



Combining credit and training to support micro and small enterprises in Ethiopia

By Abdelkrim Araar, Yesuf Awel, Jonse Boka, Hiywot Girma, Ajobush Shafi, Eleni Yitbarek, Mulatu Zerihun

Key messages

- **Providing credit access alongside training is the most effective support program for Micro and Small Enterprises.**
- **Education, capital and experience sharing enhances risk-taking behaviour and business performance.**
- **Female entrepreneurs' limited access to credit and training programs, coupled with less-educated employees, constrains their business performance potential.**

Micro and Small Enterprises development supported by policy

Over the last two decades, the government of Ethiopia, in collaboration with other development actors, has implemented various programs to develop the Micro and Small Enterprises (MSE) sector.

Developing the MSE sector aims to promote inclusive growth, create sustainable employment (especially for youth and women, for whom the unemployment rate is over 40%), and provide a foundation for larger manufacturing businesses and increased exports.

These programs include training, technology transfer and access to finance for MSEs in urban areas. In particular, they encourage youth and women to start small businesses.

Impact and effectiveness of policies inconclusive

However, there is no evidence on the impact of training, capital, and the combination thereof, on MSE performance in Ethiopia. The literature is inconclusive as to whether these programs ultimately increase business income and generate employment.

A team of local PEP researchers set out to assess whether government support programs (access to credit, training, and a combination of both) increase the monthly revenues of MSEs in urban Ethiopia.

Additionally, the team sought to establish whether these programs have a different impact on MSEs owned by men compared to those owned by women.

The team also investigated the risk preferences of Ethiopian entrepreneurs and factors that influence risk preference.



The analysis

The researchers' analysed firm-level data for 1,445 MSEs in Addis Ababa, collected in 2015 by the Addis Ababa University and Addis Ababa City Administration Micro and Small Enterprise Development Bureau.

The data provided information on MSEs' characteristics (age, size, owner's gender, education, experience, workforce composition), access to business support services (finance, training, work premises, and other), licensing status (formality and legality), performance measures (annual sales and employment), sectoral distribution and the challenges they faced.

The survey also provided details of firms' activities and use of inputs, and the value of outputs and inputs for the 12 months prior to the survey.

The dataset provided a good picture of the MSE sector in urban Ethiopia.

Key findings

1. Risk behaviour affects enterprise performance and MSE owners in Addis Ababa tend to be risk-averse.

Women are found to be more risk-averse than men; however, this is not found to be an innate difference in risk attitude. Risk attitude changes when MSE owners have higher levels of education, more experience and more capital. Women are found to be more limited than men in these respects.

2. Simultaneous access to credit and training doubles MSE monthly revenue. Combining the support programs is more effective than offering either individually.

However, while enterprises owned by men benefitted from all support programs (credit, training, or both), the interventions did not improve monthly sales revenues for women-owned enterprises.

3. Female entrepreneurs have limited access to credit, training, and combined capital-training programs, compared to male entrepreneurs.

MSEs owned by women tend to be engaged in lower-earning sectors – such as services or trade – than MSEs owned by men (a higher proportion of male-owned MSEs are engaged in the high-return sectors such as manufacturing and construction).

Female-owned MSEs also generally have fewer employees, who in turn have lower education levels and less experience in the MSE sector than employees in male-owned businesses.

Monthly MSE sales revenue (in log), by gender and type of intervention



Source: Authors' calculations

Conclusions and policy messages

Risk-taking behaviour in both men and women can be enhanced by **providing education, capital and experience sharing**. To make the MSE sector more profitable and become more sustainable, policy interventions should focus on **delivering capital and training, as a package, to MSEs**.

Furthermore, it is important to identify the difference in the needs of male and female enterprise owners. Providing services without considering the specific needs of men and women-owned firms' does not benefit female entrepreneurs, making the support services less efficient.

Both capital and training can be offered to male enterprise owners, however, further needs assessments of female enterprise owners should be conducted to understand the factors that complement capital and training services.



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