



Entrepreneurship and the Promises of Inclusive Urban Development in Ethiopia

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Abstract

Ethiopia is urbanizing rapidly and migration is the major factor in the urbanization process. Migration is selective and rural youth are more likely to migrate to cities than others. However, the capacity of cities to accommodate migrants by providing formal employment is limited. Consequently, migrants remain without access to employment opportunities. The majority are pushed into self-employment in the informal sector. Despite such challenges, harnessing the benefits of the youth bulge and promoting inclusive development through entrepreneurship programs has become a priority area since 1990s. Although progresses have been made, entrepreneurship programs are unable to reach the unemployed youth and those engaged in informal sector. The objective of this paper is to explore barriers that hinder the youth to join entrepreneurship programs. The study followed qualitative approach. Data were collected through key informant interviews and focus group discussions from four cities-Addis Ababa, Adama, Bahir Dar and Hawassa. The findings show that politicization of entrepreneurship; lack of understanding the needs of the youth, weak institutional systems, low levels of service capacity and inefficiency and lack of entrepreneurship education and youth negligence hinder the success of entrepreneurship programs thereby attaining inclusive development. Entrepreneurship programs thus need to follow flexible and participatory approach. Programs need to be selective in the type of entrepreneurial initiatives and supports that can address the needs and priorities of the youth. Providing youth with entrepreneurial education has a positive effect on their decision to be engaged in entrepreneurial activities. The government needs to minimize its political intervention in entrepreneurship programs.

Keywords Entrepreneurship · Ethiopia · Inclusive development · Urban informality · Youth bulge

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Introduction

Ethiopia has shown progress in economic growth over the last decades. Its GDP has experienced sustained growth, with an average annual growth rate of 7.4% between 2004 and 2018 (OECD/PSI, 2020). The country's economic growth outperformed the average of sub-Saharan African countries, which stood at 5.2% during the same period. Ethiopian urbanization has been related to high economic growth. For instance, in 2012/13, cities generated about 40% of the national GDP in Ethiopia (World Bank, 2015a). Ethiopia's GDP per capita, however, remains low compared to regional standards (OECD/PSI, 2020).

Rapid growth, driven by large public investment and growing services, has contributed to improvement in poverty reduction. The national poverty rate has dropped from 45.5% in 1995/6 to 23.5% in 2015/16 (Araya & Woldehana, 2019). The decline indeed varies between urban and rural areas. While the rural poverty headcount index declined from 47.5% in 1995/6 to 25.6% in 2015/16, urban poverty incidence declined from 33.2 to 14.8% over the same period (Mesele & Tasew, 2019; World Bank, 2020). The rural poverty rate is almost twice as high as that of urban poverty (World Bank, 2020). Though Ethiopia is the fastest-growing economy in the sub-Sahara Africa and the fifth fastest-growing economy among 188 IMF member countries, it is still one of the poorest countries in the world, with a per capita income of \$850 (World Bank, 2020). Recently, a civil war is going on and hence, the poverty situation will be worsening.

While economic growth has led to reductions in poverty rates, it has not been inclusive and economic growth has run parallel to an increase in inequality (IMF, 2015). The country's overall inequality has been rising over time from 0.29 in 1995/6 to 0.33 in 2015/16, with a higher increase in urban areas to 0.38 in 2015/16 (Araya & Woldehana, 2019). In addition, unemployment remains high and tackling remains challenging. Pressures on the labour market are likely to continue over the medium term because of demographic dynamics and lack of job opportunities in labour-intensive sectors (IMF, 2015). Ethiopia is also experiencing the largest youth bulge in Africa. Of Ethiopia's total populations 112 million people in 2019 (World Bank, 2019), about 41% is under the age of 15. About 28% are aged 15–29 (USAID, 2018) and increasing labour force participation rates in the country has on average led to 1.2 million new job seekers each year (IMF, 2015). The relatively limited growth of the agricultural sector, compared to manufacturing and service sectors, complicates prospects for new job seeking youth in rural area. Besides, the need to develop labour-intensive industries to create employment opportunities remains pressing (IMF, 2015). Such slow expansion of formal employment, coupled with rapidly growing urban ward migration, has forced the largest share of youth migrants to join the informal sector (ILO, 2013). For a growing young urban population, informal sector offers the ability to support their basic needs (Alemayehu et al., 2021). However, it is characterized by low productivity and low and irregular earnings. This is heightened by lack of access to basic services such as water and electricity, working space, and access to high-value markets (Güven & Karlem, 2020). Informal sector activities are

further not financially included and thus failed to make reliable business transactions or to constantly save to prepare for unforeseen threats (Guyen & Karlem, 2020). Informal sector workers lack social protection, have fewer rights and benefits of employment, and are subject to greater exclusion from government institutions (ILO, 2013; Kebede, 2015).

In an attempt to address the problems associated with informality and unemployment and with the aim to promote inclusive development, the government of Ethiopia (GoE) has been developing and implementing various policies and strategies since the 1990s. The major ones include the Sustainable Development and Poverty Reduction Program (2002/3–2004/05), Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/6–2009/10) and the first and second Growth and Transformation Plans of 2010/11–2014/15 and 2015/16–2019/2020 (UNDP, 2012; MoUDHC, 2016). These documents reiterated the importance of entrepreneurship, through micro and small enterprise development (MSED), as a means to reduce poverty, build an industrial economy and promote inclusive development in the country. Since then, although improvements have been made during the last decades in addressing informality, unemployment and poverty, the performance of entrepreneurship programs in Ethiopia has fallen short of expectations (EEA, 2015). The level of consideration and assistance provided to the informal sector is scant. Likewise, formalization of the informal sector and engaging the unemployed youth in MSED programs are very limited (EEA, 2015; MoUDHC, 2016).

Several empirical studies have been conducted in Ethiopia related to entrepreneurship. Most studies (e.g. Hadis & Ali, 2018; Teklehimanot, 2017; Mohammed et al., 2020; Tesgera, 2019; Feyisa & Tamene, 2019) examined the impacts and contributions of micro and small enterprises (MSEs) on employment creation, income generation, women's empowerment and poverty reduction. Other studies (e.g. Araar et al, 2019; Geleta & Talegeta, 2019; Terfa et al., 2019; Yimesgen, 2019; Gebremariam, 2017) studied the determinants of growth of MSEs and their linkages with food security. Some others (Abagissa, 2021; Ayele, 2018; Cherkos et al., 2018; Tekele, 2019) examined factors that determine the performance of micro and small enterprises taking cases from several cities in Ethiopia. Likewise, Gamo and Gollagari (2020) and Mamo (2020) assessed the role played by local governments and the effect of their incentives on the performance of MSE's. The existing empirical studies have further addressed the challenges, opportunities and prospects of the informal sector and the development of MSEs (Abebe & Gemada, 2020; Abdulmelike et al., 2018; Ahmed & Ahmed, 2021; Ashenafi, 2017; Gebrehiwot & Wolday, 2006; Mehari & Belay, 2017). Lakew and Birbirs (2019) and Singh and Abate (2018) discovered the financial sources and financing practices of MSEs in Ethiopian cities. The aforementioned studies were, however, conducted considering the context of a single city. They also gave attention to entrepreneurs who have already started businesses. They further gave attention to the contribution of MSEs, the determinants of performance and growth of MSEs after their establishment. However, they did not address the problem of starting and running MSEs and did not see the problems from the unemployed youth and informal workers' perspective. Most studies are specific to one local context and do not address the problem from different location

settings. The purpose of this study is to examine the challenges of promoting youth entrepreneurship and thereby attaining inclusive urban development in Ethiopia.

Review of the Literature

The argument in this study is that owing to rural–urban migration, the formal urban economy is unable to absorb the large number of migrants, particularly of the youth. As such, the majority of migrants remain unemployed or join the informal sector for their livelihoods. To create employment for the unemployed youth, in an attempt to formalize those engaged in the informal sector and with the aim to promote inclusive development, promoting entrepreneurship programs through the MSED has been in place in Ethiopia. The relationship between rural–urban migration, informality, entrepreneurship, MSED and inclusive development is discussed in the following sections.

Informal Urban Employment in Ethiopia

Ethiopia is one of the least urbanized nations in the world and only 20% of its population lives in urban areas. Nevertheless, Ethiopia's rate of urbanization is more than 4% per year, which makes it among the highest in the world (Abebaw, 2019). According to the World Bank (2015a) report, the rate of urbanization is expected to be even faster, at about 5.4% a year. Alongside rapid urbanization, the labour force has doubled in the past two decades. It is projected to rise from 33 million in 2005 to 82 million in 2030 (Desta et al., 2018). Despite economic growth, unemployment has remained high, particularly among youth, and inequality has risen sharply. Unemployment, which is estimated at 25%, is still the highest in the region (International Development Research Centre, 2017). Creating job opportunities is thus critical if Ethiopia is to benefit from the demographic dividend (Abebaw, 2019).

Rural-to-urban migration is a rising phenomenon and is expected to keep growing as urban centres continue to attract rural migrants in Ethiopia (OECD/PSI, 2019). The country faces growing youth landlessness in rural areas and insignificant rural job creation, leading to a surge in migration to urban areas (Broussard & Tekleselassie, 2012). The lack of access to agricultural land, non-agricultural employment opportunities, prevalence of early marriage and rural livelihood shocks owing to drought and famine, poverty, interrupted education, ethnic conflict, proximity to main roads and high population densities are some of the causes of rural–urban migration in Ethiopia (Assefa & Yismaw, 2018; Atnafu et al., 2014). A survey made by the CSA in 2013 has shown that among recent migrants, finding a job was the main reason for migration, followed by living with family members or due to marriage and education (CSA, 2013). Increased migration to mega project sites such as sugar plantations and irrigation projects is also taking place and driving further urban growth (Gebre-Egziabher & Yemeru, 2019). Although the unemployment rate in rural areas is lower than urban locations, rural youth have limited access to land and other means of agricultural engagement (Bezu & Holden, 2014a; Schmidt

& Bekele, 2016). Youth from poorer households and from villages with less agricultural potential are more likely to migrate to cities (Bezu & Holden, 2014b). In addition, educated youth are more likely to migrate to cities (Bundervoet, 2018). A study by Bundervoet (2018) has shown that rural–urban migrants were on average 10 years younger than rural non-migrants. They were also characterized by having twice as many years of education compared with non-migrant rural dwellers and were three times more likely to have attained secondary-level education (Bezu & Holden, 2014a). A study by Bezu and Holden (2014a) has shown that from a randomly selected 445 youth who are engaged in informal self-employment in Addis Ababa and Hawassa, almost all of them were migrants. Likewise, a study by Kebede (2015) on social capital and the informal sector confirms that about 93% (from 154 sample street vendors) are migrants to the city.

Yet, because of rapid urbanization, cities are wrestling with rapid increase in unemployment. The capacity of cities to plan for and accommodate the influx of migrants by providing formal employment is limited (OECD/ILO, 2019). The available jobs in the public and private sectors are inadequate to absorb the migrant youth population (Kar & Ahmed, 2019). Consequently, migrants, particularly youth, find themselves either marginalized and without access to employment opportunities or pushed into self-employment in the informal sector. For a growing population of young Ethiopians, informal employment offers the capability to support their basic needs and feel self-sufficient; for others, it is their only option to make ends meet (Alemayehu et al., 2021). According to the 2020 urban employment and unemployment survey, the informal sector accounts for about 16% of the urban employment which indeed has shown a declining trend from 28% in 2015; 27% in 2016 and 22% in 2018 (CSA, 2020). Though employment in the informal sector is declining, yet the sector accounts the largest share of urban employment in the country. It not only accounts for a high share of employment but also contributes to poverty reduction (Cichello & Rogan, 2017). The sector is predominantly common among the youth and women and is an important contributor to poverty reduction (Guvem & Karlem, 2020). While personal freedom and a lack of regulation are attractive aspects of informal employment, the rise of rural–urban migration, inaccessibility of credit services and land lease problems to legally open a shop and the heavy tax burden placed on small enterprises operating formally have been push factors pushing the move towards informality (Alemayehu et al., 2021).

There are variations between Ethiopian cities in the proportion of informal employment. Secondary cities in Ethiopia are characterized by a larger number of informal employments than Addis Ababa. For example, Hawassa, Dire Dawa and Mekele have 45%, 36% and 35% of their population in informal employment, respectively. This figure is above the national average of 26% in 2013 (CSA, 2020). When compared with the aforementioned cities, Addis Ababa has the lowest share of employment in the informal sector, i.e. 11% (OECD/ILO, 2019). Informal employment is mainly dominant among the youth and female rural migrants, who get engaged in trade, domestic work and service sectors, such as restaurants and hotels (World Bank, 2015a, 2015b). Secondary cities have a higher capacity than the capital to absorb rural migrants (OECD/ILO, 2019). The majority of informal workers operate in crafts and related trades, service and shops and market sales, including

street vendors. Street vending is the most prominent and visible form of informality in Ethiopia (Kebede, 2015).

Though the informal sector remains a significant sector of youth employment, it falls short of generating the high-productive employment needed for structural change of the economy (Gebre-Egziabher & Yemeru, 2019). Labour productivity in the sector is low due to lack of working capital, training, infrastructure and the general characteristics of workers. Informal activities lead to low and unstable incomes, especially for unskilled workers (Gebre-Egziabher & Yemeru, 2019). Youth and women in the informal sector are subject to a wide range of challenges and legal obstacles. Harassment and abuse by law enforcement, lack of security, inability to safely plan for the future and seizure of goods are some of the barriers to their operations. Neglect by the government and lack of inclusion in the decision-making process are also the problems of the informal sector operators (Alemayehu et al., 2021). Overall, there is a lingering sentiment among the informally employed youth that the GoE has not created a system that encourages the legalization of informal businesses. These days, COVID-19 pandemic has become problematic in the operation of informal sector. Against the backdrop of the COVID-19 and high rates of poverty and unemployment, the informal sector cannot be ignored as an overriding factor of Ethiopia's economic future (Alemayehu et al., 2021).

Entrepreneurship and Inclusive Development Frameworks

These days, the concept of inclusive development has got global attention and it is of great importance to define it. Inclusive development occurs when social and material benefits are fairly distributed across a society. It focuses on the equitable allocation of the benefits of growth across groups of income, age, gender, ethnicity, disability and religion (Hikey et al., 2015). It goes beyond simple income of measuring wellbeing and gives attention on the distribution of well-being. It equally values and incorporates the contributions from all stakeholders including marginalized groups in addressing development issues (Van Gent, 2017). It aims at promoting transparency and accountability and enhancing development cooperation outcomes through collaboration between actors of civil society, governments and the private sector (Musahara, 2016).

Recognizing the importance of enhancing inclusive development, several global, regional and national resolutions and frameworks has been discussed and consensus have been reached (ADB, 2013; ILO, 2013). For example, the 2030 Agenda for Sustainable Development goals (SDGs) remark the importance of inclusive development which is assumed to play a major role in stimulating growth, securing livelihoods, creating decent jobs and promoting social and political stability (UN, 2015a). Given the contributions of the informal sector to the economy of the LDCs, protecting the earnings and promoting the livelihoods of informal workers and creating decent work for all are taken as key areas in realizing SDGs (Chen, 2017). Four of the SDGs particularly focus on promoting inclusive development. SDG 1 states to end poverty in all its forms everywhere. SDG 5 aims at achieving gender equality and empowers all women and girls. Likewise, SDG 8 deals with promoting inclusive

and sustained economic growth with productive employment and decent work for all. Moreover, SDG 11 states cities and human settlements as inclusive, safe, resilient and sustainable (UN, 2015a). As informal workers are poor, dominated by the vulnerable groups of youth and women and excluded from city plans and services, the goal of achieving inclusive development cannot be materialized without giving attention to the informal workers and unemployed youth (Chen, 2017).

The New Urban Agenda envisages ensuring sustainable and inclusive urban economies. The agenda has included a commitment to recognize formal sector workers as contributors and legitimate actors of urban economies (UN, 2017). It also calls for a focus on formalization including social and legal protection to informal workers, like the support provided for formal workers. The document emphasizes that formalization can be accomplished through the establishment of businesses within the legal framework, labour regulation, access to basic services and insurance benefits, among others (UN, 2017). Agenda 2063 of the African Union has also given emphasis to inclusive development. The sixth aspiration of the commission claims Africa shall be an inclusive continent where no one will be left behind based on gender, political affiliation, religion, ethnicity, locality and age (AUC, 2015). Likewise, the 2015 Addis Ababa Action Agenda which underlines the need to promote inclusive societies and creating decent work for all is highlighted. MSEs are thought to generate jobs in many countries but are often backed by lack of access to finance. Working with private actors and development banks, promoting appropriate, affordable and stable access to credit, as well as adequate skills, has been given attention to strengthen the role of MSEs (UN, 2015b).

All the aforementioned policy frameworks reiterate the importance of entrepreneurship as a means to tackle the problems of unemployment and informality. Entrepreneurship through the development of MSEs is seen as a transformational driver offering the support for both attaining and delivering the SDGs while fuelling economic growth. The policy frameworks took entrepreneurship as the most effective and sustainable solution for creating inclusive urban development (Gurmeet & Belwal, 2008). The underlying assumption of the MSED programs is that MSEs play a vital role in many urban economies of the global south and should be seen as central to policy formulation for inclusive development (Filser et al., 2019). MSEs create opportunities across geographic areas and sectors and employ diverse segments of the labour force. MSEs are often instrumental and the principal providers of goods and services for the poor. They are also more tapped into local networks and are in creating offtake for other local suppliers, thus strengthening local value chains (Filser et al., 2019). MSED is seen as a means to hasten the success of wider socio-economic objectives, including poverty alleviation (Gurmeet & Belwal, 2008).

The reduction of unemployment, poverty and promotion of inclusive development indeed cannot be achieved without paying attention to the informal sector. Organizing the informal sector and recognizing its role as a lucrative activity contribute to economic development (Birchall, 2001). Formalizing the informal sector and creating employment opportunities through entrepreneurship programs are indeed considered important by the international community for various reasons. First, it helps to offer better pay and sustainable employment; secondly, it broadens government's tax base; third, it increases information available about enterprises

to strengthen policy advocacy frameworks; fourth, it reduces information asymmetries and thereby facilitating trade and investment; fifth, formalizing the informal improves access to business services, formal markets and productive resources such as capital and land and sixth, formalization increases the welfare of marginalized groups caught in the informal sector by way of confirming their rights to participate in market opportunities (USAID, 2005:4). These reasons also work in the Ethiopian context of formalizing the informal sector. Indeed, entrepreneurship programs gave due emphasis to the youth for several reasons. First, growing youth unemployment threatens economic and political stability. Countries with high youth demographic profiles, like Ethiopia, are at greater risk as the majority of the youth are unemployed and perhaps motivated to be involved in anti-government activities. Youth entrepreneurship can thus be part of the solution (Loughran, 2014). Secondly, youth have the potential to drive tech entrepreneurship and growth (Brixiová et al., 2015). Third, youth entrepreneurship creates employment to the youth who owns it and this is important in bringing back the marginalized youth into the economic mainstream. Fourth, youth entrepreneurship can also have a direct effect on employment if new young entrepreneurs hire other young people. Fifth, youth entrepreneurship promotes innovation and resilience as it encourages the youth to find new solutions, ideas and ways of doing things through experience-based learning (USAID, 2005).

Entrepreneurship Development in Ethiopia

Issues related to urbanization and inclusive development have got due attention in the various plans of the GoE. One of the key strategic plans is to properly manage and administer the ongoing rapid urbanization to unlock its potential for sustaining growth and structural transformation of the economy. The second is to promote youth and women empowerment, ensure their participation in the development process and enable them to equitably benefit from the outcomes of development (NPC, 2016). These two pillars are strategically aimed at addressing the problems of urbanization and promoting inclusive development in Ethiopian cities. The plans aim to bring structural changes required for the growth of the economy. This development goal is indeed mainly anchored on prompting the development and restructuring of the MSE sector (UNDP, 2012). As such, the government has given attention to MSED as an important means to reduce poverty through employment creation. In doing so, formalizing informal sector activities, particularly street vending, and creating new employment opportunities through organizing the unemployed youth into enterprise groups have become one of the top priorities of MSED programs (UNDP, 2012).

Within the framework of the government's 5-year development plans—Growth and Transformation Plans I and II— MSED has systematically been taken as a key strategic priority. The second growth and transformation plan (2016–2020) has reinforced the need to support MSEs based on the MSED strategy: the development of entrepreneurial competence, strengthening the TVET system, etc. (Pinto, 2019). MSEs are the key instruments of job creation in cities while job creation is the centrepiece of the country's development plan (MoUDHC, 2016).

MSED holds a strategic position with in Ethiopia's Industrial Development Strategy. To this end, the GoE has formulated the first MSE development strategy in 1997, including establishing institutions to implement it (Assefa et al., 2014). The strategy identified priority business sectors for intervention such as catering, garments, metal and wood work, agri-businesses, agriculture, construction, small scale exporters and tourism and start-up and expansion firms (MoUDHC, 2016). Following the strategy document, the GoE has developed the Federal Micro and Small Enterprise Development Agency (FeMSEDA) in 2008 (Abagisa, 2021). The regional states have also developed related strategies based on their local context collaborating with the FeMSEDA. FeMSEDA is mandated to formulate policies and coordinate their implementation (Abagisa, 2021). The 1997 MSED strategy was revised in 2011 in order to address some of the weaknesses, such as lack of plan, resources, monitoring and evaluation and coordination (MoUDHC, 2016).

The key areas for MSED intervention include human capital and technology development policy (focus on the TVET system), industrial extension services through TVET centres' access to finance (financial literacy, micro finance, guarantees, etc.), access to capital and working premises (affordable premises, etc.), market development (outsourcing, franchising, markets, bazaars, etc.), one-stop service policy (e.g. registration, licensing, access to finance, etc.) and support provider policy and favourable business environment policy (MoUDHC, 2016; Pinto, 2019). The MSED strategy involves the participation of many institutions at federal, regional and local levels. The former Federal Micro and Small Enterprise Development Agency (FeMSEDA) has been replaced by two other institutions (i.e. the Federal Small and Medium Manufacturing Industries Promotion Authority and the Federal Urban Job Creation and Food Security Agency), Federal TVET Agency (IES/TVET institutions as well as the Micro Finance Institutions (MFI) (MoUDHC, 2016). The MSE institutions at the national and regional levels focus on the delivery of support programs (i.e. access to finance, construction of working premises, marketing support, extension services, technology transfer and training). For the unemployed youth, programs focus on job opportunities to help them generate savings to start an MSE and assistance to start a business provided by the One Stop Service Centres (Pinto, 2019).

The types of government supports are categorized into three stages (Abagisa, 2021). At the start-up stage, the government supports individuals to organize themselves into groups and facilitate business licensing activities, developing business plans, provision of working premises and business start operations. At the second stage, i.e. growth stage, entrepreneurs are supported with finance, skill and technology development training, linkage with other businesses and market opportunities and provision of production and market centres. In this stage, entrepreneurs are supported on effective use of inputs, competitiveness (price, quality and supply), sustained profitability, increase in assets and manpower, use of book-keeping system, etc. In the maturity stage, the government supports enterprises, makes additional investment and meets the conditions for graduating to the next higher level (Abagisa, 2021; Pinto, 2019). In this stage, the government provides supports that help MSEs boost their competency. The government also provides tools and material lease that

can help MSEs transfer from micro to small and from small to medium enterprises (Abagisa, 2021; Pinto, 2019).

Experience shows that while many MSE start-ups survive, many others fail in a few years leaving only a small percentage to grow into medium and large enterprises (Pinto, 2019). Nevertheless MSE operators still serve as the most important pool of growth-oriented investors engaged in developing entrepreneurial attitudes and skills (MoUDHC, 2016). The MSED strategy was successful from diverse perspectives. Regarding policy guidance and regulation, a new strategy is adapted in 2011 with the objective that the sector plays a role in creating job opportunities and alleviating poverty. To support the sector to play its role, organs accountable to enhance the expansion of MSE sector were established at various levels (MoUDHC, 2016). Directives on accessing market priorities on government programs and on MSEs production and sales and display centres have been implemented, and working premises and credit to growth-oriented sectors have been arranged as well (Pinto, 2019). As such, there has been a notable development in the quantity of MSEs and the degree of employment opportunities generated by the MSE sector in the last two decades (MoUDHC, 2016). Similarly, the inclination of young graduates of tertiary education to self-employment has increased (Abagisa, 2021; Pinto, 2019). Although improvements have been registered during the last decades, the performance of MSED programs is very limited. The current problem of informal workers and unemployed youth in the country especially among the youth suggests that the MSE sector could be an attractive route in creating new jobs (Abagisa, 2021; Pinto, 2019).

Methodology

Description of Study Cities

The study focused on four, fast-growing cities in Ethiopia are as follows: Addis Ababa, Adama, Bahir Dar and Hawassa (see Fig. 1 below). According to the 2007 population and housing census, the population of Addis Ababa was 3.4 million with an annual growth rate of 3.8% (out of which roughly 40% is attributed to rural–urban migration (CSA 2008). UN-Habitat estimates that this number will continue to rise, reaching 12 million in 2024 (UN-Habitat, 2008). In 2015, Addis Ababa accounted for 19% of the urban population in Ethiopia. This share, however, is expected to reach 11% by 2035. Addis Ababa's economy is growing annually by 14%. The city contributes approximately 50% of the national GDP (MoUDC, 2015). This shows the strategic role of the city on the overall economic development of the country. Addis Ababa is the main centre of economic activity. It generates 28% of national GDP and is the main recipient of public and private investment. Moreover, it has the highest concentration of high value-added industries and logistics sectors and hosts the majority of firms' headquarters (MoUDC, 2015).

Adama city is located in Oromia National Regional State at a distance of 100 km from Addis Ababa. According to the 2007 Census of Ethiopia, Adama has a total population of 220,212 with an annual growth rate of 3.8% (CSA, 2008). The total population of Adama city was projected to be 369,947 in 2017 (Terfa et al., 2019).

The city enjoys close proximity to a number of different tourist destinations in Ethiopia, such as Awash National Park, Lake Zewaye and Sof-Omar Caves. It is also defined by its significant economic development potential, with investments being made in manufacturing, banking, agriculture and tourism, especially, wind energy production (Terfa et al., 2019). Bahir Dar is the capital city of the Amhara Region and is located at a distance of 565 km North of Addis Ababa. It is the 3rd largest city in the country. With a population of 170,000 (CSA, 2008), Bahir Dar is the largest city and typical of a large number of very fast-growing mid-size towns throughout Africa (CSA, 2008). The city is home for historic monasteries, charming lodges, exotic fish markets, beautiful lakes and the famous Blue Nile Falls (Tafesse, 2016). In 2012, Bahir Dar has received UNESCO's cities for peace Prize for managing the problems of rapid socioeconomic developments.

Hawassa city is located 270 km South of Addis Ababa. It is found on the shores of Lake Hawassa which is one of the Great Rift Valley lakes. Hawassa is the capital of the Southern Nation Nationalities and People's Region and the newly formed Sidama Region (Gedecho, 2015). The city's population is more than 225,700 people (CSA, 2013). Hawassa is the second diverse city in terms of population ethnicity next to Addis Ababa. Adama and Hawassa are known for weekend breaks for people from Addis Ababa and surrounding areas. They are also common choice for conferences and work events as they are located near Addis Ababa. Adama is indeed the first main stop along the country's newly restored railroad line and therefore represents an important site of both industrialization and urbanization. Bahir Dar is also the first stop on the historic north circuit of Ethiopia making it to be one of the leading tourist destinations in Ethiopia (OECD/PSI, 2019).

Data and Methods

This research is based on a qualitative study in four cities of Ethiopia selected based on the largest share of informal sector workers and unemployed youth (OECD/PSI, 2019). The study follows a case study design. The targets of the study are unemployed youth and those engaged in the informal sector. The unit of analysis is individuals. The unemployed youth were contacted because they can give clear reason as to why they remain unemployed despite the presence of MSED programs. Indeed, the unemployed youth are those without a paid job but available to work whereas the informally employed refers to those who are self-employed but work informally. From informal workers, emphasis is given to street vendors as they represent the most visible form of informal sector workers in the country. Data were collected from primary sources. The primary sources of data include key informant interviews (KII) and focus group discussions (FGDs), which investigated the informants' attitudes, practices and experiences of MSED. The guidelines were also designed to get information on the challenges that the youth in particular are unable to join MSED programs and associated issues.

Persons contacted for KIIs and FGDs included MSED officials, unemployed youth, street vendors, the youth who are participating in MSED programs, boutique owners, traffic and code enforcing police and customers of street businesses. The

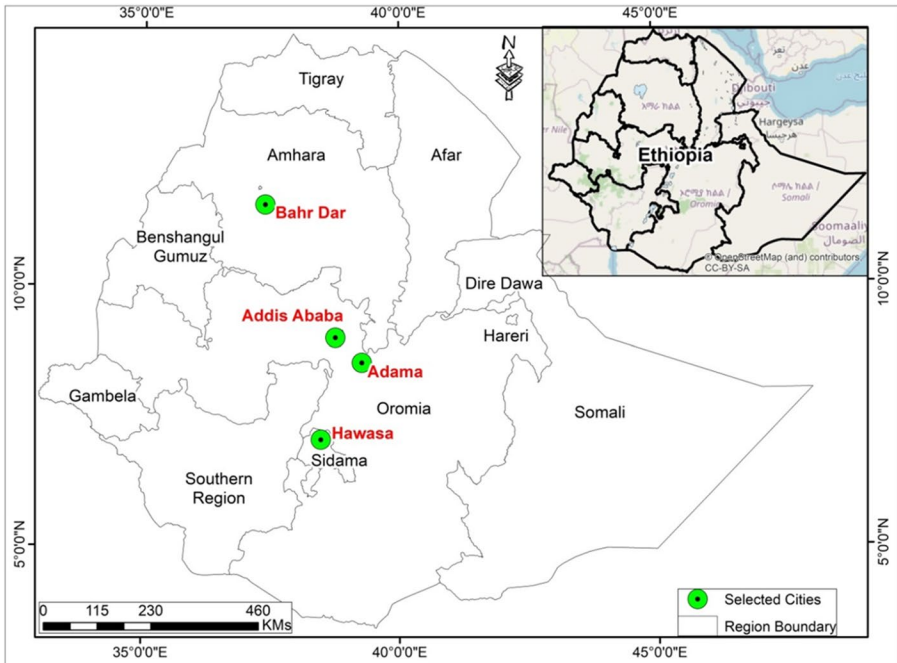


Fig. 1 Location map of the study cities

KII and FGD participants were selected using purposive and snowball sampling techniques and on the basis of their knowledge and experience related to MSE and entrepreneurship programs. A total of 75 key informants (22 in Addis Ababa, 18 in Adama, 18 in Bahir Dar and 17 in Hawassa) were interviewed in the four cities. In addition, 8 FGDs (2 in each city) each comprising of 6–10 members (a total 59 participants) were organized. Gender wise, key informants comprised of 42 males and 33 females. Among the FGD participants, 22 are females and 37 are males. KIIs and FGDs were conducted in Amharic language at the interviewee's offices, home or workplace and in open spaces and convenient places for interviewees. Interviews and FGDs were audio-recorded. The data were finally classified, transcribed and presented in a narrative form following narrative analysis.

Results and Discussion

Despite the existence of MSE development strategies and the establishment of MSED agencies, the degree of recognition and support provided by the government of Ethiopia to youth entrepreneurship interventions is inadequate and many of the unemployed youth and informal workers in general and SVs in particular are still out of reach of the program (Kebede, 2015; Mulu, 2009). Discussions with the key informants and FGDs reveal that there are multiplicities of constraints that prohibit youth's (unemployed and those in the informal sector) involvement in MSED

programs. These constraints are related to political involvement by both the government and the ruling party, burdensome regulatory and institutional requirements of MSED programs, administrative constraints, business licensing and registration bureaucracies, lack of key business services, corruption and favouritism, lack of entrepreneurship education, and reluctance by the youth to take part in MSED program, among others.

Politicization of Entrepreneurship

In less-developed countries (LDCs) like Ethiopia, providing employment and engaging the youth in MSED programs have long been the key tools for politicians to mobilize and appoint segments of the population into the political projects and strategies (Di Nunzio, 2014a, 2014b). This study comes up that politicization of entrepreneurship is the frequently raised bottleneck for youth's lack of involvement in MSED programs. The youth reported that the government and the ruling party are implementing MSED programs. Government offices at various levels are directly involved in the provision of the necessary business supports to MSEs.¹ NGOs and international organizations are the sources of funds for supporting enterprises. The money obtained from NGOs is partially or entirely managed by the government system and through the operational modality of the ruling party.² Beneficiaries of MSE programs are indeed identified by government officials. The problem is that to join MSED programs, the youth should be a member of the ruling party.³ Let alone involvement entrepreneurship programs, public employment opportunities are arranged for those who are members of the ruling party. So as long as you are not a member of the ruling party, no one gives you a chance to benefit from MSED programs and get employment in the public sector.⁴

Following the 2005 general election of Ethiopia when EPRDF party lost election votes in major cities, the establishment of youth and women associations (Leagues and the Forums) became important. The leagues and forums are directly linked to the ruling party. Theoretically, their aim is addressing the socio-economic and political problems of youth and women. But practically, they are meant to get support from the youth and women for the ruling party.⁵ The league and forums are the first channels to access training and job opportunities for the youth. The government uses these structures to patron the youth not to be involved in activities against the government. MSED offices, in most cases, use these structures to select beneficiaries of MSED programs. Individuals linked to the ruling party can get benefits of the MSED programs. MSED offices are also being used by the government and ruling party to expand the pool of youth linked to them.⁶

¹ FGD conducted in Addis Ababa, 04 February 2019.

² Interview with unemployed youth in Hawassa, Female, 23 years old, 14 May 2019.

³ FGD conducted in Adama, 24 March 2019.

⁴ Interview with unemployed youth in Addis Ababa, male, 23 years old, 09 February 2019.

⁵ FGD conducted in Addis Ababa, 05 February 2019.

⁶ FGD conducted in Bahir Dar, 20 April 2019.

To get involved in MSED programs, the youth have to go to different offices such as Micro and Small Enterprises Development Office, Microfinance Office, Trade and Industry Bureau, and Housing and Construction Bureau. The heads of these offices are representatives of the ruling party. When one applies to get involved in MSED programs, his/her application files need to be scrutinized by the officials of these institutions to check if you are an affiliate of the ruling party or not.⁷ Supporting this statement, an interviewee in Addis Ababa⁸ has the following to say:

In the year 2015, I, along with my enterprise groups, submitted application to get the benefit of MSED programs. Unfortunately, as most of the enterprise group members were not members of the ruling party, our application was rejected. Due to this, we were unable to get involved in MSED programs. Now, as you can see me, I am engaged in street business with little amount of money borrowed from my friends.

Moreover, an informant in Addis Ababa stated⁹ the following:

When we went to the nearby MSE development office to participate in MSED programs, the first question raised was whether we are members of the ruling party or not. As some of the enterprise groups were not members, the MSED program officials requested us to be a member of the ruling party. As we do not have any other chance of getting start-up capital, we accepted membership of the ruling party (i.e., EPRDF). Following our membership, we were allowed to participate in MSED programs.

Key informants further reported that those beneficiaries of MSED programs and those who are active in the politics through membership in youth forums and leagues are benefiting out of entrepreneurship programs and are successful in their business. Pertaining this, an informant in Bahir Dar¹⁰ explained as follows:

I know a friend of mine who established enterprises two or three years ago. He has started his business using his party connections. As they are active in politics and get the politicians daily, they obtain continuous business development services from the government. For example, he was able to get working shades in area with easy access to markets and also allowed to easily advertise and sell his products at bazars during holidays. He also gets priority to work in government projects without any competition with other entrepreneurs.

The aforementioned FGDs and interviews show that the government through its governance structure is controlling the activities of MSED programs. The results also indicate that there are discriminatory practices by the government based on party affiliation. Such discriminatory interference of the government on MSED

⁷ Interview with a street vendor in Adama, Female, 27 years old, 18 March 2019.

⁸ Interview with a street vendor in Addis Ababa, Male, 24 years old, 08 February 2019.

⁹ Interview with beneficiary of MSED programs in Addis Ababa, female, 28 years old, 10 February 2019.

¹⁰ Interview with beneficiary of MSED programs in Bahir Dar, male, 31 years old, 17 April 2019.

programs is in contradiction of the value of opening avenues of social improvement for the marginalized, but it actively reinforced patterns of social differentiation and pre-existing conditions of exclusion based on political merit. This has indeed discouraged many of the youth not to get involved in youth entrepreneurship interventions. Yet, there are not enough spaces for the youth who are party-affiliated.

Such types of discriminatory practices in MSED programs were raised to government officials. The officials explained the shortcomings by accusing the youth as they lack vision. The youth are careless in their life. Most of them do not have plans for the future. Let alone the unemployed ones, those youth who are involved in MSED are not successful in their business due to lack of determination and spirit of entrepreneurship. Many young people are not interested in working hard. They need easy and short ways to earn money. What the youth need is immediate profit. As they do not have experience in business, they get easily frustrated because intensive work is needed to run enterprises.¹¹ This result indicates that the officials are blaming the youth for their lack of success in entrepreneurship. Government officials blame the unemployed youth as responsible for their poverty and exclusion (Di Nunzio, 2015). Similarly, by referring to their lack of entrepreneurial skills and spirit, government officials blame the youth for the persistence of their conditions of marginality.¹² Hence, blaming the youth for their continued marginalization and exclusion shows the unfounded picture that the officials hold on the youth. This blaming culture is not good to create a harmonious relationship between the government and the youth.

Regulatory and Administrative Concerns

The MSED strategy of Ethiopia has put in place many regulatory and administrative structures, which, in one way or another, can be bottlenecks for promoting youth entrepreneurship. Regulatory barriers consist of unsuitable requirements of MSED programs and originate from a government policy-making environment that does not appreciate the need to keep regulatory burdens low (USAID, 2005). Regulatory barriers for youth entrepreneurship include the involvement of many institutions in MSED implementation, priority business areas identified by the government, the heavy hand of the government, lack of discussion with the youth while conning regulations, centralized and rigid approval procedures for even small activities, frequent restructuring of institutions and MSED implementation manuals, among others. Such regulatory barriers can make it costly or cumbersome for the youth to launch and expand their businesses. Inadequate discussions with the youth when designing regulations, lack of understanding of the full range of possible government interventions and a tendency to shift the burden of providing social goods from government onto enterprises are other bottlenecks of entrepreneurship. Pertaining to this situation, FGDs conducted in Adama¹³ show that unemployed youth and informal

¹¹ Interview with MSED official in Addis Ababa, Male, 40 years old, 07 February 2019.

¹² Interview with a street vendor in Hawassa, female, 30 years old, 19 May 2019.

¹³ FGD conducted in Adama, 23 March 2019.

workers remain informal in order to avoid burdensome government regulations. They stated the following:

The GoE has identified priority business areas for MSE development programs. These sectors include, the manufacturing sector, the construction sector, urban agriculture), trade sector and the service sector. The youth who want to be embraced in MSED programs should choose among these sectors. However, the priority areas set by the government are not in line with our interests and preference. We do not have the chance to choose our own businesses.

Being asked about the reasons why youth do not join MSED programs, an informant from Bahir Dar¹⁴ stated the following:

After graduation, I was unemployed for three consecutive years. One day, I met my friends who have graduated from Universities and discussed to start our own business. Then we developed a business proposal and form enterprise groups. The proposal was to open electronics selling and maintenance shop. To do so, we went to the nearby MSED office to get their services. We asked the officials to allow us to engage in activities we used to work but they refused us for the proposal we had is not in line to the priority areas. Officials advised us to choose among the priority business areas set by the government. However, the business areas set by the government need huge investment and hence we cannot get the return over a short period of time. For this reason, we failed to participate in MSED programs. As such, we all are now vending on the streets except one of our friend who migrated to South Africa.

Similarly, an informant in Addis Ababa¹⁵ stated the following:

The government follows a top-down approach in designing and implementing MSED programs. After the politicians and office holder civil servants at the top discuss with each other, policies and regulations are distributed to the lower level administration without the consultation of the target groups of the program, i.e. the youth. The feelings, priorities and interests of the youth are not addressed. This, in one way or another, has discouraged the youth not to take part in MSED programs.

Moreover, a youth informant in Hawassa¹⁶ stated the following:

The identified priority business areas set by the government are not complete of the whole range of Micro and small businesses that the youth need to be engaged in. There are many other business areas in which the youth need to work with.

From the above FGD and interview result, we can learn that growth-oriented business areas identified by the government, absence of consultation with the youth

¹⁴ Interview with a University graduate street vendor, female, 25 years old, 17 April 2019.

¹⁵ Interview with unemployed youth in Addis Ababa, male, 26 years old, February 15, 2019.

¹⁶ Interview with a street vendor in Hawassa, female, 30 years old, 19 May 2019.

while designing regulations, stringent regulations of MSED programs and lack of understanding of the full range of possible MSED interventions are among the barriers of formalizing the informal sector and engaging the youth in MSED programs. Pre-setting priority business areas means that the youth do not have the possibility to take what they are interested to perform. In this regard, an interview conducted in Bahir Dar¹⁷ reports the following:

As I am a University graduate, I need to be engaged in consultancy services of the education sector. I also want to open kindergarten and elementary schools by forming groups with my friends and other interested in the education sector. But, this type of service is not among the priority areas set by the government.

Informants also argue that the priority business areas set by the government has led to a problem of crowding out of enterprises where entrepreneurs copy each other from the priority areas, thus increasing competition and shrinking market and lowering profit to subsistence levels. In this regard, FGD conducted in Addis Ababa¹⁸ reveals the fact as follows:

As the business areas for MSED programs are fixed, we see the similar businesses here and there. Opening of small shops, textile and garment, wood and metal works, food processing, construction, and municipal activities are the dominant business types supported by MSED programs. These businesses are found here and there in the city. Similarity of businesses has resulted in competition among entrepreneurs for the same products and services. Due to this, many entrepreneurs are not getting the profit they expect and even some are forced to close their businesses as they are unable compete with others.

Another regulatory requirement that the youth are expected to fulfil to participate in MSED programs is that they have to show the identity card of the cities where they live. Unfortunately, since the majority of informal workers and unemployed youth are migrants, they cannot get the identity card of the Addis Ababa city administration, at least in short run. Even the landlords of the rented houses are not willing to help migrants to process ID card for tenants using their house numbers.¹⁹ Involvement in MSED programs is not allowed on individual basis unless it is a privately limited company (PLC). The common method used by the government is organizing youth into enterprise groups. Forming enterprise groups is indeed another problem for the youth as the migrant youth do not trust each other as they do not know each other. In this regard, one key informant in Hawassa²⁰ explains the situation:

When the migrant youth secure ID card, most of them do not participate in the MSE programs as they are unable to form enterprise groups of five to ten individuals as most of us are migrants we do not know and trust each other. Group

¹⁷ Interview with unemployed youth in Bahir Dar, female, 29 years old, 06 February 2019.

¹⁸ Interview with unemployed youth in Addis Ababa, male, 26 years old, February 15, 2019.

¹⁹ Interview with a University graduate street vendor in Hawassa, female, 25 years old, 17 April.

²⁰ FGD conducted in Addis Ababa, 05 February 2019.

formation does not address the needs and priorities of the youth. Group formation is serves as collateral and members of the group are forced to pay for an individual who defaults to pay credit.

Youth's reluctance to participate in MSED programs is also attributed to the involvement of several bodies in the execution of the MSED program and the failure of youth to go through the requests of all these institutes. For example, the MSED bureaus are responsible for organizing and screening beneficiaries and providing business development plans. The microfinance institutions (MFIs) are accountable to arrange financial services. The technical and vocational education training institutes (TVETs) provide business management training. While the trade and industry bureaus are involved in trade and investment licensing, the design and construction bureaus are accountable for the design and construction of working sheds. Applicants who want to participate in the MSED programs should, therefore, obtain endorsement from all these institutions. Going through all the bureaucracies of these institutions takes more than a year and it is beyond the control of street vendors. Even there is poor coordination among these institutions.²¹

In addition to regulatory issues, administrative constraints are another concern for youth in joining MSED programs. Administrative barriers are the bureaucratic requirements that flow from regulations, their implementation and enforcement (USAID, 2005). A regulation may be well designed, but its true effect comes from the way in which it is administered. Some of the administrative problems mentioned by the FGDs include unnecessary and lengthy paperwork, service incompetence leading to delays in decision-making from business proposal development to licensing and getting finance, working shades; low levels of training capacity and lack of motivation among MSE workers and the problems of taking every minor decision to upper level of the organizational ladder and abuse of position linked to corruption.²² Pertaining to administrative problems, an informant from Bahir Dar²³ has said the following:

MSED program implementation involves many institutions. In each of the institutions, there are many paper works and forms that one is expected to complete. After completing the paper requirements in each institution, getting decision takes longer time than expected because the final decision is made by the higher level officials. Frontline desk workers who are accessible to applicants do not have the mandate to decide. The problem is complicated when you are asked for bribes to complete tasks in each of these institutions.

Additional administrative barriers include poor ICT technology usage to manage files, limited resources capacity, a desire to create opportunities for corrupt behaviour and lack of understanding the effect that such barriers have on MSED programs.²⁴ Corruption is widespread in Ethiopia and is a major factor discouraging

²¹ FGD conducted in Addis Ababa, 05 February 2019.

²² FGD conducted in Addis Ababa, 04 February 2019.

²³ Interview conducted in Bahir Dar, female, 21 years old, 20 April 2019.

²⁴ FGD conducted in Addis Ababa, 05 February 2019.

youth entrepreneurship, as businesses avoid registration and paying taxes in order to minimize contact with corrupt public officials. Informal workers have to pay bribes to stay in street businesses and the bribes to the networks of officials are necessary and mandatory to continue working on the streets.²⁵ In addition, for getting credit for business proposals and getting business license as well as securing working sheds, the youth have to pay bribes for officials.²⁶ The code enforcing police officers and those officials coordinating MSED programs are collecting thousands of Birr in bribes from street vendors and, in some cases, they forced street vendors to give part of their incomes from street businesses as a protection fee against the raids.²⁷

Uncertainly, arbitrary enforcement and unreliable access to justice that come with corrupt environments are also deterrents for participation in MSED programs and to formalize informal activities. Indeed, corruption erodes the trust that the youth can have in the government and this leads informal entrepreneurs and unemployed youth to conclude that their long-term prospects in MSED programs are low. Corruption has a negative impact on youth because it imposes an additional business cost for business start-up and makes them less successful in businesses. Another problem mentioned by the youth is the time spent to decide on an application for funding enterprises. In many cases, the time spent on preparing and processing an application to MSED programs can reach a year or more, which is a very long time for a potential unemployed young entrepreneur to start and earn income.²⁸

From youth focus group discussions and interviews, the study found the complex procedures in business registration and licensing, weak linkages between MSE's and government institutions, inadequate BDS as the major barriers for youth entrepreneurs. These barriers either directly or indirectly surge the costs of starting new business and transitioning from informal to formal.²⁹ Employment creation for the unemployed youth and enforcing formality in Ethiopia also becomes difficult due to the prevalence of weak, uncoordinated and inconsistent institutional systems of MSED programs, which reduces the costs of remaining unemployed and informal. Recurrent institutional structuring of the MSED program is another bottleneck.³⁰ Indeed, high-interest rate and lack of sufficient micro-lending are critical constraints to begin and expand businesses. Linkages with formal firms and information on market and taxation are not given attention by the administrative and regulatory frameworks. This has made the youth not to be successful in their business. Hence, the youth who already start businesses cannot be models for those who want to start their own businesses.³¹

²⁵ Interview with a boutique owner in Addis Ababa, 42 years old, 13 February 2019.

²⁶ Interview with a street vendor in Addis Ababa, male, 24 years old, 08 February 2019.

²⁷ Interview with a street vendor in Hawassa, female, 30 years old, 19 May 2019.

²⁸ FGD conducted in Adama, 23 March 2019.

²⁹ Interview with unemployed youth in Bahir Dar, female, 23 years old, 23 April 2019.

³⁰ FGD conducted in Addis Ababa, 05 February 2019.

³¹ FGD conducted in Hawassa, 13 May 2019.

Problems on Entrepreneurship Education

In Ethiopia, there is high unemployment of graduates of tertiary education. This is in part attributed to lack of relevant entrepreneurship education training among University and TVET graduates (Issa & Tesfaye, 2020). The educational system in Ethiopia does not prepare the youth with basic skills required for the world of work (Issa & Tesfaye, 2020). Youth-targeted interventions such as provision of marketable skills and training of the unemployed youth that can help their transition from school to work through self-employment are lacking. In this regard, focus group discussants in Adama complain that the educational system of Ethiopia does not provide entrepreneurship skills that are pertinent to the existing work environment. TVET and University curriculum is filled with theoretical packages and did not comprise technical and vocational skill trainings.³²

A MSED official in Bahir Dar also stated that GoE has designed and expanded TVETs to fill the technical and vocational gap of youth. Despite the efforts made by the government by establishing many TVET in different parts of the country, there are problems in specific technical skills, technology and business skills and training on entrepreneurship and productivity improvement.³³ A youth informant in Hawassa also stated that sometimes, there are short-lived trainings designed for the youth concerning MSED programs. But these trainings are generic and there are no specific and tailored technical and soft skill trainings to meet the labour-market demand and in turn improve employability among the youth.³⁴ Let alone starting businesses, the TVET and university graduates are not qualified in their areas of training. The academic studies of the youth are not linked with work-oriented entrepreneurial skills.³⁵

Likewise, FGD panellists in Hawassa stressed that entrepreneurship skills did not form integral part of the educational system in Ethiopia. The entire educational system is not oriented towards practical teaching. When sometimes youth intend to become entrepreneurs and are equipped with passable technical skills, the lack of soft skills may betray their intentions to be engaged in MSED programs.³⁶ FGD panellists in Adama further emphasized that if the youth need to be involved in MSED programs, they should get basic business education, on aspects such as marketing, bookkeeping, resource management and estimating market trends. The youth lack employment experience and had little opportunity to gain real-world work experience. Many of youth entrepreneurs who start business remain unsuccessful as they had problems with skills such as cash flow, market research and responding to fluctuations in the business environment.³⁷

³² FGD conducted in Adama, 24 March 2019.

³³ Interview with MSED official in Bahir Dar, 17 April 2019.

³⁴ Interview with unemployed university graduate in Addis Ababa, female, 26 years old, 12 February 2019.

³⁵ Interview with unemployed youth in Bahir Dar, female, 29 years old, 06 February 2019.

³⁶ FGD conducted in Hawassa, 14 May 2019.

³⁷ FGD conducted in Adama, 23 February 2019.

Weak Business Development Services

The available entrepreneurship literature shows that having more services to entrepreneurs such as finance, registration of land titles, infrastructure, public procurement opportunities and management support available for formal businesses attracts unemployed youth and informal workers into entrepreneurship schemes (Ahmed & Ahmed, 2021). Increasing the possible paybacks for formal enterprises can also increase tolerance for the compliance costs of rules and regulations. But in the study cities, the lack of adequate key BDSs is mentioned as a major constraint of participation in MSED programs. Key informants in the different study cities argue that the level of support provided by the government in these support areas is inadequate. Focus group discussants in Bahir Dar³⁸ explain as follows:

Some of the BDS are provided to the youth all of a sudden for short period and get interrupted abruptly. This is because most of the services given to the youth are donor driven. When the donors stop their donation, provisions of such services are usually interrupted. In addition, information on BDS is inadequately disseminated and when the services do exist they are not easily accessible by the youth.

Likewise, an informant in Adama³⁹ stated the following:

Usually MSED officials organize trainings haphazardly. The surprising thing is that trainings are organized in the months May and June to settle unused government budget. They are not truly meant to support the youth to get knowledge and skills on entrepreneurship.

Youth entrepreneurs also face a problem of access to suitable working premises for their enterprises. In light of this, focus group discussants in Adama complained that there is lack of legal access and title to urban land and work sheds. There is shortage of any kind of premise and this is a significant barrier to the growth or even survival of businesses. The bureaucracy involved in securing land use or work shed permissions is rampant and unmanageable. When entrepreneurs secure work sheds for their business, working sheds are located in remote areas where access to market/customers is practically difficult. There is also ferocious competition in the markets for positions.⁴⁰

Young entrepreneurs require tailor-made training and counselling pertinent to their particular start-up situation, their business and the sector they operate in. There is a lack of on-the-job training focusing on technical aspects of starting up a business. The youth seem to be underrepresented as a target group of micro credit programs. The youth have limited life and work experience. As such, they demand different treatment in terms of business training and counselling. But authorities who are entitled to support the youth are often not sensitive to these situations. The

³⁸ FGD conducted in Bahir Dar, 20 April 2019.

³⁹ Interview with a street vendor in Adama, female, 30 years, 18 March 2019.

⁴⁰ FGD conducted in Adama, 23 March 2019.

provision of mentoring programs that match experienced youth entrepreneurs, business leaders and professionals with young entrepreneurs is lacking.⁴¹

Limited access to finance is another problem that the youth face in joining entrepreneurship programs. Facilitating access to formal financing channels such as micro-credit is an overriding step to encourage informal entrepreneurs and unemployed youth to shift towards more formal economic activities. Being asked about the provision of microfinance programs, focus group discussants in Hawassa⁴² argue as follows:

Though microfinance services are part of the MSED programs, MFIs are serving the interests of the rich not the poor in a real sense. Credit and other necessary business services are provided to those who are member of youth league and other forms of party affiliated groupings.

Likewise, focus group discussants in Addis Ababa stated that the government does not have clear policies for formalizing the informal sector and has not shown how it is going to incentivize informal traders. Access to bazars and exhibitions can enable the youth to present their product and services and to find clients, business partners and networks. Facilitating access to trade fairs and exhibitions as one area of support for youth entrepreneurs by the government is yet discriminatory.⁴³ Moreover, youth stressed the difficulty of reaching pertinent MFIs because of their location and the limited number of branches available for seeking out loan officers. MFIs in Ethiopia provide generic products for all types of businesses and people and fail to provide tailored services for the youth. Even the interest rates of MFIs are exceedingly high compared to commercial banks.⁴⁴ Being asked about high interest rate, an official from Bahir Dar MSED office stated that the reason why the interest rates are high is because MFIs borrow from banks or from other donors with high interest rates then spend some money on high costs and to protect against high risk of default and also for supplemental support products. These additional costs made the lending interest rates of MFIs to be high.⁴⁵

Weak Institutional Systems

Institutional systems in place to manage youth entrepreneurship programs are weak. The interview results correspondingly show that the prevalence of informal activities is related to an environment characterized by weaknesses in institutional system areas such as taxation and other related problems. Taxation as a barrier to formalization is closely linked to business registration, because formal registration is often the means of entry into the tax system. In Ethiopia, there is no well-functioning taxing system. The tax system is highly personalized instead of being institutionalized.

⁴¹ FGD conducted in Hawassa, 14 May 2019.

⁴² FGD conducted in Hawassa, 13 May 2019.

⁴³ FGD conducted in Addis Ababa, 04 February 2019.

⁴⁴ FGD conducted in Addis Ababa, 05 February 2019.

⁴⁵ Interview with MSED official in Bahir Dar, 17 April 2019.

Sometimes the tax levied on youth entrepreneurs is greater than their working capital.⁴⁶ Indeed, as discussed with MSED bureau officials of the four cities, fear of high taxes and complicated financial processes has prevented informal sector operators to join MSE programs and formalize their businesses. This tendency has also created frustration among unemployed youth to join MSED programs.⁴⁷

Regarding taxation, a study by the World Bank (2015b) shows that taxation levels are negatively correlated with the size of the informal sector, such that countries with higher taxation levels have higher informal shares of the total economy. Extensive requirements for registration and licensing of businesses are also barriers faced by the youth. The bureaucracy involved in registering and licensing informal businesses and new entrepreneurship initiatives is a key barrier of entrepreneurship. As claimed by the youth and MSED officials, the costs of registration and the time involved in dealing with the bureaucracy are major institutional problems to join MSED programs. Lack of clarity about licensing requirements is also a hindrance to formalize business start-up in the study cities. As reported by youth street vendors, government authorities' distorted awareness on informality is another challenge for formalization and participation in MSED programs. In this regard, an interviewed youth in Addis Ababa⁴⁸ claims as follows:

We are not treated as part of the general public and this is one institutional problem. We are always considered as persons involved in cheating and bribing the public. Relating the street vendors to criminal activities or tax evasion is not a good approach to formalize informality. There is also lack of information regarding the heterogeneity of the informal sector and MSED interventions do not always account for this diversity.

Furthermore, the youth expressed that the government did not organize the informal sector into clusters based on the services or products they supply or produce. Government's support in business development and training services to the sector and mechanisms to protect and promote them is very minimal. This, in one way or another, discourages the initiative of the youth to be engaged in entrepreneurship programs.⁴⁹

Youth-Related Problems

Unemployed youth who graduate from Universities and TVET courses perceive involvement in MSE as underestimating their status after obtaining a diploma or bachelor's degree. The study found that the majority of unemployed youth graduates are looking for white-collar jobs instead of joining MSED programs. Related to this, one key informant in Hawassa⁵⁰ said the following:

⁴⁶ FGD conducted in Addis Ababa, 05 February 2019.

⁴⁷ Interviews conducted with MSED officials of the study cities.

⁴⁸ Interview with a street vendor in Addis Ababa, male, 29 years old, 12 February 2019.

⁴⁹ Interview with a youth involved in MSED programs in Adama, Female, 26 years old, 16 March 2019.

⁵⁰ Interview with unemployed youth in Addis Ababa, male, 26 years old, 13 February 2019.

I have attended my education for 15 years. After wasting 15 years of my life in education, why do I get involved in entrepreneurship programs? To be engaged in MSE programs, I should not have wasted all these years in education. I do not need to be engaged in wood and metal work, carpentry, and cobble stone works set in place by the government. What I need is to be employed as a social worker as I am a graduate of social work from Addis Ababa University.

Similarly, unemployed youth in Hawassa⁵¹ stated the following:

I could not get courage to get involved in MSED programs. As I hold BSc in Computer Science, I want to get employed in public or private companies and work as computer technician. I am not a businessman at all.

The above interview results indicate that the youth who have graduated from universities are aspiring to be white-collar workers either in public or private companies rather than being self-employed by creating their own businesses. Although the youth are desperate from being unemployed, they are not active in knowing the business setting in Ethiopia. In addition, the lack of information about the nature of starting and running businesses is compounded by the lack of success stories that highlight the experiences of successful entrepreneurs. Little information is available about the successes of MSED services and, in particular, how these support mechanisms have impacted youth employment is limited. One interview informant from Bahir Dar⁵² stated the following:

We are isolated from the entrepreneurship environment. We do not have business networks that can help us to start business. Those people who started their own business through government support programs are not willing to share their experiences with a fear that new start-ups can be potential threats for their business. As such, the youth having no business know-how cannot depend on former clients or on established supplier network. The failure rate of youth-operated enterprises is indeed very high and such failure is a demotivating factor for the youth to be engaged in MSED programs.

Likewise, focus group discussants in Adama⁵³ reported that the youth are not aware of the existing types of entrepreneurship paths, financial modalities and other support programs of GOs and NGOs. Dissemination of information regarding entrepreneurship is limited or done through party-affiliated leagues and forums. The youth do not make use of entrepreneurship advisory services funded by GOs and NGOs. In other cases, the services are not used by the youth as they are not designed in line with their particular needs and most of the information disseminated is political in nature. Besides, credits for entrepreneurship requiring less or no collaterals, as the dominant lending strategy, are group lending, often charge significantly higher interest rates and fees.

⁵¹ Interview with unemployed youth in Hawassa, Female, 28 years old, 17 May 2019.

⁵² Interview with a resident in Bahir Dar, Male, 35 years old, 18 April 2019.

⁵³ Focus group discussion conducted in Adama, 24 March 2019.

As claimed by MSED officials interviewed in Hawassa,⁵⁴ the main constraint is the reluctance of youth to participate in MSED programs. The MSED program officials reported that the youth tend to suspect that being engaged in MSED programs would open them to much inspection by the government for taxes and other legal procedures that would affect their income generation. Since most of them are run by individuals and families that view adhering to labour laws as a burden, they would rather remain informal.

Conclusion and Policy Implications

In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalizing world has attracted increasing policy and scholarly attention. Although the vital role of entrepreneurship in driving economic growth and job creation is well noted, there has been little effort to look at it from the angle of the youth. This study investigates why unemployed youth and those engaged in the IS remain informal despite government interventions through MSED programs. The study has shown that politicization of entrepreneurship, lack of effective regulatory and administrative frameworks, absence of good governance, weak business development services, lack of entrepreneurial education, and lack of access to improved financing systems, technology and infrastructure, among others, are critical barriers to youth entrepreneurship programs in Ethiopia. The study concludes that fostering inclusive development requires the development of productive capacities and structural transformation, the creation of decent jobs, embracing of informality and the adoption of inclusive policies that give youth an opportunity to participate in and benefit from economic growth.

MSED programs need to follow a flexible approach in their service delivery and consider the needs and priorities of the youth. For instance, the government need to shift its approach to MSEs away from the practice of only supporting those organized into enterprise groups and considering the support of individual businesses that have proved capacity and indicate interest in doing business. There should also be a middle ground in the support services offered to youth doing business in a way that does not obstruct their ability to work on their own following government intervention. This indeed calls for a participatory approach, which engages the involvement of the youth, policymakers and policy implementers, governmental and NGOs in designing interventions and business development services that aim at inclusive development. To reduce the costs of rapid urbanization, policy efforts that empower and integrate rural youth are essential. The GoE needs to provide the necessary support to rural youth to stay in their communities by promoting rural entrepreneurship programs. For example, rural youth can increase agricultural production through investment in innovative, eco-friendly agricultural practices, and post-harvest methods. As agriculture is one of the most promising sectors for rural youth employment,

⁵⁴ Interview with MSED official in Hawassa, 21 May 2019.

the GoE must prioritize investments and programs in irrigation, water resource management, and improved agricultural practices in order to expand young rural farmers' capabilities to produce food and conserve the land while providing them with the skills and abilities to increase their rural incomes. The GoE should also create an enabling environment for the private sector by improving the country's weak business environment.

There is lack of coordination between institutions involved in MSED programs. Therefore, there is a need for better harmonization among institutions so that BDS and information can be better accessed by the youth. This would help youth in obtaining key business-related information and continue with an existing enterprise or expand an initiative. The entrepreneurship policies and strategies need to be more selective in the type of entrepreneurial initiatives and supports that can address the needs and priorities of the youth. Entrepreneurship education interventions have the main effect on the generation of future young entrepreneurs. Therefore, providing youth with entrepreneurial education has a positive effect on their decision to be engaged in entrepreneurial activities. Partnership and engagement with the private sector, civic society, NGOs and IDOs are critical to success and further developments in youth entrepreneurship. The GoE needs to strengthen partnership between development partners and explore ways to encourage youth to go into technological start-ups. The youth indeed need the training, confidence and support to enable them to exploit new technologies.

The establishment of one-stop-shop by MSED programs is a modern customer-focused tool to modernize business registration and thereby reduce registration costs. It also helps to reduce the time it takes to initiate and start businesses. By establishing a one-stop-shop, the youth can do all enterprise development processes at one location instead of going to several institutions here and there. All the required forms, documentations and assistance can be provided by the shop. Mentoring services are useful services and supports that can be offered to the youth. Given entrepreneurship climate which involves a multi-faceted landscape, a more effective policy environment to support young entrepreneurs requires structured coordination between government departments. Finally, given that youth are marginalized in entrepreneurship policy development, emphasis should be given by the GoE to engage the youth into the MSED policy process. The youth also need to understand entrepreneurship as an important area of job creation. The youth's engagement in businesses with career guidance services that recognize and promote entrepreneurship as a viable labour market opportunity would encourage young people to consider self-employment and business development as their career path.

Code Availability NA.

Declarations

Ethics Approval NA

Conflict of Interest The author declares no competing interests.

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