

# Growth of Youth-owned MSEs in Ethiopia: Characteristics, Determinants and Challenges<sup>1</sup>

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## *Abstract*

*The study examines the factors that influence the growth of youth-owned MSEs in Ethiopia using a sample survey of 909 operators which were selected through a multi-stage random sampling techniques. The result of the cross-tabulated descriptive statistics showed that the personal attributes, firm characteristics, inter-firm cooperation and policy predictability affected the growth of the MSE operators. Growth rate was also influenced by the diverse and heterogeneous character of the youth-owned MSEs. Unlike many other studies, the findings of this study reveal that the average growth rates of microenterprises are much lower than the small enterprises. Female-owned firms registered relatively lower growth rate compared to their male counterpart. The results obtained from the regression indicate that among the personal attributes of youth MSE owners: education, sole ownership form of business organization, small enterprise category, experience in similar business, and gender (male MSE owners) are significant variables which positively influence the growth of the youth operators. Out of the firm-level attributes, access to training before starting business, social networking and access to loan are statistically significant variables which negatively affect growth rate. On the other hand, access to product markets, future plan of the enterprises, saving culture, size of start-up capital and current capital are found as significant variables influencing the growth of youth-owned MSEs. The predictability of policies and inter-firm cooperation are also found to be significant variables affecting growth and expansion of youth-owned MSEs. Since the growth rate of microenterprises and women-owned enterprises are lower, the study suggests revisiting the current support program by crafting tailored interventions. Moreover, although inter-firm cooperation and policy predictability affect the growth of youth-owned MSEs, due focus should be given to improve social networking and building the trust and confidence of the operators on government policies and strategies.*

**Key words:** Youth-owned micro and small enterprises (MSEs), Growth rate of firms

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## **1. Introduction**

### **1.1 Statement of the problem**

Micro and small enterprises (MSEs) are catalysts in the socio-economic development of any country. In the Ethiopian context, they are the key vehicles to achieve the objectives of inclusive Growth and Transformation Plan (GTP). On top of creating employment opportunities at low cost (labor intensive) and training entrepreneurs (encouraging indigenous entrepreneurship), MSEs in Ethiopia have huge potential to add value in the manufacturing sector and to GDP, export earning, increase in per capita income and output, enhance regional economic balance (equitable distribution), create competitive price structure, promote effective resource utilization, providing a source of livelihoods for the majority of low income households and ensuring equitable distribution of income. MSEs also play an intermediary role in the development of medium and large scale enterprises and diversification of the industrial structure and contribute towards the transformation of the rural economy. Although the proposition that small firms offer unique development advantage is as old as the concept of economic development itself, there is a high correlation between the degree of poverty, hunger, unemployment, and economic well being of the citizens of countries and the degree of vibrancy of the respective countries' MSE development (Osotimehin *et al.*, 2012).

Creating an enabling policy environment and providing support services for the youth to engage in self-employment has been a priority intervention by the Ethiopian government, particularly in the last five years. However, the youth in Ethiopia have specific profiles and usually labeled as people with high mobility, lacking the experience and motivation to be self-employed, prefer white-collar job, abandon their group (initially organized with the support of government to create their own business) whenever they find wage employment, and lack marketable skills. When they lack other alternatives, they tend engage in MSEs or self-employment as a result of necessity (not driven by opportunities and capabilities) and lack proper technical and business development training. On the other hand, in addition to the constraints faced by all MSE operators, female-owned enterprises have specific challenges in both the start up and operational phases. There

are also constraints that stem from culture or upbringing (which is usually gender biased), limited access to educational and skill training, limited information and mobility as a result of their dual roles as mothers and home keepers. Moreover, though many women own and manage their own business, few are successful in graduating their businesses to small, medium and large-scale enterprise levels (Haftu Berihun *et al.*, 2009).

The policies, strategies and support programs of the Ethiopian government have prioritized the development of MSEs as a tool to expand employment, create the foundation for medium enterprises, promote private sector development and contribute to the growth and transformation process. The implementation of the support program through the MSE development strategy has been successful in creating employment to millions of people and enterprises in the country. According to the report of FeMSEDA (2015), in the first four year of GTP (2010/11 - 2013/14), about 5,535,556 people obtained job opportunities through the MSE regular program, while about 1,158,556 jobs were created by the public mega projects. In the same years, about 495,441 MSEs were established engaging 1,874,807 operators. In spite of the institutional support provided through the five-year MSE strategy and GTP to enhance the capacity and opportunities for MSEs, there has been hardly any detail quantitative and qualitative survey findings which show the characteristics of the firms/owners and how the support programs of government has contributed to the expansion of MSEs and the factors that influence the growth of enterprises. Examining and measuring the growth and dynamism within the MSEs<sup>3</sup> can provide evidence to the policymakers on the effectiveness of the implementation of the five-year MSE development strategy and the support programs.

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<sup>3</sup> The definitions of MSEs vary from country to country. However, as per Ethiopians' five-year MSE development strategy (2011), microenterprise category includes firms which have up to 5 employees (including the owner or family) and their total asset is less than or equal to 100,000 Birr for industrial sector and less than or equal to 50,000 Birr for service sector. On the other hand, small enterprises are firms which have between 6-30 workers and their total asset is between 100,001 Birr - 1,500,000 Birr for industrial sector and between 100,001 Birr - 500,000 Birr for service sector. Font needs to be the same as above.

Studying the key factors behind growth of MSEs, such as owners' and enterprise attributes, horizontal and vertical cooperation among enterprises, and policy and regulatory environment, can provide valuable evidence for policymakers and development partners to make knowledge-based decisions. It can also provide useful information for the owners of MSEs interested to address their growth challenges. The study has the intension of adding to the limited body of advanced analytical knowledge in Ethiopia by analyzing the relationship between numbers of variables that have direct or indirect effect on the growth of MSEs. The finding of study is also expected to provide primary information which can stimulate the establishment of new enterprises and enable the existing MSEs to grow and become more competitive and dynamic.

## **1.2 Objectives of the study**

The study focuses on understanding the profile and heterogeneous characteristics of youth-owned MSEs which influence their growth process. The specific objectives include:

- Assess the personal attributes of youth owners that influence the growth of their MSEs;
- Examine how the enterprise-level characteristics influence the growth of youth MSE operators
- Analyze the relationship between inter-enterprise relationship cooperation and growth of youth-owned MSEs
- Identify the effect of policy predictability on the growth of MSE operators
- Investigate the factors that determine the growth of youth-owned MSEs
- Propose specific interventions to address growth challenges

## **1.3 Sampling and method of data collection**

Given the limited resources, a total of 909 youth-owned MSEs were selected using stratified simple random sampling. Since the focus of the study is to understand the growth and challenges of youth-owned enterprises (which are heterogeneous in nature), attempts were made to stratify the sample into size (micro and small enterprises), gender (male and female enterprise owners)

and enterprise type (manufacturing, construction, urban agriculture, service and trade). The sampled youth-owned MSEs were interviewed using structured questionnaire in five regional states (Oromia, Amhara, SNNPR, Tigray and Harari), and two city administrations (Addis Ababa and Dire Dawa). Out of the total sample existing of youth-owned MSEs, 543 were micro and 366 were small enterprises. To adequately understand and study the gender dimension, 153 and 57 women owners were sampled from micro and small enterprises respectively. The proportion of male MSE owners were relatively higher; 256 from microenterprises and 107 from small enterprises. The remaining 341 samples (134 micro and 207 small) were owned by a mix of male and female entrepreneurs.

## **2 Conceptual Framework**

MSE operators in different sectors and stages in the enterprise's life cycle are diverse and heterogeneous in character. MSE operators, at start up phase, face problems that are different from those of existing firms seeking to expand. Thus, classifying MSEs on the basis of their level of development and age (such as new, start ups, zero growth, small growth and graduates) would assist policymakers to design tailored MSE support programs, which recognize their differences and craft targeted interventions, that are most appropriate to the needs of a specific group of MSE operators.

Most of the new enterprises at start-up phases are one-person firms, which are typically the least efficient and least remunerative. They tend to start up in greater numbers, particularly in low-return activities with minimal barriers to entry, when the overall economy is languishing (Mead and Liedholm 1998). On the other hand, growth oriented enterprises have mainly profit motive and re-invest their surplus to ensure sustained growth. They have the potential to contribute substantially to value chain productivity and, ultimately, to economic growth. Relatively they have higher capital, access to credit, more paid employees and engage often people with higher educational levels and skills/experiences.

Attempt is made here to use a broader conceptual framework, which focuses on how opportunities and host of capabilities which influence the growth of

MSEs. Opportunities are directly related with the availability of local, regional, and external markets to run profitable business activities and shape the ability of the MSE operators to expand their firms. Capabilities include skills, knowledge, resources or technology possessed by the operators which are necessary to improving productivity. If a business has the capabilities and opportunities in the local community, the prospect for growth is high. However, in reality, MSE operators lack either capability or opportunity or both. To illustrate on how opportunities and capabilities influence MSE growth, Nichter and Goldmark (2005) used four "ideal types" of MSE profile, which is indicated in Figure 1.

**Figure 1: Typology of MSE growth profiles**

<b>Opportunities</b>	High	<b>“Ponies”</b> Lack Capabilities to Harness Existing Opportunities	<b>“Gazelles”</b> Fast Growth Enabled by Opportunities and Capabilities
	Low	<b>“Tortoises”</b> Lack Opportunities and Capabilities	<b>“Caterpillars”</b> Lack Opportunities to Apply Existing Capabilities
		Low	High
		<b>Capabilities</b>	

As indicated in Figure 1, MSEs that have profitable business opportunities and appropriate capabilities to harness these opportunities are termed "gazelles." However, only a minority of the firms become "gazelles", which drive overall growth in the MSE sector. Gazelles have received increasing attention by policymakers in the last decade. The special interests on these firms, such as Google, Apple and Microsoft, are motivated by the fact that they are perceived as important drivers of economic dynamics, diffusion of innovations and employment generation. But available evidence shows that high growth firms are found in all sectors of the economy and there is no clustering in specific industries (Coad and Holzl 2010). Henrekson and Johansson (2010) also indicated that Gazelles, the few most rapidly growing firms, create most new jobs within cohorts of firms of the same age. Although most Gazelles are small and medium enterprises, there is also an important subset of large Gazelles. However, being a Gazelle is a temporary phenomenon in the life of an enterprise, especially if they are small firms.

Coad and Holzl (2009) found significantly higher growth persistence for larger high growth firms.

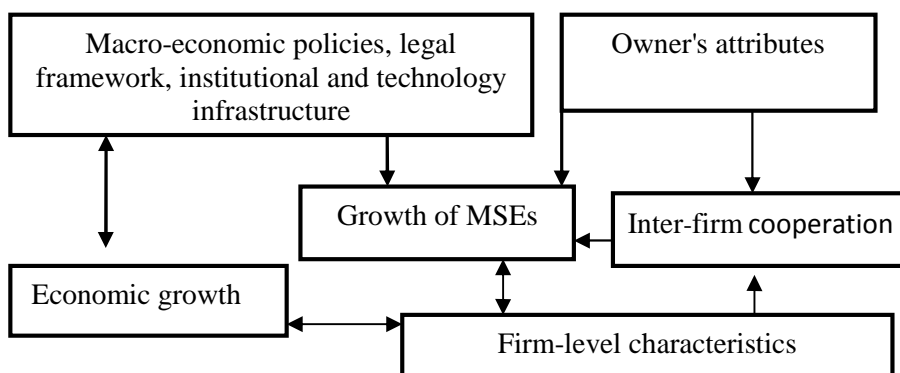
Henrekson and Johansson (2010) indicated that although job creation must be considered in the broader context of industrial dynamics, a smaller number of high-growth firms have high impact on the economy. Nichter and Goldmark (2005) indicated that the overall growth rates are often fueled by rapid expansion of a narrow group of highly performing MSEs. In the GEMINI surveys, just one-quarter of MSEs generated all of the remarkable employment growth, while the remainder of the firms stagnated or contracted (Mead and Liedholm 1998). As a result, only 1% of the MSEs which started with four or fewer workers "graduated" from the MSEs category by growing to more than 10 workers.

"Ponies" are MSEs that have potentially lucrative business opportunities, but are unable to take full advantage of them due to inadequate capabilities. Although "ponies" may expand quickly for short duration, while trying to harness these opportunities, they often lack endurance as they do not have the requisite capabilities for sustained growth. "caterpillars" are MSEs that have substantial capabilities, but lack viable opportunities to capitalize on them. "tortoises" are MSEs that lack both profitable business opportunities and a host of capabilities such as skills, resources and technology. These enterprises may not have the drive to growth due to lack of opportunities and capabilities. Despite their lack of growth, these MSEs play a critical role in reducing poverty by focusing of income diversification and survival strategy.

A range of factors play an important role in shaping the growth performance of a particular MSE, by influencing the opportunities available to owners and employees and their capabilities to take advantage of such opportunities. Moreover, value chain linkages (inter-firm cooperation) have direct effects on firm opportunities, capabilities and growth. The literature on firm growth dynamics and determinants adopt the approach that divides firm growth determinants into macro and micro dimension, which can be further divided into broad categories as business climate and firm-specific characteristics. Nichter and Goldmark (2005) grouped the factors influencing firm growth into four categories: (i) Business environment which include: performance of

macro economy; policies, strategies, regulation and institutional set up; local and sector; infrastructure; and value chain; (ii) Social factors such as inter-firm cooperation and social networks; (iii) Firm characteristics including: firm age; formality; technology; and finance; and (iv) Individual characteristics including: education; work experience; gender, etc.

**Figure 2: Conceptual framework to study the growth of youth-owned MSEs in Ethiopia**



We used the existing literature on MSE growth to construct a simple conceptual framework for the study (Figure 2). The literature and the objective conditions in Ethiopia indicate that MSEs' growth is affected by number of variable which include owners' attribute (sex, age, business experience, educational level, training, etc) and firm-level attributes (size, age of enterprise, sector, access to financial services, location, type of premises, etc), inter-firm cooperation, and policies, particularly its predictability.

### 3. Survey Results

Although there are various approaches to measure growth of youth MSE operators, the most commonly used enterprise growth indicators are: changes in total sales, assets, and employment. Measuring growth in assets may be problematic where intangible assets are important and where MSEs in the sample have different capital intensities. On the other hand, while sales growth may seem to be a useful indicator of growth, it may overstate the size of MSEs as sales does not only reflect the value-added of an enterprise but



also input prices (Coad and Holzl 2010). There is also a tendency of reducing sales or profit by MSEs in order to evade taxes. This study uses change in employment size in order to measure the growth of youth-owned MSEs because the indicator reduces measurement problems compared to financial measures (assets, sales and profit). According to Mead and Liedholm (1998), employment growth metric is frequently employed in research on MSEs primarily because using employment levels is believed to yield the most accurate and comparable data. MSE owners are also able to remember their number of employees over time (compared to other indicators), even if they fail to maintain reliable written records. In addition, using the number of employees circumvent the need to deflate or otherwise adjust currency figures, which is necessary when using revenue, asset, or profit indicators. Moreover, although there are a number of subjective and qualitative attributes that also directly or indirectly influence the characteristics and growth of youth MSE operators, this study focuses on examining the relationship between personal attributes, firm-level characteristics, inter-firm cooperation, and policy predictability, and growth of youth-owned MSEs.

### **3.1 Relationships between individual -level attributes and growth of youth-owned MSEs**

Attempt is made here to cross tabulate the personal attributes of youth operators against their growth rates. The variables which describe the attributes of youth MSE owners include: sex, age, level of education, business experience before starting business, access to training before and after starting business, reasons to engage in self-employment, and aspiration to expand business.

#### ***i) Gender of enterprise owners***

It has been argued in several empirical studies that women-owned enterprises are concentrated in under-performing sectors or activities, which are less likely to expand or upgrade their business. Women MSE operators have relatively less access to financial services and operate their business from their homestead. They are usually more risk averse and afraid of being taken over by their male counterparts. Hence, many of the women tend to

engage in low risk and low return business. Consistent to the experience of other countries, women in Ethiopia tend to have strong tendency of involving in relatively narrow range of activities such as food processing, clothing, hairdressing, and selling milk, yogurt or vegetables from roadside market stalls (Zewdie and Associates, 2002 as quoted by Haftu *et al.*, 2009). Gender-biases in the technical training support also induce them to be confined in relatively risk free businesses where there is ease entry and limited opportunities. Limited mobility (mainly due to family and household responsibilities) coupled with lack of ability to secure proper business premises restricts women MSE owners to work most often home-based businesses which prevent them from seeding out in markets, getting information on better economic opportunities and business assistance (Stevenson and St-Onge 2005).

The male youth-owned microenterprises grew by 49% per (annum? Or?), while the female owned microenterprises grew by 21% (Table 1). Similarly, the male-owned small enterprises grew twice compared to female-owned enterprises. Out of the small enterprises owned by women, the highest growth was observed in textile and clothing (170%), followed by metal and woodwork (89%). On the other hand, from the microenterprise category, a higher growth rate was reported in metal and woodwork (72%) followed by food and food products (56%). However, the results of this survey are quite different compared to Mulu's (2007) study, where the annual average growth of MSEs engaged in manufacturing was 13%, followed by service (11%). In the same study, the trade sector, however, grew by only 6.2% annual average, which was almost half of the growth rate of other two sectors.

The results in Table 1 are consistent with other empirical studies in developing countries, where MSEs led by female entrepreneurs experienced lower growth rate and employment in male-headed MSEs grew, on average, by 11% per year, versus 7% for female-headed MSEs (Mead and Liedholm 1998). Downing and Daniels (1992) indicated that employment growth differences between MSEs owned by men and women were particularly significant in firms with fewer than five workers. Mulu (2007), using the survey dataset of Gebrehiwot and Wolday (2004), also found that male-

owned MSEs in Ethiopia grew by 10.6% annual average, while that of female-owned grew by only 4.5%.

**Table 1: Average growth rate of employment by gender**

Sectors	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
Food and food product	0.56	0.81	0.16	0.48	-0.24	2.50	1.35	0.57	0.53
Metal and wood work	0.72	0.95	0.57	0.84	0.89	2.13	0.75	1.47	1.09
Leather and leather products	0.00	0.88	0.13	0.54	-0.38	2.50	1.23	1.16	0.80
Textile and clothing	0.21	0.57	0.17	0.33	1.70	4.94	0.75	1.85	0.97
Construction	-0.31	0.42	-0.08	0.19	0.10	-0.11	0.28	0.16	0.17
Urban agriculture	0.07	0.34	0.04	0.15	-0.12	2.33	0.09	0.12	0.14
Trade	0.04	-0.01	0.11	0.04	0.33	-0.28	0.54	0.35	0.09
Services	0.24	0.25	0.21	0.24	0.34	0.28	-0.25	0.10	0.20
Others	0.33	0.32	0.71	0.42	0.84	0.23	1.03	0.81	0.61
Total	0.21	0.59	0.26	0.40	0.38	1.32	0.55	0.75	0.54

*Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)*

### *(ii) Age of MSE owners*

The age of the MSE owners is usually associated with experience and the relatively older MSE owners are expected to have higher growth and performance than younger operators. However, this particular study deliberately focused on youth MSE owners between the age of 18 and 34. The average age of the sample youth MSE owners was 27 years, which was almost similar for both micro and small enterprise operators and female and male owners. The findings of the study reveal that there was a positive relationship between the age of the owners of MSEs and growth rate. Although age was directly related with the increase in the growth rate of both male and female owners of microenterprises, the result was different for small enterprises. Growth rate of small enterprise owners (both male and female) increased up to the age of 29 and started declining after the age of

29. Moreover, the growth rate of MSEs owned by married youth (65%) was higher than MSEs owned by operators who were single (54%) and divorced (35%).

### ***(iii) Education***

On top of the technical skills, MSEs require a minimum schooling in order to plan, manage and monitor their operational and financial performance. In other words, youth MSE owners who attended schools, universities, and TVETs will have greater capacity to learn about new production processes and products, easily capture the technical knowledge to expand the firm hand, easily access information and have flexible mind to access new technology and innovation will register higher growth rate than those who have less access to education. Most empirical studies confirm that MSEs with better-educated owners and managers tend to be more productive (Little 1987; Burki and Terrell 1998; Tan and Batra 1995). This implies that higher level of education can spur MSE growth by enhancing firm capabilities. On the other hand, despite the potential benefits, education may harm MSE growth, where highly educated owners lack focus on the growth and expansion of their enterprises by diverting their attention to other attractive wage employment opportunities. For example, if the youth, particularly the university graduates organized with the support of government, are engaged in self-employment because they lacked alternative wage employment opportunities, this mindset or attitude will have a negative impact on the growth rate of the enterprise.

The finding of the survey (Table 2) indicates that the growth rate of youth-owned MSEs was directly related with their level of education. The growth rate of illiterate MSE owners was 5%, while the highest growth rate (62%) is registered by respondents who attended high school (9-12) and TVETs. The growth rates of MSEs owners, who attended lower and upper primary, are 37% and 40% respectively. However, the rate of growth of female operators was lower than their male counterpart. The results are consistent with the empirical study of Wolday *et al.* (2014) which reveals that the perceived entrepreneurial opportunity and capability of the adult population in Ethiopia increases as one's education level increases.

**Table 2: Average growth rate of employment by education level**

Level of education	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
None	0.00	0.00	0.18	0.05	-0.38	-0.09	0.72	0.06	0.05
Lower primary (1-4)	0.17	0.45	0.08	0.28	-0.06	0.45	0.82	0.47	0.37
Upper primary (5-8)	0.21	0.34	-0.04	0.24	-0.06	1.50	0.47	0.69	0.40
High school (9-12)*	0.27	0.68	0.30	0.46	0.81	1.27	0.60	0.84	0.62
Higher education (Above 12)	0.09	0.75	0.42	0.50	0.46	1.72	0.39	0.74	0.59
Total	0.21	0.59	0.26	0.40	0.38	1.32	0.55	0.75	0.54

Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)

\*includes vocational and TVET

Although many of empirical studies indicate that there is direct relationship between education and growth of MSEs, evidences from other studies report contradictory results. The findings of the survey (Table 2) shows that the growth rate of youth MSE owners who attended higher education (59%) is relatively lower than those who attended high school and TVET (62%) which is consistent with the study of Alvarez and Crespi (2003) on small manufacturing firms in Chile, which found that university education, did not induce higher efficiency, because the highly educated owners paid little attention to monitoring their labor force. An Inter-American Development Bank (IDB) study also found that secondary school attainment had no discernible impact on firm growth in Latin America (Kantis *et al.* 2004 as quoted by Nicher and Goldmark). On the other hand, GEMINI studies in Sub-Saharan Africa revealed that entrepreneurs completing secondary school are more likely to grow in Kenya and Zimbabwe but found no sufficient effect of primary education on MSE expansion (Mead and Liedhold 1998).

***(iv) Experience before starting the business***

Owners of MSEs benefit from production, marketing, administration, and negotiation skills gained from previous jobs (before starting their own business) which serve them as a valuable training ground, identify potential business opportunities, gain business contact and obtain financing and other resources. As a result, owners of MSEs with more years of work experience before starting their own business have relatively faster growth than those without experience. The empirical study of Mead and Liedhold (1998) and Parker (1995) found that Kenyan entrepreneurs with at least seven years of experience expanded their firms more rapidly than those without such experience.

The finding of the survey reveals that about 50.3% of the MSEs owners were engaged in different types of business before starting their own enterprise. About 36.5% of the respondents in the survey have the opportunity to manage a business while about 34.4% have the experience as an apprentice in similar business before establishing their own MSEs. The result of the study also indicates that business experience before starting business has a significant impact on the growth MSEs. The growth rate of youth MSE owners, who had experience (83%), is much higher compared to MSE owners without experience before establishing their own business (39%). While the micro and small enterprise owners who had business experience before starting their own business grow by 60% and 91% respectively, the micro and small enterprise owners without business experience grow by 19% and 60% respectively. However, the growth rates of female MSE owners are much lower compared to their male counterpart.

***(v) Access to training before and after starting the business***

Training focuses on any transfer of knowledge, skill or attribute which is organized to prepare MSEs for more productive activities or to changes their working environment and mindset. Unlike formal educational programs, accessing skills such as technical training, business development services, business and economic literacy, and entrepreneurship training constitute the foundation to improve the performance and growth of youth-owned MSEs. The finding of the study in Table 3 shows that there are no differences in the growth rate between the youth-owned MSEs who accessed training and who

did not receive training before starting their business. This implies that the training given to the youth MSE owners before starting business didn't add value or contribute to the growth of the enterprises and need to be revisited. On the other hand the training given to youth-owned MSEs after starting business has increased the growth rate of enterprises. The growth rate of MSE owners, who took training after starting business (80%), is much higher compared those MSE owners who didn't take training (42%). The impact of training on the growth rate was much higher for small enterprise owners compared to microenterprise owners. However, growth rate of female MSE owners who accessed training after starting business was relatively lower compared to male MSE owners.

**Table 3: Average growth rate of employment and training before and after starting business**

Did you have business experience before?	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
<b>Before starting business</b>									
Had training	0.16	0.67	0.19	0.35	0.63	1.32	0.42	0.65	0.50
Had no training	0.24	0.57	0.32	0.43	0.13	1.34	0.72	0.86	0.58
Had but did not complete	.	.	.	.	.	-0.09	-0.44	-0.27	-0.27
Total	0.21	0.59	0.26	0.40	0.38	1.32	0.55	0.75	0.54
<b>After starting business</b>									
Had training	0.51	0.82	0.15	0.54	0.83	1.67	0.76	0.99	0.80
Had no training	0.13	0.52	0.30	0.36	-0.05	1.10	0.32	0.53	0.42
Had but did not complete	-0.50	.	.	-0.50	.	.	.	.	-0.50
Taking training now	.	0.50	.	0.50	.	.	.	.	0.50
Total	0.21	0.59	0.26	0.40	0.38	1.32	0.55	0.75	0.54

Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)

**(vi) Reasons to engage in self-employment**

The literature on entrepreneurship reveals that the growth and performance of MSEs is related with the owners' motivation to establish a business. If the

owners' motivation to establish the business is to be a successful entrepreneur through self-employment, there is a higher probability to grow, innovate and perform well compared to individuals who engage in business out of necessity to meet her/his household's subsistence needs. The findings of the sample survey show that the majority of the youth were engaged in the MSE sector, expecting higher profit and income through self-employment. The perception of the youth that they are capable and have the skill to start new business is the second reason to engage in self-employment. However, there are some respondents who indicate that they were forced to start their own business because they lacked other options (necessity-driven entrepreneurs). Surprisingly, the reasons behind engaging in self-employment for both micro and small enterprise owners are similar.

About 49.5% of the youth MSE owners revealed that self-motivation was the main reason behind stating their own business. Parents (17.3%) and friends (14.3%) also influenced the decision of the youth to engage in business. The influence of government support program to start new business was relatively lower. Expecting higher profit/income through self-employment and having the required skills were the motives behind the engagement of the majority of the female-youth owners of MSEs in self-employment. However, the proportion of women owners who indicated that they started their own business as result of necessity (no other options) was relatively higher than their male counterpart. The finding of the sample survey is consistent with the study by Wolday *et al.* (2014) where female respondents (19%) had relatively lower entrepreneurial intentions compared to male respondents (24%). Table 4 shows that those youth MSE operators, who perceive that they were engaged in their dream job and had the skill to run a business (opportunity-driven) registered relatively higher growth rate in employment. The respondents who reported that they took other people's advice also registered higher growth rate. However, those MSE owners who started their business as their last option of getting employment or income (necessity-driven) had the lowest growth rates. Moreover, the aspiration of the youth to be employed in government offices has gradually changed towards self-employment.



**Table 4: Average growth rate of employment and reasons for engagement in the existing business**

Reasons	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
Skilled in this activity	0.15	0.65	0.45	0.49	0.14	1.54	0.80	1.04	0.68
Parents/relatives in this business	0.11	0.55	0.33	0.38	0.41	1.60	0.55	0.86	0.57
Thought it would be profitable	0.23	0.63	0.25	0.42	0.21	1.41	0.50	0.73	0.55
Capital requirement matches with what I had	0.10	0.52	0.43	0.38	0.26	1.54	0.68	0.92	0.56
Little or no regulatory restrictions to get into this line of business	0.22	1.39	-0.06	0.71	-0.47	0.09	0.40	0.27	0.53
I had no alternative	0.10	0.45	0.12	0.27	0.41	1.16	0.38	0.57	0.38
Other people's advice	0.08	0.75	0.22	0.41	1.52	1.07	0.83	0.96	0.65
It was my preference (Dream)	0.11	0.89	0.41	0.59	0.48	2.10	0.65	1.17	0.77
Related with my level education	-0.12	0.72	0.00	0.42	-0.41	0.96	0.78	0.77	0.54
Others	0.04	2.00	0.58	0.38	0.02	.	0.00	0.01	0.17

Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)

**(vii) Aspiration to expand existing business**

The youth who aspire to expand their business tend to spend their time in looking for different options of finance, technology, market, skills etc. In other words, although there is a possibility of dynamic development of enterprises by remaining small or without vertical growth, there may be a direct relationship between having a plan to expand and growth rate of MSEs. The youth MSE owners were asked to indicate their future plan regarding their business. About 81.4% of the respondents reported that they have an intension to expand their investment in the future by staying in the same business. While about 10% of the respondents plan to change job, about 7.7% have the intension to establish additional new business.

The finding of the study reveals that those youth MSE owners who have the intension of staying in the same business and expanding it registered higher

growth rate (61%) compared to those who intend to change jobs (15%) and start additional new business (40%). The impact of aspiration to expand existing business and starting additional new business is much higher for small enterprise owners compared to microenterprise owners. The result of this study is comparable to the empirical study of Wiklund and Shepherd (2003) which found that a small positive relationship between growth aspiration and growth rate, but the magnitude of this effect rises somewhat if growth aspiration are interacted with the entrepreneur's education and experience. Stam and Wennberg (2009) also found that growth aspirations are positively and significantly associated with the growth of low-tech firms, but not for high-tech firms.

### **3.2 Firm-level characteristics and growth youth-owned MSEs**

Youth-owned MSEs, with the internal capacity to hire skilled workers, use higher level technologies, access external finance, implanted efficient management and performance management systems have relatively higher probability of growth and expansion of their businesses than those without the above attributes. Attempt is made here to examine the relationship between firm-level characteristics (the size of the enterprise (micro or small), ownership structure, age of the firm, region, location of the firm within the city/town) and growth of youth-owned MSEs.

#### ***(i) Employment and type of enterprise size within a sector***

The survey result reveals that average size of employment varies by size of enterprise (micro and small), gender and region. Although the average size of employment for MSEs is 8.1 persons, the average employments for small enterprises and microenterprises are 13.5 and 4.4 persons respectively. The average size of employment for male-owned microenterprises (4.1 persons) is higher compared to female-owned microenterprises (2.3 persons). However, the average size of employment in the female-owned small enterprises (12.8 persons) is higher compared to male-owned small enterprise (9.82 persons). Moreover, the youth-owned MSEs in Dire Dawa have the highest average employment (10.4 persons), followed by Amhara region (9.1 persons), Addis Ababa (8.4 persons), SNNP (8.1 persons) and

Oromia (7.4%). On the other hand, MSEs in Tigray and Harari have the lowest average employments, 6.3 and 6.9 persons respectively.

The result reveals that a significant proportion of the youth MSE owners (28.7%) are engaged in metal and woodwork, followed by construction (19.5%), services (10%), trade (9.8%), urban agriculture (9.5), food and food products (7.8%) and textile and clothing (7.2%). However, many women microenterprise operators were involved in trade (23.5%), services (22.2%), urban agriculture (15.7%), food and food products (13.7%) and textile and clothing (13.7%), while the male microenterprise owners were mainly involved in metal and woodwork (41.8%) and construction (17.8%). On the other hand, the female small enterprise owners are mainly engaged in the production of food and food products (33.3%), textile and clothing (15.8%), urban agriculture (10.5%) and trade (10.5%) activities. Although the average growth rate of the youth owned MSEs (the entire sample) was 54%, the growth rate of microenterprise owners (40%) was much lower compared to small enterprise owner (75%). However, the highest growth was observed in the metal and woodwork sub-sector (109%), followed by textile and clothing (97%), leather and leather products (80%), and food and food products (53%). The lowest growth rate was registered in trade (9%), urban agriculture (14%), construction (17%) and service (20%).

Unlike the results of this study, Mulu (2007) found that the annual average growth for one-worker establishments in Ethiopia was 19% tripled of the next size (2-4) and above 12 times than the 5-10 workers category. Hart and Oulton 1996, Coad 2009, Lotti *et al.* (2003) found that smaller firms (micro enterprises) have relatively higher expected growth rates than larger firms (small enterprise).<sup>4</sup> It should also be noted that high growth rate of MSEs is generally not a process of gradual growth but rather a process of radical change in the development of enterprises which are innovative and have the competence to learn and to act in a flexible way (Coad and Holzl 2010). The

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<sup>4</sup> When firms' growth rates are calculated as growth rates, small firms are observed to grow particularly fast, with a higher growth rate variance than for larger firms. For example, it is easier for a firm of 5 employees to experience a growth rate of 100% (i.e. grow to 10 employees in the following year), than for a firm of 500 employees to grow by 100% by taking on additional 500 employees (Coad and Holzl 2010).

provision of support services is one possible explanation for higher growth of small enterprises in Ethiopia, where the government provides support priority to the youth who are organized in groups or cooperatives to form an MSE. In other words, those businesses organized in group (employing more than 5 workers) and accessing support services from government (categorized as small enterprises) and have higher likelihood of faster growth compared to microenterprises. On the other hand, although it is difficult to give convincing reasons, the growth rate difference of youth-owned MSEs among regions is quite alarming. For example, MSEs in Amhara region and Dire Dawa registered the highest growth rates: 86% and 82% respectively. The growth rate of MSEs in Tigray, Oromia and Harari varied between 48% and 62%. The lowest growths were reported in SNNP (29%) and Addis Ababa (33%).

#### *(ii) Type of ownership*

Ownership structure is expected to have an impact on the growth rate of MSEs. In the Ethiopian context, priority of accessing government support services is given to the youth, who are organized in a group or a cooperative. However, the cohesiveness of the members of the group or cooperative has been posing a challenge on the development of youth-owned MSEs in Ethiopia. On the other hand, India offers attractive incentives to small enterprises, but by some accounts, these measures backfire because growth beyond a specified level entails losing valuable benefits (Mitra and Pingali 1999; Little 1987). Since manufacturing certain products in India is restricted for small firms, some owners even split up their MSEs into several enterprises in an effort to make them look smaller (Kashyap 1988) instead of growing vertically, from micro to small or medium levels.

The majority of the youth-owned MSEs (42.1%) in the study were organized in the form of sole proprietorship. MSEs established under partnership and cooperative form of organization accounted for 28.4% and 24.5% of the sample respectively. Only 3.2% and 1.5% of the MSEs were established under the legal framework of Private Limited Company and Share Company respectively. However, sole proprietorship is by far the dominant form of ownership in the microenterprise sub-sector (56.7%) compared to small enterprises (20.5%). About 42.6% of the youth engaged in small enterprises

have a cooperative legal status, while about 31.4% are established under partnership arrangement.

Table 5 clearly shows that MSEs in the category of private limited company (PLC) and sole proprietorship had, by far, higher growth rate compared to the other form of ownership structures. However, even among sole proprietorship and PLC category, the growth rate between micro and small enterprises vary significantly. For example, the small enterprises owned by the youth grew by 221% compared to microenterprise owners (50%). Moreover, the growth rate of enterprises owned by women (under the sole ownership category) is lower compared to male-owned MSEs. Cooperative form of ownership has registered the lowest growth rate compared to the other forms of ownership which is the result of adverse selection and moral hazard problems reflected as weak cohesiveness and lack of shared vision.

**Table 5: Average growth rate of employment and type of ownership**

Legal status	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
Sole proprietorship	0.24	0.68	0.51	0.50	1.69	2.38	2.01	2.21	0.84
Partnership	0.13	0.48	0.38	0.37	0.14	0.37	0.49	0.41	0.39
Private Limited (PLC)	2.00	1.15	0.17	0.92	.	-0.46	3.01	2.66	1.54
Cooperative Company	-0.17	-0.11	-0.09	-0.11	-0.06	0.36	0.18	0.18	0.09
Share company	.	1.42	-0.04	0.44	0.08	0.00	0.90	0.69	0.58
Other	.	1.00	.	1.00	.	.	1.30	1.30	1.15
Total	0.21	0.59	0.26	0.40	0.38	1.32	0.55	0.75	0.54

Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)

### *(iii) Age of the MSEs*

The theoretical paper by Jovanovic (1982) predicts that a firm will expand quickly at first, but then growth will taper off as the firm approaches its optimal size. While growth slows, productivity is expected to improve as the age of the firm increases because its owners learn about the optimal size of operation. Consistent to the theory, the study of Mulu (2007) indicated that the younger MSEs with 5 and fewer years old grew by annual average rate of

about 14%. This was more than double the 6-12 age group and more than four times the age group 13-29. The empirical evidences from GEMINI studies found that younger MSEs tend to exhibit faster growth than older MSEs (Mead and Liedholm 1998). The study of Burki and Terrell (1998) indicated that the major expansion of dynamic enterprises occurs during their third year of operation and the average growth rate of firms decrease with age. On the other hand, studies in India and Pakistan suggest that firms actually suffer productivity losses as they become older (Burki and Terrell 1998). This is partly the result of low investment in technology, leaving them with relatively outmoded equipment and hindering productivity levels relative to younger firms. However, the survey results of this study didn't find any pattern between the age of MSEs and growth rate. In other words, the results were not comparable with the theory and empirical studies by other researchers.

*(iv) Location of MSEs within a city or town*

The youth-owned MSEs working from homestead may benefit from resources such as family labor and electricity, but may also reinvest few profits, as funds are tapped for daily household needs. At lower income levels and with smaller firm sizes, the line that distinguishes the MSEs from the household is frequently blurred (Nichter and Goldmark, 2005). In the Ethiopian context, given the challenges of obtaining production and marketing premises at affordable prices, about 25.1% of the sample youth-owned MSEs operated from their homestead. While about 25.3% of the MSEs have their premises in commercial districts, about 12.3% are located in commercial districts, without having a permanent shop. About 9.9% of the respondents are located in cluster developed by the city administrations for MSE operators and the business of the 9.6% of the MSEs are located on the road side. However, the microenterprises working from homestead are much higher than small enterprises. Out of the microenterprise owners, higher proportion of women operating from their home and have shops in commercial districts compared to male microenterprise owners.

The result of the survey reveals that the youth MSE owners working from there, had a growth rate of 68%, while MSEs located at non-commercial district and commercial district registered 73% and 59% growth rate

respectively. The survey results were not consistent with other studies such as Mead and Liedhold (1998) who indicated that MSEs located in the household are not only significantly smaller on average, but also are less likely to grow than other MSEs. Moreover, unlike the results of Mead and Liedhold (1998), the survey results showed that the small and male-owned enterprises located at home had much higher growth rate compared to micro and female-owned enterprises.

*(v) Access to finance*

Youth-owned MSEs require finance to invest in infrastructure (machinery and equipment), cover operation costs, expand business and optimally use the available opportunities. Initially, MSE operators use their own financial resources, and then move to debt finance and/or venture and equity capital. Even after the start-up hurdles was overcome, lack of credit frequently hinders growth during MSEs' earlier years, because younger firms tend to find financing even more difficult than older firms. The findings of the survey shows that lack of access to finance (64.9%), lack of market for their products (56.1%), limited access to land for production (52.8%), and lack of marketing premises (52.4%) are major factors limiting the growth and expansion of youth-owned MSEs. The survey result of this study is consistent with other empirical studies, where credit constraints were mentioned frequently as key factors limiting the growth of MSEs (Burki and Terrell 1998).

Since the youth-owned MSEs in Ethiopia have a serious challenge of accessing loan, they tend to rely on other sources. About 71.3% and 70.1% of the youth owning MSEs used own saving/retained earnings to meet their working and investment capital needs respectively. About 8.7% of the respondents reported that they used borrowing from the formal sector to finance their working and investment capital needs, while about 6% used borrowing from the informal sector. Relatively, the proportion of the small enterprise owners (13.4%- 13.9%) who used borrowing from formal financial institution was higher compared to the microenterprise owners (5.2% -5.5%). The findings are consistent with the studies of Gebrehiwot and Wolday (2006); and Vandenburg (2003).

**Table 6: Average growth rate of employment for those who took and who didn't take loans**

Status	Micro				Small				Whole sample
	Female	Male	Mixed	Total	Female	Male	Mixed	Total	
<b>Took credit</b>									
Formal banks	0.00	3.00	-0.21	1.11	0.50	1.99	2.32	1.94	1.64
Microfinance institutions	0.43	0.49	-0.11	0.32	0.51	1.65	0.52	0.83	0.62
Government projects	0.00	.	-0.19	-0.08	-0.07	0.03	-0.32	-0.21	-0.17
NGOs	-0.10	0.00	-0.13	-0.09	0.98		-0.37	0.64	0.33
Iqub	-0.44	0.60		-0.10	.	0.17	2.07	1.12	0.60
Moneylenders	.	2.00	.	2.00	.	0.00	0.10	0.08	0.40
Suppliers	0.33	0.81	0.54	0.62	0.00	1.26	0.22	0.73	0.68
Saving and credit association	0.07	1.83	0.06	0.30	-0.21	0.41	0.64	0.52	0.43
Friends/relatives	0.12	0.88	0.69	0.63	0.40	1.87	0.66	1.03	0.75
<b>Didn't take credit</b>									
Formal banks	0.21	0.58	0.26	0.40	0.38	1.29	0.52	0.72	0.53
Microfinance institutions	0.18	0.61	0.32	0.42	0.32	1.19	0.56	0.71	0.52
Government projects	0.22	0.59	0.26	0.41	0.39	1.35	0.57	0.77	0.55
NGOs	0.22	0.60	0.27	0.41	0.27	1.32	0.56	0.75	0.55
Iqub	0.22	0.59	0.26	0.41	0.38	1.34	0.53	0.74	0.54
Moneylenders	0.21	0.59	0.26	0.40	0.38	1.33	0.56	0.76	0.54
Suppliers	0.21	0.58	0.23	0.39	0.41	1.33	0.56	0.75	0.53
Saving and credit association	0.22	0.58	0.28	0.41	0.42	1.41	0.53	0.77	0.55
Friends/relatives	0.23	0.52	0.19	0.35	0.38	1.24	0.53	0.71	0.51

Source: AEMFI, Survey on Youth-owned MSE in Ethiopia (2014)

In the Ethiopian context, commercial banks mainly channel loan to large or corporate businesses while microfinance institutions (MFIs) are given the



responsibility by government to deliver financial services to MSEs in order to meet the targets of the five-year MSE development. However, although the proportion of youth MSE owners who accessed loan from the banking sector was less than 2%, the MSE operators which took loan from banks grow by 164% compared to those who didn't take loan (53%). The growth rate of small enterprise owners who took loan from banks (194%) is higher compared to the microenterprise owners (111%). Youth MSE owners who accessed loan from MFIs, Iqub and suppliers, friends/relatives registered higher growth rate compared to those who didn't take loan. Although the female-MSE operators who took loan from banks, MFIs, suppliers, and friends/relatives grow at a lower growth rate compared to their male counterpart, the growth rate of female owning microenterprises who took credit from saving and credit associations registered relatively higher growth rate. Contrary to the findings this study (Table 6), Wolday *et al.* (2013) found that bank or MFI credit in Ethiopia has had hardly any impact on growth and business expansion of grain traders and millers.

### **3.3 Inter-firm cooperation**

The horizontal and vertical cooperation play a critical role in the growth and performance of youth-owned MSEs. The horizontal cooperation allows MSE owners to sub-contract activities, involve in joint actions and venture such as joint purchase of inputs, joint output marketing, joint training of their labor force, etc. The vertical cooperation involves backward and forward linkages such as supplier-producer cooperation or input-output activities and sub-contracting of phases of cycles through vertical linkage. Improving vertical cooperation increases price competitiveness, reduce transaction cost, facilitate information transfer, provide opportunities for learning, innovation and collective action within a market system (USAID 2008). Vertical linkages are needed because the lead firms at the top of the value chain have the closest contact with end market and they are the ones which understand the demand condition and the market. Cluster or geographic and sectoral agglomerations of MSEs are also instruments to promote horizontal linkages and growth. When MSEs are organized in a cluster, they can share machinery and production premises and developing a product together. Although the MSEs in the cluster compete with each other, they can

cooperate and ensure that one firm's investments spill over to other firms. By facilitating linkages with other firms, dynamic clusters have the potential to foster the youth-owned MSEs growth through expanded opportunities and capabilities. Moreover, services provided through supporting markets can also facilitate the improvement in the capacity of youth MSE operators.

The results of the study reveal that exchange information and experience, sharing and borrowing machinery, jointly market products and purchase inputs are the most important form of cooperation among youth-owned MSEs. The finding also indicate that those youth MSE owners, who reported they have the experience of cooperation among themselves, registered higher growth rate (69%) compared to respondents who didn't have the experience of inter-firm cooperation (49%). The contribution of inter-firm cooperation on growth rate is much higher in small enterprise owners compared to microenterprise operators. The role of inter-firm cooperation on growth rate was much lower in the MSEs owned by female compared to the male owners.

### **3.4 Policy predictability**

MSEs are relatively more vulnerable to the impact of volatility that an unstable macroeconomic compared to large enterprises. For example, at the times of price instability, interest-rate volatility and foreign-exchange uncertainty, the number of bankruptcies generally rises, and MSEs bear the brunt of such adverse conditions (Falkena *et al.* 2002). Creating an enabling policy environment is also one of the critical interventions to promote competition, production and productivity and growth of youth-owned MSEs. Moreover, the MSEs require a higher degree of predictability, particularly with regard to price movement (inflation), interest rates, availability of credit, ensuring property right, contract enforcement, etc., which will have impact on the costs and revenue side of their operations and manage their asset categories appropriately.

The credibility and perceived predictability of the policies of the government are important factors that influence the decisions of the MSE operators to expand their activities. The results of the survey showed that about 8.5% and

17.7% of the youth MSE owners reported that the policies of the government are completely and highly predictable respectively; while about 35% indicated the policies of the government are fairly predictable. About 24.5% of the respondents revealed that government policies are highly or completely unpredictable. On the other hand, Gebrehiwot and Wolday (2004) showed that about 35% of the MSE operators (42% for small and 32% for microenterprises) in Ethiopia had to cope, on regular basis, with "unexpected changes in rules, laws or policies" which materially affect their enterprises. Moreover, there are divergence between stated policies and directives at federal and regional levels and the outcome on the ground, which would have an impact on the credibility and predictability of government policies and strategies. Comparing the findings of Geberhiwot and Wolday (2004) with sample survey results of this particular study, predictability and credibility of government polices has shown an improvement in the last ten years.

The findings of the survey indicates that those youth MSE owners who reported that the policies of government were completely, highly or fairly predictable registered higher growth rate, while those who reported highly or completely unpredictable experienced lower growth rate. In other words, the owners of MSEs who have the trust and confidence on the policies show higher growth rate, while those who are uncertain about the policies lacked the confidence to invest and make all efforts to expand their business.

#### **4. Factors influencing the growth of youth-owned MSEs**

Based on the conceptual relationships described in various sections of this study, an attempt is made to examine determinants of growth of youth-owned MSEs by using an econometric approach. The growth of MSEs is influenced by a number of independent variables which could be internal and external factors. The dependent variable, firm growth, is measured in terms of changes in employment between time of establishment and survey period. In other words, the growth of youth-owned MSEs (Y) is a function of a vector of (X) which includes individual-level characteristics, firm characteristics, inter-firm relationship, and policy predictability variables.

The objective of examining the relationship is to test whether or not firm growth is positively associated with internal and external factors.

A linear regression model was used to estimate the relationship between growth of youth-owned MSEs and various arrays of independent variables. To capture the problem of heteroscedasticity, which is common in most cross sectional datasets, the regression was estimated with robust standard errors. Using the robust option, the point estimates of the coefficients were exactly the same as in ordinary OLS, but the standard errors were taken into account to address issues concerning heterogeneity and lack of normality. However, using robust standard errors does not change any of the conclusions from the original OLS regression (Bruin, 2006). Moreover, a multicollinearity test, using the Variance inflation factors (VIF), was run to address the issue of multicollinearity among the explanatory variables. (VIF) measure how much the variance of the estimated regression coefficients are inflated as compared to when the predictor variables are not linearly related, which is used to describe how much multicollinearity exists in a regression analysis (O'Brien, 2007). The result shows the VIF for all variables, which was found to be less than 5, implying that there is no statistically significant level of multicollinearity among the independent variables.

Table 7 shows the regression results of employment growth of youth-owned MSEs on a set of explanatory variables. It is found that among the individual-level attributes: MSEs operators who are illiterate, sole owner of the business, enterprise owners under the category of microenterprise, have experience in similar business (before starting their own business), and male MSE owners are found to have significant effects on the employment growth. Specifically, the illiterate MSE owners are found to have lower employment growth compared to owners who attended higher educational level, other things remaining constant. MSE operators, who are sole owners, have also registered a higher employment growth than other types of ownership structure. However, the variable microenterprise dummy was found to have a negative and significant effect on employment growth, implying that microenterprises have lower employment growth compare to small enterprises. Individuals who had experience in similar business before starting the business are found to have a higher growth in employment than

those who didn't have experience. Besides, male MSE owner are also found to have a higher employment growth than their female counterpart.

Enterprise-level attributes of youth-owned MSEs: availability of stable product market, access to training before starting business, develop future plan, access to loan, developed the culture of saving, size of start-up capital, and current capital are found to be significant variables influencing the employment growth of MSEs. Youth MSE owners who have better access to market for their products are found to have a higher employment growth, whereas MSE owners who had accessed training before starting business were found to have a negative impact on employment growth, may be due to generic training given to all MSE operators which were not related to the business they are currently engaged in. Those youth MSE owners, who have future plan to expand the current business, have a positively affect on the growth of employment. Even though amount of saving is found to have a positive effect on employment growth, the amount of loan is found to have a negative effect on employment growth. One possible explanation is saving requirement of MFIs, before accessing loan, and liquidity challenges of MFIs which limited access to loan to MSE operators affects the expansions of MSEs. Having relatively higher current capital is found to have a positive effect on employment growth of MSEs, implying that access to capital is very critical to growth and expansion of youth-owned MSEs.

The policy variable (predictability of government policies) is found to be a significant variable affecting the employment growth of MSEs, implying that as the policies, laws and regulations become more predictable (showing the trust and confidence of the MSE operators on government), the MSE operators are likely to be motivated in expanding their business by increasing employment. On the other hand, the inter-firm relationship, which is captured by variables such as social networking and working in cluster, is found to be an insignificant factor in affecting employment growth in the youth-owned MSEs.

**Table 7: Regression results: Factors affecting growth of employment**

Explanatory variables	Coefficient	T-value
Illiterate/with no formal education dummy	-0.427*	(-1.694)
Grade 1-4 level of education dummy	-0.065	(-0.256)
Grade 5-8 level of education dummy	-0.075	(-0.317)
Grade 9-12 level of education dummy	0.153	(0.991)
Sole ownership dummy	0.534***	(3.041)
Micro enterprise dummy	-0.465***	(-2.666)
Migrant dummy	0.070	(0.550)
Single dummy	-0.096	(-0.564)
Divorced dummy	0.051	(0.271)
Widowed/Widower dummy	-0.259	(-1.438)
Access to vocational training before starting the business dummy	0.191	(0.991)
Experience in similar business	0.301**	(2.427)
Engage in MSE because it provide better opportunity dummy	0.019	(0.139)
Location of the enterprise dummy	-0.094	(-0.761)
Having adequate market for one's products dummy	0.196*	(1.778)
Status of machinery or equipment dummy	-0.024	(-0.190)
Preparing annual budget dummy	0.111	(0.463)
Use of other income to support the business dummy	0.060	(0.294)
Availability of additional source of income dummy	0.045	(0.252)
Access to training to the owner before starting the business dummy	-0.363*	(-1.831)
Access to training to the owner after starting the business dummy	0.204	(1.223)
Access to training to the workers after starting the business dummy	-0.247	(-1.401)
Access to business extension dummy	0.114	(0.776)
Social networking dummy	-0.076	(-0.468)
Working in a cluster dummy	-0.234	(-1.427)
Policy predictability dummy	0.267**	(2.282)
Future plan to stay and expand in the business dummy	0.352***	(3.045)
Amount of credit in birr	-0.000*	(-1.782)
Saving of MSE operators in birr	0.000*	(1.853)
Sales in past week in birr	0.000	(0.643)
Start-up capital if started from scratch in birr	-0.000*	(-1.721)
Years of experience in this business	0.002	(0.803)
Experience in other types of small businesses	-0.000	(-0.052)
Estimated current total capital in birr	0.000**	(2.331)
Approximate average sales per month for whole business period	-0.000	(-1.138)
Current capacity utilization (%)	0.001	(0.524)
Age of the owner/manager in years	0.003	(0.193)
Household size in number	0.011	(0.293)
Male dummy	0.314***	(2.664)
Constant	-0.451	(-0.940)
Number of observations	859	
Adjusted R2	0.161	

Note: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1; and t-value in parentheses

## **5. Conclusion and Proposed Interventions**

The main objective of this study was to examine the key factors which influence the growth of youth-owned MSEs, including owners' and firm-level attributes, vertical and horizontal cooperation, and policy and regulatory environment. Unlike the results in other empirical studies, the finding of this study reveals that the average growth rate of small enterprises is higher than the microenterprises. The results show that youth-owned MSEs grow by about 54%, but vary by sector, size (micro and small) and gender. The highest growth is observed in the metal and woodwork sub-sector, followed by textile and clothing, leather and leather products, and food and food products. The lowest growth rates are reported in trade, urban agriculture, construction and service. Consistent with the findings of other studies, the growth rates of female youth owned enterprises in Ethiopia are found to be lower compared to male-owned MSEs. There is also a positive relationship between the age of the owners of MSEs and growth rate. The growth rate of youth-owned MSEs was directly related with level of education of the owners.

The survey result shows that there are no differences in the growth rate between the youth MSE operators who took training and those who did not receive training before starting their business. This implies that the training given to the youth before starting business has failed to add value and need to be revisited. On the other hand, the training given after starting business to the youth MSE owners has had a positive impact on the growth of MSEs. The respondents who perceived that they are engaged in their dream job and have the skills to run the business (opportunity-driven) registered higher growth rate compared to those who started their business as their last option of getting employment or income (necessity-driven). Moreover, the MSE owners who have the intension of expanding and staying in the same business had also higher growth rate.

Youth-owned MSEs in registered as private limited company (PLC) and sole proprietorship form of business organization have had by far the higher growth rate compared to the other forms of ownership. However, the solely owned small enterprises have higher growth rate than microenterprise under

the same category. The growth rate of female owned enterprises (under the sole ownership category) is lower compared to their male counterpart. Although the government has been providing significant support to those MSEs organized in the cooperatives or groups, their growth rates are found to be lower compared to the other form of ownership arrangements.

The growth rate of youth MSE owners MSEs who took loan from banks grow by much higher rate compared to those who didn't take loan. MSEs which have access to loan from MFIs, Iqub and suppliers, friends/relatives registered higher growth rate compared to those who didn't take loan. Moreover, youth MSE operators who saved in cash or in kind and invest in other businesses had higher growth rate than those who spend their income for household consumption. The finding of the survey reveals that those youth MSE owners, who reported they had the experience of cooperation among themselves, register higher growth rate compared to respondents who had no inter-firm cooperation experience. Moreover, MSEs who perceive that the policies of government were completely and highly or fairly predictable registered much higher growth rate, while those who reported highly or completely unpredictable experienced lower growth rate.

Consistent with the descriptive statistics, the regression results indicate that among the personal attributes of youth MSE owners: education, sole ownership form of business organization, small enterprise category, experience in similar business, and gender (male MSE owners) are significant variables which positively influenced the employment growth of youth-owned MSEs. Out of the firm-level attributes, access to training before starting business, social networking and access to loan were significant variables which negatively affected growth rate. On the other hand, access to product markets, future plan of the enterprises, saving culture, size of start-up capital and current capital were found to be significant variables in influencing the growth of youth-owned MSEs. Moreover, the predictability of policies was also found to a significant variable affecting growth and expansion of youth-owned MSEs.

Since the growth of microenterprises and women-owned enterprises were low, there is a need to revisit the support program and develop tailored



interventions for microenterprises and women MSE owners. Inter-firm cooperation and policy predictability were found to influence the growth of youth-owned MSEs. Improving cooperation and policy predictability should start by conducting a detailed study on why many of the MSE operators have weak social networking and skeptical on the consistency of government in executing its policies. Based on the output the research, there is a need identify the interventions needed to build the trust and confidence of the operators on the policies and strategies of government and promote inter-firm cooperation. Limited access to finance, lack of production and marketing premises, and inadequate market development came up as the top three challenges to expand and establish MSEs. However, the magnitude of the above problems vary by size of the enterprises (micro and small), gender, sector, type of ownership, location, etc. Given the heterogeneous characteristics of MSEs, there is a need to formulate more defined targeted strategies and programs to influence business opportunities, capabilities and productivity, particularly for the growth-oriented or priority sub-sectors. On the other hand, growth is one of the most important performance indicators of MSEs. However, MSEs could be dynamic, innovative and perform well without growing vertically from micro to small or small to medium enterprise. This is another performance dimension of MSEs which require upgrading and increasing the capacity micro or small enterprises, without necessarily requiring them to grow vertically. Moreover, government and development partners should take the initial lead to support research and development activities in the MSE sector by allocating fund and providing technical assistance, particularly for the priority sectors.

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