. Rural population survey shows a very

low unemployment rate (11.4%). However, it should be pointed out that most of those who call themselves farmers have no land and that cultivable area per capita is currently 0.12 hectares. In general the average unemployment rate in the country is about 15.5% and affects almost 696,260 people (**MIFOTRA, 2005**).

It is, therefore, in this context that this paper is going first to review the status quo in regard to youth and entrepreneurship in Rwanda. Secondly to identify Obstacles faced by Rwandan youth in their entrepreneurial endeavors. The last part of this paper addresses in my opinion, what needs to be done to provide youth with entrepreneurial opportunity to become successful entrepreneurs in their communities.

BACKGROUND - YOUTH AND ENTREPRENEURSHIP IN RWANDA

Rwanda is a land locked country covering about 26,500 Square Km and is situated in the Central-Eastern Africa region. Rwanda has a population of about 8.5 million people making it one of the most densely populated countries in the world. Most of the world is aware that this country is healing from the effects of the 1994 war and genocide which claimed close to 1 million people of which most were the productive labour force. The youth in Rwanda are defined by their age covering between 17-35 years and these accounts for about 60% of the Rwanda population.

The youth are favorably placed in the Rwanda society and expectations for what they ought to contribute to society are high. This is not by accident. The youth form the critical productive workforce and they are relied upon for the future betterment of our country. Whereas the potential for the youth is yet to be satisfactorily realized, the Rwandan Government has put in place the foundation upon which to build support for youth entrepreneurship and leadership development. Article 188 of

the constitution of Rwanda (***National constitution, 2003***) provides for the National Youth Council (NYC). The NYC is representative of very well structured youth originations from cell, sector, district, and province levels. In addition to this constitutional provision, the youth are represented by two members in the parliament.

The Government of Rwanda has directed investments in three critical areas which, it is hoped, can in the medium and long term change the youth entrepreneurship and leadership status quo. These investment areas are: (i) infrastructure, (ii) human resources, and (iii) institutional capacity. This move, it is hoped, will have the overall effect of reducing the costs and risks of doing business and therefore enhance the growth of the private sector.

The above concept stems from the Poverty Reduction Strategy Paper PRSP (***MINECOFIN, 2002***). Government of Rwanda in 2006 completed its first generation PSSP and will commence implementation of its second generation PRSP, technically referred to as the (EDPRS); "Economic Development and Poverty Reduction Strategy" (***MINECOFIN, 2006***). Since entrepreneurship and employment creation are intertwined, Government of Rwanda's PRSP includes high content on employment creation strategies that intend to make the Rwanda economy a private sector driven one. To encourage creation of employment opportunities through generation of new jobs and enhancement of employability, the PRSP adopted the following measures: improved access to education and training, increased access to credit and loans, infrastructure investments, private sector development, agriculture and rural development, and institutional capacity building. These will be more emphasized in the EDPRS.

Perhaps, the most innovative initiative in employment generation and building entrepreneurial capacity in specific economic areas (rural and sub-urban Rwanda) is the adoption of the labor-intensive public works approach-technically known as " Programme de Développement locale – haute intensité de main D’oeuvre" (PDL-HIMO). The PDL-HIMO is a policy whose importance is captures in its goal that requires that "Every sector of government seek opportunities for labor-intensive methods of carrying out their objectives" (***MINALOC, 2003***). This has required a multi-sectorial approach in several areas such as: roads infrastructure, road and bridges maintenance, agriculture infrastructure, environment infrastructure (agro forest, reforestation, soil and water management), water supply, and schools and health infrastructure.

As a matter of the fact voluminous loads of work have been accomplished on community infrastructure projects than ever before, and HIMO is a major income generating source at the grassroots for communities. In recognition of the fact that favorable policies were needed enhance institutional capacity, Rwanda created the Human Resource and Institutional Capacity Building Development Agency (HIDA) in 2002 to coordinate all capacity building and institutional building activities both for private and public sectors. This body however still has human resource capacity problems itself.

Clearly, the government of Rwanda has done a commendable job of ensuring creation of a conducive environment for development of entrepreneurship and employment creation. Despite these efforts, the youth are still not well integrated in the entrepreneurship spheres.

The next part deals with barriers faced by the youth in their entrepreneurship endeavors.

BARRIERS TO YOUTH ENTREPRENEURSHIP IN RWANDA

Entrepreneurship being the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities, it is often a difficult undertaking, as a vast majority of new businesses fail (**Casson, M. 2003**). Moreover, according to **Drucker Peter F. (2007)**, the acts of entrepreneurship are often associated with true uncertainty, particularly when it involves bringing something really novel to the world, whose market never exists. Though, entrepreneurship goes along with uncertainty, there are also factors that would prevent youth from starting or succeeding in their entrepreneurial endeavors:

Entrepreneurial skills

The most critical obstacle to entrepreneurship among the youth is entrepreneurial skills. In Rwanda, the education system is still theory based with a linear mentality that university education is the ultimate educational experience. With university education being mainly theoretical, universities hardly produce graduates who are ready to create jobs let alone being ready for the professional world. This has not been helped by the public service salary policy that rewards workers by virtue of their academic qualification. Academic qualification in fact account for a 40% fraction of a civil servant's salary and for this reason youth strive to attain academic certificates as license to high placement in the society, and this with no regard for productivity or value addition to society.

Vocational training and technical education is still very weak which is one of the reasons why the private sector accounts for a pathetic 30% of the Rwanda economy. Government has maintained the five technical schools that have existed for the last 20 years, the up surge in

population due to millions of Rwandese returning from neighboring countries not withstanding. Most technical services are provided by amateur immigrant providers from Uganda and Kenya. It is difficult to find service providers in basic technical trades and services like electrical installations, plumbing, home repairs, and gadget repairs. In developing economies, these technical artisan trades form the basis for employment and indeed entrepreneurship (**OECD, 2006**).

Capital Resources

The degree to which capital by itself is a major obstacle to the growth of African entrepreneurship remains debatable (**Kiggundu, Moses N 2002**). African entrepreneurs tend to depend on own or family savings, and continuing access to capital remains a challenge. Most of them cannot meet the requirements for commercial loans, and those who do find them costly.

In Rwanda lack of funding is one of the major barriers to entrepreneurship among the youth. Financial institutions in Rwanda do not provide funding based on mainly the soundness of the business but rather on the availability of collateral. One either has asset collateral or salary collateral. This means that however much one's business is viable, one cannot access funding without any form of collateral. Lack of venture capital and investment funds aggravates the problem.

Mentoring and role modeling

The youths in developing countries and Rwanda in particular lack role models in entrepreneurship. They are trained to complete their education and seek jobs especially in the public sector. In Rwanda particularly, where the public sector accounts for a staggering 70%. The

models admired by youth are public servants who normally have glittering, but artificial lifestyles provided by the short lived allowances and conditions government provides for its top servants. It would not be inaccurate to say that the dream of most young men and women in Rwanda is to complete university, get a job in a public institution and live "big". Although, such mindsets are on the decline, the private sector for sometime was seen as a sector for academic failures, or people with no other alternatives. There are few mentors and role models for the youth in the private sector to act as a source of motivation.

Lack of positive work habits and attitudes

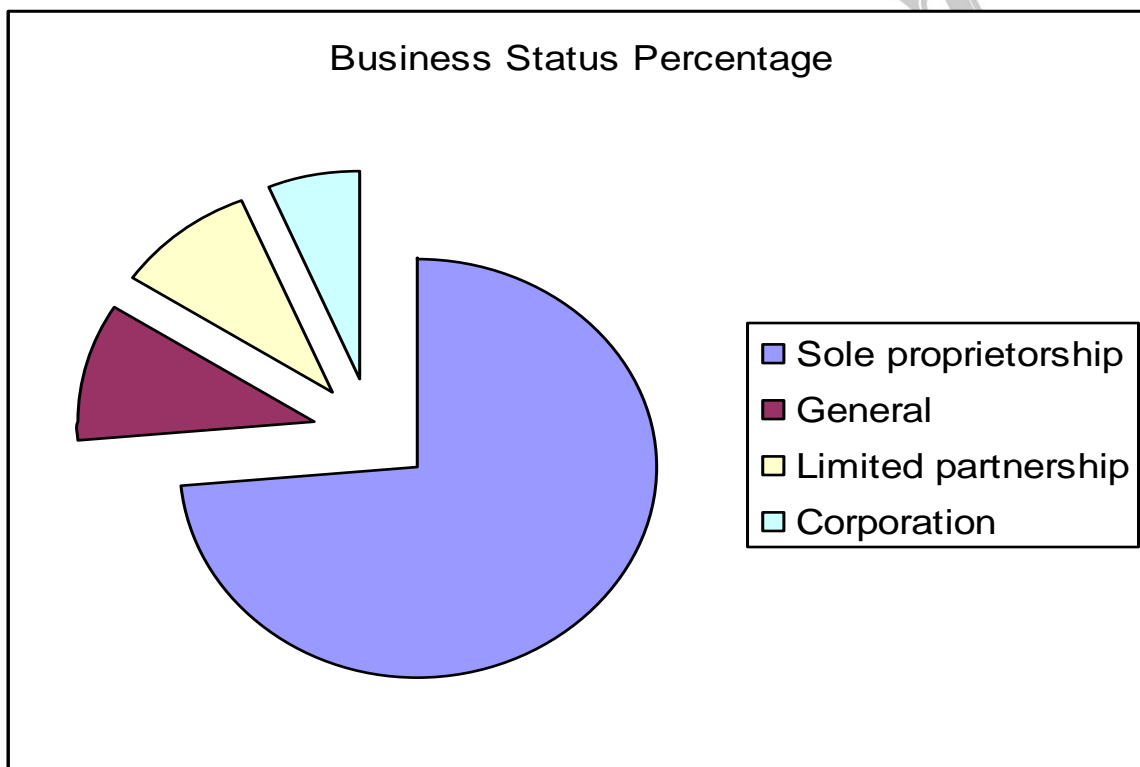
For (**Gold, Steven K 2005**) entrepreneurship is about taking risk. The behavior of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture. Whereas, in the thought processes of many youth in Rwanda, a common thread of mediocre vision runs across. They are more job seekers rather than job creators. For most youth a desirable life is all about completing a first University degree, get a job, buy a car, build an average house or rent one, marry and produce children. One who has done what is described here is seen as an accomplished person.

These attitudes are unfortunate leftovers of the colonial Franco-phone training that taught youth to adapt themselves to systems-that-be (as opposed to self sufficiency and motivation). This mentality is in direct opposition to the thinking expected for an entrepreneur. Of course the former is easy to achieve since it requires less effort while entrepreneurship require diligence, great discipline, culture and courage to learn from many mistakes that are bound to be committed along the way.

Lack of Networks and Clusters

While networks and clusters contribute to business success and continuity, the African entrepreneur experiences difficulties establishing and maintaining effective business networks and clusters (**Kiggundu N.2002**).

African entrepreneurs as well as in Rwanda, prefer sole proprietorships, with partnerships and limited company organizations being uncommon. **David S. Fick (2007)** reported that 73.4% of the firms studied were single proprietorships, 10.9% were general, and 9.4% were limited partnerships and only 6.3% were corporations.



Yet, partnerships could help alleviate problems of small size, under-capitalization, networking/clustering, limited competencies, and succession.

Lack of enabling environment

Businesses in poor countries face much larger regulatory burdens than in rich countries (**World Bank, 2005**). Changing and cumbersome entry procedures stand in the way of prospective youth entrepreneurs and sometimes push them into the informal economy, where businesses pay no taxes and many of the benefits that regulation is supposed to provide are missing.

Time and cost of starting a business				
Country	No. of procedures	Cost US\$	Cost in terms of Per capita GDP	Time in days
India	10	239	49.8	88
Japan	11	3519	10.5	31
China	12	135	14.3	46
Singapore	7	249	12	8
Thailand	9	189	16.7	42
USA	5	210	27.3	4
U.K.	5	264	1	18

(Source: Venkitaramanan S., 2003)

The Table is revealing. Why should it take so long and so many procedures to allow a person to start a business in developing countries, compared to much fewer procedures and days in the developed countries? These differences persist across the world: the countries that most need entrepreneurs to create jobs and boost growth put the most obstacles in their way. Heavy regulation and weak property rights exclude the poor from doing business and hence discourage the entrepreneurship. In poor countries 40% of the economy is informal. Women, young and low-skilled workers are hurt the most; their only choice is to seek jobs in the informal sector (**World Bank, 2005**).

The Entrepreneurial Firm

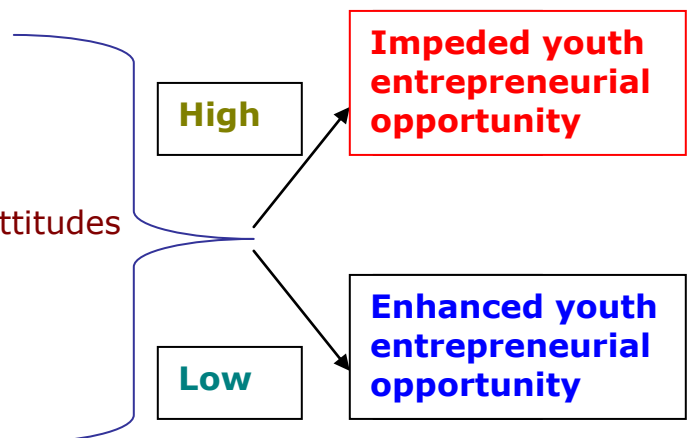
In addition to competencies of the entrepreneur, entrepreneurship requires effective and dynamic organizational arrangements in order to remain successful. Such arrangements are needed for mobilizing, organizing, utilizing, protecting and developing resources, keeping in place strategic corporate governance, and sustaining beneficial networks and clusters. African entrepreneurs experience serious difficulties in developing and sustaining effective organizational arrangements, especially as the business moves from the informal to the formal, (**Frese, Michael 2002**), when it faces external threats such as new technology and fluctuations in the political or macroeconomic environment (**Kiggundu, 2002**), during succession or when facing regional or global competition (**Trulsson, Per 2002**). These constraints constitute a serious obstacle to youth entrepreneurial development and the scaling up needed for survival, growth and competitiveness.

Conceptual frame work for barriers

Independent variables

- Lack of entrepreneurship skills
- Lack of capital resources
- Lack of role modeling
- Lack of positive work habits & attitudes
- Lack of networks & clusters
- Lack of enabling environment
- Lack of entrepreneurial firm

Dependent variables



In summary, the above factors which refer to independent variables according to the conceptual frame work tend to stand in the way of successful and prospective youth entrepreneurs when there are high.

In other words, youth entrepreneurial opportunity could be enhanced and improved when these factors are low. However, in Rwanda, something can be done to enhance and provide youth with entrepreneurial opportunity within a conducive environment.

HOW TO OVERCOME BARRIERS FACING RWANDAN YOUTH IN THEIR ENTREPRENEURIAL ACTIVITIES?

The way forward should be guided by the four key strategies. These include enhancing entrepreneurial skills and awareness, facilitate access to finance, joint - activities, and Shifting priorities in the Private Sector development initiative. Each is explored below:

Enhancing entrepreneurial skills and awareness

Given that lack of skills is the most critical barrier to entrepreneurship development among youth is skills, Government must take bold steps towards education policies relevant to grow entrepreneurial capacity. It is true also that an education system can not be overhauled in a matter of few years, but changes can be introduced into the system over time. Entrepreneurship subject can be introduced from primary school and career guidance being made an integral part of the curriculum would also help the youth to make their choices early in life to avoid unnecessary wastage of time and resources.

Even for the illiterate youth, personal and skills development activities can be integrated into the cell or local government plans. This can be done by providing a community development resource component within local sector/cell programs providing hands on experience into small income generating arts like crafts and wood curving and other activities like birds and rabbit rearing. The good news is that Micro finance institutions have reached rural areas and with an appropriate training,

such youth can expand from just making livelihoods to growing thriving businesses.

Facilitate access to finance

Most African youth are short of capital, since they have more ideas than they have money to put them into effect (**Kristiansen, Stein 2002**). And financial institutions are anxious to help them due to the long time it takes to assess loan application from youth and the high cost associated with the administration of these small loans. This may fall to the government to solve this problem by providing subsidized loan programs, through the existing banking network or through specially created lending institutions. Tax incentives are necessary to encourage investment startups, especially big investors that create jobs. The regulations on commercial banks and Micro finance's could be streamlined to encourage innovation through venture/risk capital provision.

Joint-activities.

Young people should co-operate with one another in order to be more reliable and strong so as to market their goods business ideas or to present their point of view to the government and the general public. They cannot easily do these things on their own, but any form of co-operation requires initiative from an experienced individual who has the time and ability to organize it. Only in this way can youth compete for government attention. It is therefore the part of the government or other organizations to encourage these individuals into groups or associations.

Shifting priorities in the Private Sector development initiative

The Rwanda Private Sector federation (RPSF) is an agency whose existence, ironically is largely sustained by the government in terms of capacity building and equipment provision which is done by the Ministry of Commerce Industry and Investment promotion. The creation of this agency is in conformity with the PRSP's objective to strengthen the private sector.

For the past 7 years RPSF has organized trade fairs and exhibition that have promoted local investors and producers (**Rwanda Private Sector Federation, 2006**). A shift however is needed from promotions of small investors to emphasis on extensive investment in skills and career development for the youth who are the potential entrepreneurs. This, I say because there are other agencies like the Centre for the Support to Small and Medium Size Businesses (CAPMER) which can concentrate on the business development facility.

An other facility the RPSF can concentrate on is the information component. This requires investment into easing the access to information and statistics that are vital for business development. The component can start by organizing and inviting youth to simple seminars and workshops where local business moguls can be invited to share their success stories. The good news is that most of these moguls start small and have powerful inspirational experiences. Another step can then be taken to enrich the RPSF archives and website with relevant information and finally; hands on, practical training in income generation.

CONCLUSION

Ultimately, the future of entrepreneurship in Rwanda must be in the hands of the youth. Rwanda has taken massive strides in restoring the economy since 1994. With youth accounting for more than half of our population however, the country's potential can be phenomenal. Without a concentrated effort, though to enhance the entrepreneurial capacity of the youth through appropriate education and skills training, private sector empowering and developing SMEs (including the informal sector), strengthening micro enterprises, encouraging joint venture businesses, providing appropriate technical support, and improving access to capital, especially for young entrepreneurs, a great deal of the country's potential will remain untapped.

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