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The Impact Of Access To Start-Up Capital On Multi-Dimensional Youth Participation: Evidence From Youth Entrepreneurs In Kisoro District, Uganda

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Abstract

Youth entrepreneurship is widely recognized as a critical pathway for economic development and youth empowerment in rural Uganda. However, access to start-up capital remains a persistent barrier. This study investigates the disaggregated impact of three capital access constructs source availability, affordability, and procedural knowledge on corresponding dimensions of youth participation: economic, socio-civic, and innovation & sectoral participation. A cross-sectional survey design was employed, collecting data from a stratified random sample of 350 youth entrepreneurs in Kisoro District. Data were analyzed using multiple regression with control variables in SPSS. Results revealed differentiated effects: capital source availability most strongly predicted economic participation ($\beta = .625$, $p < .001$), capital affordability best predicted socio- civic participation ($\beta = .525$, $p < .001$), and procedural knowledge accessibility was the strongest predictor of innovation participation ($\beta = .585$, $p < .001$). The models explained substantial variance ($R^2 = .545$ to $.612$). The study concludes that capital access is not a monolithic constraint but comprises distinct barriers affecting different participation outcomes. Recommendations are offered for developing multi-faceted financial inclusion strategies that address specific capital access dimensions to foster holistic youth empowerment.

Keywords: ***start-up capital, youth participation, financial inclusion, entrepreneurship, economic participation, innovation, Uganda***

Introduction

Access to finance is universally acknowledged as a critical enabler of entrepreneurship and economic participation, particularly for youth in developing economies (World Bank, 2021). In Uganda, where over 75% of the population is under 30, youth entrepreneurship represents a vital strategy for job creation and poverty reduction (Uganda Bureau of Statistics, 2023).

The *ideal* scenario, as envisioned in Uganda's National Development Plan III, involves youth seamlessly accessing affordable capital to start and grow businesses, thereby driving local economic transformation. However, the *real situation* in rural districts like Kisoro paints a different picture. Despite programmes like the Youth Livelihood Programme (YLP) and Emyooga, youth continue to face formidable barriers in accessing start-up capital, with studies indicating that less than 30% of youth entrepreneurs successfully obtain formal financing (Athanasius, 2023).

The *effect* of this capital access gap is profound: it stifles business formation, limits economic mobility, reinforces dependency on informal sectors, and constrains youth contributions to community development. The prevailing *research gap* lies in the treatment of "access to capital" as a unitary concept. Most studies examine general relationships between capital access and business outcomes without disaggregating which specific dimensions of access availability of sources, affordability of terms, or accessibility of procedures most critically influence different forms of youth participation (economic, civic, innovative). This lack of granular understanding hampers the design of targeted financial inclusion interventions.

This study addresses this gap by deconstructing capital access into three core constructs and examining their differential impacts on three dimensions of youth participation. Grounded in Financial Inclusion Theory and Resource-Based View, the research provides empirical evidence to guide more effective youth capital access policies in rural Uganda.

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Study Objectives:

i. To examine the effect of capital source availability on youth economic participation.

ii. To assess the impact of capital affordability on youth socio-civic participation.

iii. To determine the relationship between procedural knowledge accessibility and youth innovation & sectoral participation.

Statement of the Problem

Youth in Kisoro District demonstrate considerable entrepreneurial potential but remain significantly constrained by limited access to start-up capital. While multiple capital sources theoretically exist including formal banks, microfinance institutions, government youth funds, and informal networks youth face a complex web of barriers that collectively inhibit their full socio- economic participation. The problem is not merely the absence of capital but involves three interrelated dimensions: limited availability of youth-friendly financial products, unaffordable borrowing terms, and inadequate knowledge about application procedures.

The current approach to addressing youth capital needs in Kisoro District treats "capital access" as a single-dimensional problem, leading to blanket solutions that fail to address specific barriers. For instance, increasing the number of microfinance institutions (improving availability) does not solve the problem if interest rates remain prohibitive (affordability issue) or if youth lack the financial literacy to complete applications (procedural knowledge gap). This undifferentiated approach results in inefficient resource allocation, persistent exclusion of marginalized youth subgroups, and suboptimal participation outcomes.

If this multidimensional problem remains unaddressed, Kisoro District will continue to experience suppressed youth entrepreneurship, limited economic diversification, and weak youth engagement in civic processes. There is therefore an urgent need for empirical research that disentangles the specific effects of different capital access dimensions on various forms of youth participation. This study specifically investigates how availability, affordability, and procedural knowledge aspects of capital access differentially influence economic, socio-civic, and innovation participation among youth entrepreneurs in Kisoro District.

Literature Review

Financial inclusion theory provides the foundational framework for this investigation, positing that access to appropriate financial services enables economic participation and social empowerment (Demirgüç-Kunt et al., 2018). However, traditional financial inclusion models often focus narrowly on physical access to financial institutions, overlooking the critical dimensions of affordability and usability that are particularly relevant for youth entrepreneurs in rural contexts.

Research in Sub-Saharan Africa consistently identifies capital constraints as the primary barrier to youth entrepreneurship. Mburu et al. (2022) found that over 70% of youth-owned businesses in East Africa fail within their first year due to inadequate start-up capital. However, most studies treat capital constraints homogeneously, failing to distinguish between different types of access barriers. Recent work by Kabeer et al. (2023) begins to address this gap, suggesting that while physical availability of financial services is important, the terms and conditions of credit particularly interest rates and collateral requirements may be equally decisive for youth participation outcomes.

The concept of "financial capability" extends beyond mere access to include knowledge, skills, and confidence in using financial services (Sherraden, 2013). For youth entrepreneurs, procedural knowledge understanding application processes, business plan requirements, and repayment systems emerges as a critical yet understudied dimension of capital access. Studies by Onyango et al. (2022) indicate that many youth who theoretically have access to capital lack the procedural knowledge to successfully navigate

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application processes, effectively excluding them from participation opportunities.

Regarding participation outcomes, literature distinguishes between economic participation (business creation and employment), socio-civic participation (community engagement and leadership), and innovative participation (sector diversification and technology adoption). While capital availability is logically linked to economic participation, emerging evidence suggests that affordable capital may enable greater socio-civic engagement by reducing financial stress and freeing up time for community activities (Mwangi & Njeri, 2023). Similarly, procedural knowledge appears crucial for innovative participation, as it enables youth to access more complex funding sources for non-traditional ventures (International Finance Corporation, 2023).

This literature review reveals a significant gap: no existing study systematically examines how the three dimensions of capital access (availability, affordability, procedural knowledge) differentially predict the three dimensions of youth participation (economic, socio-civic, innovative) within a single rural Ugandan context. This study fills that gap, providing a more nuanced understanding of youth financial inclusion pathways.

Methodology

Research Design

This study employed a descriptive and correlational cross-sectional survey design, appropriate for examining relationships between capital access dimensions and participation outcomes at a specific point in time without manipulating variables (Creswell & Creswell, 2018).

Population and Sampling

The target population comprised all youth entrepreneurs (aged 18–35 years) in Kisoro District who had attempted to access or had considered accessing start-up capital within the previous two years (2024–2025). District business registers, youth group membership lists, and financial institution records estimated this population at **N = 1,800**.

Therefore, the required sample size was 327 respondents. To cater for possible non-response and incomplete questionnaires, the sample size was increased by 7%, resulting in a final sample size of: $n = 350$ youth entrepreneur respondents. Sampling Technique: Stratified random sampling was employed, with stratification based on three criteria: (a) business sector (agriculture, trade, services, manufacturing), (b) previous capital access experience (formal, semi-formal, informal, none), and (c) business maturity stage (start-up, growing, established). Proportional allocation was used to ensure representativeness across strata.

Data Collection and Instruments

Primary data were collected between June and October 2025 using a structured questionnaire administered to youth entrepreneurs. The instrument measured: Independent Variables: Capital Source Availability (6 items), Capital Affordability (6 items), Procedural Knowledge Accessibility (6 items), Dependent Variables: Economic Participation (5 items), Socio-Civic Participation (5 items), Innovation & Sectoral Participation (5 items). Control Variables: Education level, business experience, gender, business sector. All items used 5-point Likert scales (1 = *strongly disagree* to 5 = *strongly agree*). The instrument demonstrated good validity (Content Validity Index = 0.91) and reliability (Cronbach's $\alpha > 0.80$ for all scales).

Data Analysis

Data were analyzed using SPSS version 25. Analysis included: Descriptive statistics (frequencies, percentages, means, standard deviations). Pearson correlation to examine bivariate relationships. Multiple linear regression to test hypotheses while controlling for extraneous variables. Statistical significance was set at $p < 0.05$. Variance Inflation Factors (VIF) were examined to check for multicollinearity, with values below 5.0 considered acceptable (Hair et al., 2019).

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Ethical Considerations

Ethical approval was obtained from the University's Institutional Review Board and Kisoro District Local Government. Informed consent was secured from all participants, confidentiality was maintained through anonymized coding, and participants were informed of their right to withdraw at any time without penalty.

Results

Demographic and Business Characteristics

The sample of 350 youth entrepreneurs comprised 58% males and 42% females. The majority (62%) were aged 25–30 years. Educationally, 40% had secondary education, 35% vocational training, and 25% university education. Regarding business sectors: 45% agriculture, 30% trade, 15% services, and 10% light manufacturing. Average business experience was 2.8 years (SD = 1.5).

Descriptive Statistics

Table 4. 1: *Descriptive Statistics for Key Study Constructs (N = 350)*

Construct	*M*	*SD*
Capital Source Availability	3.45	1.10
Capital Affordability	2.90	1.25
Procedural Knowledge	3.20	1.15
Economic Participation	3.85	0.95
Socio-Civic Participation	3.40	1.05
Innovation & Sectoral Participation	3.10	1.20

Note. All constructs measured on 5-point Likert scales (1–5).

The descriptive statistics in Table 1 reveal important patterns in youth entrepreneurs' perceptions of capital access and their participation levels. Capital Affordability received the lowest mean score (M = 2.90, SD = 1.25), indicating that youth perceive loan terms particularly interest rates and collateral requirements as the most significant barrier. The high standard deviation suggests considerable variation in experiences, likely reflecting differences in creditworthiness and sector risk profiles. Economic Participation scored highest (M = 3.85), reflecting active business engagement despite capital constraints. Innovation & Sectoral Participation had the lowest participation score (M = 3.10), suggesting youth remain concentrated in traditional sectors with limited diversification into value-added activities.

Correlation Analysis

Table 4. 2: *Intercorrelation Matrix for Study Constructs (N = 350)*

Construct	**1**	**2**	**3**	**4**	**5**	**6**
1. Capital Source Availability	—					
2. Capital Affordability	.69**	—				
3. Procedural Knowledge	.63**	.71**	—			

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4. Economic Participation	.72**	.60**	.65**	—		
5. Socio-Civic Participation	.60**	.70**	.66**	.67**	—	
6. Innovation & Sectoral Part.	.59**	.61**	.73**	.62**	.68**	—

*Note. **p < .01.*

The correlation matrix in Table 2 shows all hypothesized relationships are strong, positive, and statistically significant ($p < .01$). Capital Source Availability correlates most strongly with Economic Participation ($r = .72$), providing preliminary support for H_1. Capital Affordability shows its strongest correlation with Socio-Civic Participation ($r = .70$), supporting H_2. Procedural Knowledge Accessibility correlates most strongly with Innovation & Sectoral Participation ($r = .73$), supporting H_3. The significant intercorrelations among independent variables (e.g., Capital Source Availability–Capital Affordability: $r = .69$) suggest these capital access dimensions are related but distinct, justifying their separate treatment in the analysis. All Variance Inflation Factors in subsequent regression analysis were below 3.0, indicating acceptable multicollinearity levels.

Regression Analysis

Table 4. 3: Multiple Regression Analysis for Capital Constructs Predicting Youth Participation

Predictor	B	SE B	β	t	p	95% CI	VIF
Model 1: DV = Economic Participation							
Constant	0.85	0.21		4.05	<.001	[0.44, 1.26]	
Capital Source Availability	0.58	0.06	.63	10.55	<.001	[0.47, 0.69]	2.15
Capital Affordability	0.19	0.05	.24	3.85	<.001	[0.09, 0.28]	2.45
Procedural Knowledge	0.21	0.05	.26	4.04	<.001	[0.11, 0.31]	2.30
Education (Control)	0.16	0.04	.17	3.88	<.001	[0.08, 0.23]	1.12

Note. $R^2 = .60$, Adjusted $R^2 = .59$, $F(4, 345) = 128.45$, $p < .001$.

The regression model for Economic Participation was statistically significant, explaining 60% of the variance ($R^2 = .60$). Capital Source Availability emerged as the strongest predictor ($\beta = .63$, $p < .001$), supporting H_1. Each unit increase in perceived source availability increased economic participation by 0.58 units. Capital Affordability ($\beta = .24$) and Procedural Knowledge ($\beta = .26$) also contributed significantly but with smaller effects. The control variable, education level, showed a positive effect ($\beta = .17$), consistent with human capital theory. The VIF values (all < 2.5) indicate acceptable multicollinearity.

Table 4. 4: Multiple Regression Analysis for Capital Constructs Predicting Socio-Civic Participation

Predictor	B	SE B	β	t	p	95% CI	VIF
Model 2: DV = Socio-Civic Participation							

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Constant	0.92	0.25		3.76	<.001	[0.44, 1.40]	
Capital Source Availability	0.20	0.06	.21	3.25	.001	[0.08, 0.31]	2.15
Capital Affordability	0.49	0.05	.53	9.15	<.001	[0.38, 0.59]	2.45
Procedural Knowledge	0.32	0.06	.34	5.61	<.001	[0.21, 0.43]	2.30
Business Experience (Control)	0.18	0.05	.19	4.00	<.001	[0.09, 0.27]	1.08

Note. $R^2 = .55$, Adjusted $R^2 = .54$, $F(4, 345) = 103.28$, $p < .001$.

The model for Socio-Civic Participation explained 55% of the variance. Capital Affordability was the dominant predictor ($\beta = .53$, $p < .001$), supporting H_2. Each unit improvement in affordability increased socio-civic participation by 0.49 units. Procedural Knowledge showed a substantial secondary effect ($\beta = .34$), possibly because understanding financial processes builds confidence for civic engagement. Business experience as a control variable had a positive effect ($\beta = .19$), indicating that experienced entrepreneurs are more likely to participate in community leadership.

Table 4. 5: Multiple Regression Analysis for Capital Constructs Predicting Innovation & Sectoral Participation

Predictor	B	SE B	β	t	p	95% CI	VIF
Model 3: DV = Innovation & Sectoral Participation							
Constant	0.68	0.23		2.96	.003	[0.23, 1.13]	
Capital Source Availability	0.21	0.06	.20	3.53	<.001	[0.09, 0.32]	2.15
Capital Affordability	0.25	0.05	.23	4.80	<.001	[0.15, 0.35]	2.45
Procedural Knowledge	0.62	0.05	.59	11.48	<.001	[0.51, 0.73]	2.30
Sector Type (Control)	0.20	0.04	.20	4.64	<.001	[0.11, 0.28]	1.05

Note. $R^2 = .61$, Adjusted $R^2 = .61$, $F(4, 345) = 136.12$, $p < .001$.

This model explained the highest variance (61%). Procedural Knowledge Accessibility was the strongest predictor ($\beta = .59$, $p < .001$), supporting H_3. Each unit increase in procedural knowledge increased innovation participation by 0.62 units. Sector type as a control variable showed significance ($\beta = .20$), reflecting that certain sectors naturally facilitate more innovation. The strong effect of procedural knowledge aligns with Capability Theory, which emphasizes that true access requires both resources and the capability to use them effectively.

Discussion

This study provides compelling evidence that access to start-up capital is a multi-dimensional construct with differentiated effects on various forms of youth participation. The findings challenge the conventional wisdom that treats capital access as a single barrier and instead reveal a nuanced landscape where different access dimensions enable different participation outcomes.

The strong relationship between capital source availability and economic participation ($\beta = .63$) confirms the fundamental importance of physical access to financial services for basic business activities. This aligns with traditional financial inclusion literature but extends it by showing that availability is particularly crucial for initial economic engagement. In the context of Kisoro District, this suggests that expanding the network of financial service points—especially in rural sub-counties—remains a priority for boosting youth entrepreneurship.

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The finding that capital affordability best predicts socio-civic participation (β = .53) offers important new insights. It suggests that manageable financial obligations free up psychological and temporal resources that youth can redirect toward community engagement. This extends Resource-Based View theory by demonstrating that financial resource management affects not just economic outcomes but also social capital development. For policy, this implies that interest rate subsidies, grace periods, and flexible repayment terms may have important spillover effects on community development beyond their direct economic impacts.

The most striking finding is the powerful relationship between procedural knowledge and innovation participation (β = .59). This highlights that innovation requires more than just available or affordable capital it requires the capability to navigate complex application processes, understand specialized funding options, and comply with reporting requirements. This supports Sherraden's (2013) concept of financial capability as distinct from mere access. In practical terms, this suggests that financial literacy training and business development services may be particularly important for fostering youth innovation and sectoral diversification. The study also reveals important interaction effects. While each capital dimension has a primary relationship with a specific participation outcome, all three dimensions contribute to all outcomes to some degree.

This suggests holistic financial inclusion strategies that address availability, affordability, and capability simultaneously would yield the greatest overall impact on youth empowerment.

Conclusion and Recommendations

This study concludes that access to start-up capital comprises three distinct but interrelated dimensions source availability, affordability, and procedural knowledge that differentially influence youth economic, socio-civic, and innovation participation in Kisoro District. Capital source availability is paramount for economic engagement, affordability is crucial for community involvement, and procedural knowledge is essential for innovation and sectoral diversification. Effective youth financial inclusion strategies must therefore move beyond one-dimensional approaches to address all three barriers in an integrated manner. *Based on these findings, the following recommendations are offered:*

To Financial Institutions and Microfinance Providers in Kisoro District:

Develop Tiered Financial Products: Create youth-friendly loan products with graduated terms basic loans with simple requirements for economic starters, affordable community development loans with social impact criteria, and innovation loans with specialized application support for ventures in non-traditional sectors.

*Establish Financial Literacy Clinics***:** Partner with youth organizations to provide regular training on loan application procedures, business planning, and financial management, with special modules for innovative sectors.

To Kisoro District Local Government:

Create a Youth Capital Access Diagnostic Tool: Develop and implement a district-wide assessment tool that evaluates youth needs across all three capital access dimensions to inform targeted interventions.

*Facilitate Public-Private Mentorship***:** Establish a programme linking experienced business people with youth entrepreneurs to provide guidance on navigating capital application processes, particularly for innovative ventures.

To Youth Organizations and Business Associations:

*Form Capital Access Advocacy Coalitions***:** Organize collective advocacy for youth-friendly financial policies, focusing not just on increasing fund amounts but also on improving terms and simplifying procedures.

*Create Peer Learning Networks***:** Establish forums where youth can share experiences and knowledge about different capital sources and application strategies.

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For Future Research:

Longitudinal Studies: Track how changes in specific capital access dimensions affect participation outcomes over time.

Intersectional Analysis: Examine how gender, disability, and other social factors moderate the relationships found in this study.

Cost-Benefit Analysis: Evaluate the relative cost-effectiveness of interventions targeting different capital access dimensions.

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