The Role of Microfinance in Urban Youth Livelihoods in Ethiopia

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Abstract

The financial sector of Ethiopia is not diversified, and the use of digital financial services is at an infant stage. One of the biggest and growing development challenges facing Ethiopia has been an increasing trend in youth unemployment. This has been driven mainly by rural-urban migration and a lack of livelihoods that have exposed youths to the risks of unsafe migration and involvement in social unrest and political instability. Expanding the access to microfinance to the youth has been recognised by the Government of Ethiopia to be one of the ways of addressing youth unemployment and building their livelihoods. This study assessed the role of microfinance in improving urban youth livelihoods in Ethiopia as this subject has not been systematically examined and there is scant information available. That is why this study was conducted to find empirical evidence.

A systematic approach was followed in assessing the state of existing youth inclusive microfinance related policies, strategies, microfinance products and services, and the role of microfinance in fostering urban youth livelihoods. The study employed a mixed research methodology with cross sectional data involving a structured questionnaire and a face-to-face interview administered to 400 participants who benefited from a regular microfinance programme, 43 key informant interview participants and 15 focus group discussions. Thematic analysis was used to analyse the qualitative data, while descriptive statistics and inferential techniques including correlation and a multiple linear regression analysis were used to analyse the quantitative data.

The results of this study revealed that microfinance had a significant and positive role in improving youth livelihoods that contributes to the achievement of Agenda 2063 as well as the Sustainable Development Goals (SDGs). The model results revealed that credit performance followed by saving performance are the most important variables that have a significant effect on youth livelihoods. With regards to youth capacity building, the overall result showed an insignificant influence on youth livelihood which highlights existing gaps in building the entrepreneurial and technical skill of the youth.

In terms of gender, the result indicates that males were associated with improved livelihood compared to their female counterparts, which has policy implications. Regarding the loan size, the result shows that the loan size had a positive and significant influence on youth livelihood that a small loan may hinder the youth from setting up viable businesses and realising the expected improvement in their livelihoods. The collateral requirement by Microfinance institutions (MFIs) is the biggest challenge that has restricted the youth from accessing higher loan size to successfully run their businesses. Accessing higher loan size is linked to the type of collateral held by the youth. As a result, financial inclusion was the lowest for those youth in the lower age category (18-24) who predominantly do not have business experience and cannot offer collateral required by MFIs.

Ethiopia has introduced a number of innovative policies, strategies and regulations that promote youth inclusive microfinance which are discussed in detail in this study. However, there are still gaps in the youth inclusive microfinance policy and strategy. These, among others, include a lack of regional focus and gender lens of the financial inclusion strategy and microfinance regulation, following a supply driven approach, the risk of mission drift, unsuccessful implementation of youth revolving fund, weak harmonisation of policies and strategies and evidence based policy making that deters the youth from fully embracing specific interventions that promote inclusive microfinance services.

In addition, despite the positive trend in the growth of Microfinance Institutions (MFIs), the study found that MFIs have a long way to go to tap into the huge demand of tailor-made financial services for the youth, including simplifying complex procedural requirements, introducing specific products and incentive schemes for the youth, promoting the use of digital financial services and enhancing the low saving culture. This hinders the youth from running successful business and benefiting from innovative continental business initiatives like the African Continental Free Trade Area (AfCFTA). While there are areas of improvement, the overall result shows positive and significant relationships between microfinance and youth livelihoods. The study proposed a comprehensive youth inclusive microfinance framework which could provide guidance in further transforming access to microfinance services for the youth in Ethiopia and generally in Africa.

Key words: Ethiopia, Youth, Livelihood, Microfinance, saving performance, credit performance, Urban

Declaration

I declare that this study contains no section copied in whole or in part from any other source unless explicitly identified in quotation marks and with detailed, complete and accurate referencing.

Signed Date. June 15, 2023

Yigrem Kassa Ebakeh

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Acronyms

ACSI	Amhara Credit & Saving Institution
ADCSI	Addis Credit & Saving Institution
AEMFI	Association of Ethiopian Microfinance Institutions
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
ATM	Automatic Teller Machine
AU	African Union
AUC	African Union Commission
CAR	Central African Republic
CGAP	Consultative Group to Assist the Poor
CVI	Constant Variance Index
DBE	Development Bank of Ethiopia
DFI	Development Finance Institution
EBC	Ethiopian Broadcasting Corporation
ECA	Economic Commission for Africa
ECOSOC	Economic and Social Council
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FDREHoPR	Federal Democratic Republic of Ethiopia House of People Representative
FEMSEDA	Federal Micro and Small Enterprises Development Agency
FGD	Focus Group Discussion
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GPFI	Global Partnership for Financial Inclusion
GSMA	Groupe Spéciale Mobile Association
IFC	International Finance Corporation

IMF	International Monetary Fund
JCC	Job Creation Commission
KII	Key Informant Interview
KYC	Know your Customer
MFI	Microfinances Institution
MGI	McKinsey Global Institute
MMR	Mixed Method Research
MNPDE	Ministry of National Planning and Development of Ethiopia
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NBE	National Bank of Ethiopia
NGOs	Non-Governmental Organisations
OCSSCO	Oromia Credit & Saving Company
OECD	Organization for Economic Co-operation and Development
OMFI	Omo Micro Finance Institution
PRB	Population Reference Bureau
SDGs	Sustainable Development Goals
SIDBI	Small Industries Development Bank of India
SLA	Sustainable Livelihood Approach
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TVET	Technical and Vocational Education and Training
UFT	Uganda Finance Trust
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund
UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
UNISA	University of South Africa
WBG	World Bank Group

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CHAPTER 1: INTRODUCTION

This chapter discusses the introduction and background of the study, statement of the research problem, objective, significance, scope, limitations and outline of the study.

1.1 Introduction and Background of the study

The main focus of this study was to empirically assess and analyse the role of microfinance in youth livelihood in Ethiopia by evaluating the existing youth inclusive microfinance related policies, strategies, products and services, and how microfinance plays a role in fostering urban youth livelihoods. The Ethiopian government has been advancing the frontiers of microfinance and the creation of employment opportunities for the urban youth, in particular, through establishing and investing in regional government owned microfinance institutions.

Access to finance for the youth is one of the globally recognised development interventions in addressing youth unemployment. This is based on the strong belief that financial services contribute to creation of sustainable livelihood opportunities and the reduction of poverty. It is believed that inclusive financial systems provide communities, individuals and firms with greater access to resources to meet their financial needs such as managing cash flows, smooth consumption, increasing income, building assets, enhancing saving for future investment including education, capitalising on business opportunities, confronting shocks, reducing vulnerability to risk and income inequalities, and facilitating integration into the national economy (WBG, 2013;Demirgüç-Kunt and Singer, 2017). As a result, access to finance has become a way of promoting inclusive growth and addressing poverty and unemployment (AFI, 2016a).

Ethiopia is considered as the second largest country on the African continent in terms of total population and youthful population which continues to grow at a fast rate. The total population is expected to reach 188 million by 2050 (UN, 2015b;Worldometer, 2020). The urban population of Ethiopia has been increasing at a faster rate of 5% compared to a 2% growth rate of the rural population (JCC, 2019). The main reason contributing to the growth in the youth population in the urban market and making youth unemployment more of an urban phenomenon is an increase in rural-urban migration that is mainly driven by the youth. There is a global recognition of youth unemployment and expanding access to microfinance for the youth has been recognised by the Federal Government of Ethiopia as one of the ways of promoting youth employment and building their livelihoods.

The role of microfinance in youth livelihood has not been systematically assessed and there is limited empirical information on what is working and what is not. It is against this background that this study was conducted to present empirical evidence on the role of microfinance in urban youth livelihood in Ethiopia.

1.2 Statement of the research problem

Youth unemployment and lack of sustainable livelihood opportunities have been one of the largest and growing developmental challenges at national, regional and global levels. Demographic changes and urbanisation have contributed to youth unemployment. The global youth population has reached 1.2 billion and Ethiopia (one of the youngest and the second most populous countries) and other African countries represent more than 17% (Fine et al., 2012;UNCDF, 2012;Yonis, 2017). The total population of Ethiopia, which was 57 million in 1995, had increased to 115 million in 2020 and is projected to increase to 188 million by 2050 (Fine et al., 2012;UN, 2015b;Worldometer, 2020). The majority (71%) of the population in Ethiopia is under 30 years of age which signifies its potential to bring social, economic and political transformation if the demographic dividend is properly used (Megquier and Belohlav, 2014).

Furthermore, the African countries, including Ethiopia, are projected to have 25% of their people living in urban areas by 2050 (MGI, 2010;UN, 2015b;AfDB, 2016). The urban population of Ethiopia has been increasing at a rate of 5% annually compared to a 2% growth rate of the rural areas, therefore the economy has been under pressure to create jobs for more than two million youth, who enter the labour market annually (JCC, 2019). This has a huge implication particularly in urban labour markets. The urban unemployment and youth unemployment in Ethiopia reached 19.1% and 25.3% respectively in 2018. The youth unemployment was higher for women (30.9%) than men (18.6%) (JCC, 2019;Geda, 2022). This implies that more women are affected by unemployment which also affects the entire family.

Although Ethiopia has had an encouraging economic outlook in the past, the country's growth has not benefited the youth in terms of creating employment and economic opportunities to bring transformative change (UNCDF, 2012;Moore, 2015;Yonis, 2017). The increasing youth population signifies the country's potential to bring social, economic and political transformation if the demographic dividend is properly harnessed (Megquier and Belohlav, 2014). This has exposed the youth to unsafe migration, involvement in social instability and led them to unsuitable ways of life (UNCDF, 2012;Fine et al., 2012;Moore, 2015;AfDB, 2016). The African Development Bank (AfDB, 2016) indicates that 40% of people who join rebel movements worldwide are motivated by a lack of economic opportunities and 14% of international migration worldwide originates from Africa. This crisis will continue unless appropriate action is taken.

In order to harness the demographic dividend, the Federal Government of Ethiopia, both in the first 10-year (2010 to 2020) growth and transformation plan and the coming 10-year (2021-2030) perspective plan, emphasises promoting youth inclusive finance and the Micro, Small and Medium Enterprises (MSMEs) sector as one of the ways to address urban youth unemployment. The growth and transformation plan focuses on implementing policy and strategic actions that strengthen inclusive financing and capacity building, to create sustainable livelihood opportunities for the youth. For example, in the five-year transformation plan (2010 to 2015), the MSEs received 6.5 billion Ethiopian Birr through financial institutions (mainly MFIs) in the form of loans. Two hundred and seventy-one thousand, five-hundred and nineteen (271,519) new MSEs were then created (FEMSEDA, 2016;AEMFI, 2017). The intervention targeted the creation of employment opportunities for society generally and the urban youth in particular through promoting Micro and Small Enterprises (MSEs) (NBE, 2015).

1.3 Aim and objectives of the study

The aim of this research was to investigate how microfinance helps the urban youth in improving their livelihoods.

To achieve the above stated aim, the following objectives were specified:

i. Evaluate the extent to which the existing microfinance policies, strategies, regulations, context and structures promote access to finance for the youth;

ii. Analyse whether the current microfinance services (including types of products) are tailor made to meet the specific needs of the youth;

iii. Assess how access to microfinance services helps to improve the livelihood of urban youth.

iv. Develop recommendations (including a framework or model) of what can be done by the regulators, the financial service providers and related stakeholders to improve the youth's access to microfinance services to create sustainable livelihood opportunities.

Accordingly, the research focused on answering the following research questions:

- What are the existing microfinance policies, strategies, regulations, context and structures in Ethiopia that promote youth inclusive microfinance and what are the key constraints?
- To what extent do the current microfinance products and services meet the needs of the youth?
- How does microfinance play a role in fostering sustainable livelihood opportunities for urban youth?
- What can be done by the regulators, microfinance service providers and development actors to foster sustainable livelihood opportunities for the youth?

1.4 Significance of the study

There is a dearth of information on the role of microfinance services in building sustainable livelihood opportunities for the youth in Ethiopia. Therefore, this study will contribute to the knowledge of financial services that will benefit the youth. The study provides recommendations, including a framework/model for youth inclusive microfinance. These will streamline the microfinance related policies, regulations and financial products to improve access to financial services and foster sustainable livelihood opportunities for the youth.

This research can be used by financial institutions (such as banks, MFIs and insurance companies), policy makers, government agencies, international organisations (such as the World Bank, IMF, UNDP, etc.), international NGOs, academics and other development actors working in Ethiopia and other African countries. Most importantly, it can be used by organisations that are interested in contributing towards improving access to financial services and fostering sustainable livelihood opportunities for the youth. The findings of this research will also contribute to providing appropriate financial services for women in meeting their needs and improving their livelihoods. This will enhance the economic empowerment of women, address inequality and advance social wellbeing.

The main outcome of this study is the youth inclusive microfinance framework (model) that presents fundamental issues that should be considered to promote microfinance that contributes to improving youth livelihoods and fast-tracking the achievement of SDGs. A step-by-step approach was followed to develop the youth inclusive microfinance framework based on the findings of this study. This included: identifying innovative practices and constraints related to youth inclusive microfinance policy and strategy, regulation and directives; having a comprehensive understanding of the factors that contribute to developing tailor-made microfinance products and services; and considering how microfinance plays a role in improving youth livelihoods. The framework was developed to be used as a reference for policy makers, regulators, banks, microfinance institutions and development actors to run a successful youth inclusive microfinance system in Ethiopia, in particular, and in Africa, in general.

1.5 Scope and limitations of the study

Ethiopia is a vast country and, due to time and resource limitations, it was not possible to conduct this research in all regions of Ethiopia. Therefore, the study was conducted in the four biggest regional government cities, Addis Ababa, Adama, Bahirdar and Hawassa. Addis Ababa, Bahirdar and Hawassa are the capital cities of Ethiopia Oromia region, Amhara and Southern Nations, respectively. Mekele (capital city of Tigray Regional State) which was initially considered in the research proposal was dropped and replaced by Adama (one of the biggest cities in Oromia region) due to the internal political crisis and internal conflict in the northern part of Ethiopia at the time of data collection for this study.

The research focused on youth between 18 and 35 years of age as defined in the African Youth Charter issued by the Africa Union. The youth revolving fund establishment proclamation number 995/2017 also defines youth as any male or female of Ethiopian Nationals in the age range of 18 to 34 years.

1.6 Thesis outline

The thesis is structured as follows:

Chapter 1 presents the background of the study, statement of the research problem, objectives, significance, and limitations of the study. Chapter 2 provides an overview of the Ethiopian context in terms of economic performance and outlook, overview of MSE development strategy, background about the financial system and youth inclusive finance policies and strategies, state of youth financial inclusion and digital financial services in comparison with regional and global level. Chapter 3 contains a literature review from the theoretical and empirical points of view. It discusses foundational concepts and approaches of microfinance, country experiences related to youth inclusive finance regulatory framework and MSMEs development policy and strategy. This chapter sheds more light on relationship between microfinance and sustainable development goals (SDGs), empirical evidence on the role of microfinance in youth livelihood in different socio-economic contexts in Latin America, Asia and Africa, factors affecting access to financial services for urban youth and progress made in economically empowering young women using financial services.

Chapter 4 deals with the conceptual approaches, design and methodology of the study. It covers issues including the research approach, sampling technique, data collection instruments, method of data analysis, validity and reliability, and ethical aspects of the study. Chapter 5 is a discussion and analysis of qualitative and quantitative data and meaningful conclusions are drawn. Chapter 6 presents the summary, conclusion and recommendations drawn from the study in light of the research questions and objectives of the study.

CHAPTER 2: THE ETHIOPIAN CONTEXT

2.1 Introduction

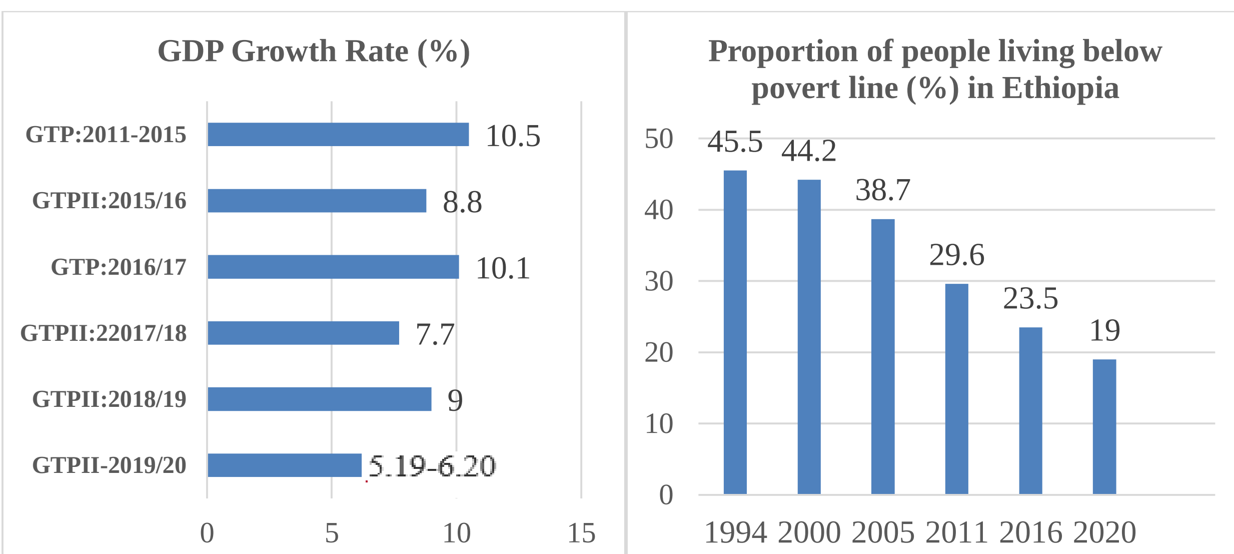
This chapter presents an overview of Ethiopia's economic performance and outlook; an overview of the microfinance policy, legal and regulatory framework; background about the financial sector including microfinance and the state of youth financial inclusion in Ethiopia with a comparative assessment of other African countries with current statistics. The financial sector and the use of digital financial services are at an infancy stage. A critical challenge of branch expansion is the concentration of bank branches (34.5%) and insurance companies (54%) in Addis Ababa (NBE, 2022).

Despite the observable changes in Ethiopia's economy, the pattern of employment has not changed substantially. Absorption of a growing workforce (at two million per year) by creating sufficient new job opportunities through promoting SMEs and expanding outreach of microfinance institutions are the main focus of the Ethiopian government's growth and transformation plan. The MFIs were established to address the gap of financial services to the low income segment of the population, including the youth. The microfinance sector has demonstrated growth every year.

The chapter has five sections. Section 2.2 presents Ethiopian economic outlook and performance in terms of economic growth and poverty reduction. Section 2.3 provides an overview of the MSME sector and youth inclusive finance related policy and regulatory framework. Section 2.4 deals with background information about the financial system including the microfinance sector in Ethiopia. Section 2.5 discusses the state of youth financial inclusion in Ethiopia including digital financial services in comparison with other African countries.

2.2 Ethiopia's economic performance and outlook

Ethiopia is the second most populous country (115 million people in 2020) strategically located in the Horn of Africa (WBG, 2021). Ethiopia is a landlocked country bordering South Sudan, Eritrea, Sudan and Kenya. Ethiopia is one of the fastest growing economies in the region mainly driven by huge public investment and steady growth in the services and construction sectors and aspires to be in the lower middle-income status by 2025. Ethiopia has demonstrated a consistent growth (10% per year) for the past 15 years led by capital accumulation mainly thorough public infrastructure investments (WBG, 2021). Consequently, as shown in Figure 2.1, the country showed positive trends in poverty reduction as those living below the poverty line declined from 44.2% in 2000 to 19% in 2020. However, the growth in GDP slowed down in 2020 mainly due to the negative effects of COVID-19. The economy grew by 6.2% in 2020 compared to 9% in 2019. Among the key sectors that contributed to growth include the services and industry sectors.



*Note: GTPII-2019-2020, 5.19-6.20% is a projection with COVID 19)

Figure 2.1: GDP growth rate and people living below poverty line in Ethiopia (%)

Source: Ministry of Planning and Development 2021: Ten Year Perspective Development plan (2021-2030) (MNPDE, 2021)

The expansion of industrialisation, mainly through the development of industrial parks, has attracted foreign direct investment (FDI) and increased export performance. Although the increase in economic growth has lifted millions out of poverty, its contribution in attracting increasing rural-urban migration and addressing the high levels of urban unemployment has not been satisfactory. However, despite the observable changes in Ethiopia's economy, the pattern of employment has not changed substantially (JCC, 2019).

The negative effects of COVID-19 held back the progress on reducing poverty and slowed down the momentum for creating and sustaining employment opportunities. In addition, the number of people living in extreme poverty are projected to increase and some of the gains registered in the previous years will be reversed (WBG, 2021). Similar trends are being observed in other African countries where COVID-19 related shocks have aggravated the number of people living below the poverty line. As a result of the pandemic that has reversed the economic gains achieved in the previous years, it is forecasted that about 39 million Africans could fall into poverty compared to 30 million Africans in 2020 (Arezki et al., 2021).

The growth of the service and industry sector has significantly contributed to the GDP, whereas the transport, hospitability and communications sectors were adversely affected by the pandemic and associated containment measures taken to mitigate the spread of COVID-19. The agricultural sector was not significantly affected and its contribution to growth showed improvement and created employment opportunities to the largest (70%) segment of the population (WBG, 2021).

The Ethiopian government launched a new home-grown economic reform agenda with a 10-year development plan (2021 to 2030) with the aim of sustaining the economic growth registered under the previous growth and transformation plans. Furthermore, for the last three years, the country also experienced political instability and domestic conflict and hence the economic outlook in the medium term is contingent on the pace of economic recovery, the resolution of the domestic conflict in the country, the COVID-19 crisis and the mitigation of the negative effects of climate change. Real GDP growth was projected to grow by 7% in 2022, led by a rebound in industry and services (Arezki et al., 2021). This is an indication of the step-by-step transformation of agrarian based economy into industry and a service-based economy.

Among the key challenges expected to be addressed during the implementation of the Home-Grown Economic Reform Agenda are the absorption of a growing workforce (at two million per year) which necessitates creating sufficient new job opportunities as well as maintaining and improving the current jobs.

The current internal conflict between the Federal Democratic Government of Ethiopia and the Tigray People's Liberation Front (TPLF) jeopardised the prospect of economic growth in Ethiopia that was considered a model for economic growth and one of Africa's fastest growing economies. Ethiopia's economy reduced to 5.6% growth in the year 2021 from 6.1% in 2020, due to internal conflict and the effects of COVID-19 on the transport and hospitality sectors (AfDB, 2022). A peace agreement was signed between the government of Ethiopia and the TPLF, which is considered as an important initial step towards ending the conflict.

2.3 Overview of MSE development strategy and youth inclusive microfinance related policy, and regulatory framework in Ethiopia

Appropriate policy, strategy and regulation are critical to promote youth inclusive microfinance. The main purpose of this section is to provide background information about the MSE development strategy and the current youth inclusive microfinance related policies, strategies and regulations in Ethiopia. A detailed assessment of the MSE policy and strategy, microfinance policy and strategy with the key findings from FGD and KII interviews is presented in Chapter 5: Results and discussions.

2.3.1 Overview of MSE development policy and strategy of Ethiopia

Ethiopia has been introducing a set of policies and strategies that guide and govern the development and promotion of the micro and small enterprise sectors. The MSE policy and strategy were formulated in 1997 and revised in 2011 to address the systemic constraints, promote the development of the sector and lay foundation for industrial development (Abdulmelike, 2018). The strategy provides a definition of the MSEs, objectives of the policy and strategy, and method of implementation. The micro and small enterprises (MSEs) development policy and strategy of the country consider MSEs to be the backbone of the industrial development of the country, key instruments of job creation and means of lifting people out of poverty in urban centres particularly for women and youth who represent a major segment of the population. Accordingly, the vision of the MSEs' policy and strategy is "to see vibrant and competitive micro and small enterprises capable of providing diversified and solid foundations for industrial development." The MSE policy and strategy defines MSEs as presented in Table 2.1 below.

Table 2.1: Definition of micro and small enterprises

Level of enterprise	Sector	Manpower	Total capital ETB	Total capital US$
Micro enterprise	Industry	≤5	≤100,000	≤ 4,630
	Service	≤5	≤50,000	≤ 2,310
Small enterprise	Industry	6-30	≤ Birr 1.5 million	4,630 - 69,500
	Service	6-30	≤ Birr 500,000	2,310 - 23,150

Source: Extracted by the author from Micro and Small Enterprise Development Policy & Strategy of Ethiopia, 2011

The key objectives of the MSE development policy and strategy are to create employment opportunities, to increase income, reduce poverty, enhance the equitable distribution of income and contribute towards creating broad based developmental investors and competitive and sustainable economic growth. MSE development in Ethiopia is key instrument of job creation in urban centres and is considered to be the cornerstone of the economy that contributes to economic growth and the government's transformation plan and achieve the MSE development target set by the government. One of the strengths of the MSE development policy and strategy is the identification of specific target sectors that contribute to promote inclusive development and address youth unemployment with tailor-made interventions.

Among the areas that are prioritised for government support, in line with the growth and transformation plan to create large scale employment are those enterprises that promote export-oriented manufacturing sectors or those that are engaged in import substitution. The sectors that are prioritised for government support include the manufacturing (textile, leather and leather products, food processing, metal and woodworks, handicrafts and jewellery, agro-processing and construction material processing), the construction, trading, mining and quarrying, and the service sectors that have a propensity to create large scale employment. The MSE development policy and strategy has been developed to substantially contribute to the realisation of sustainable development goals.

As shown in Figure 2.2, the MSE development policy and strategy covers a number of issues including human development and technology growth, MSE financing sources and financing methods, MSE production and marketing facilities, MSE market development, one stop shop service, industrial extension services and creating a favourable business environment. The support strategies and services are designed based on the stage of growth of MSEs including start up, growth and maturity stages that are aligned with the existing best practice.

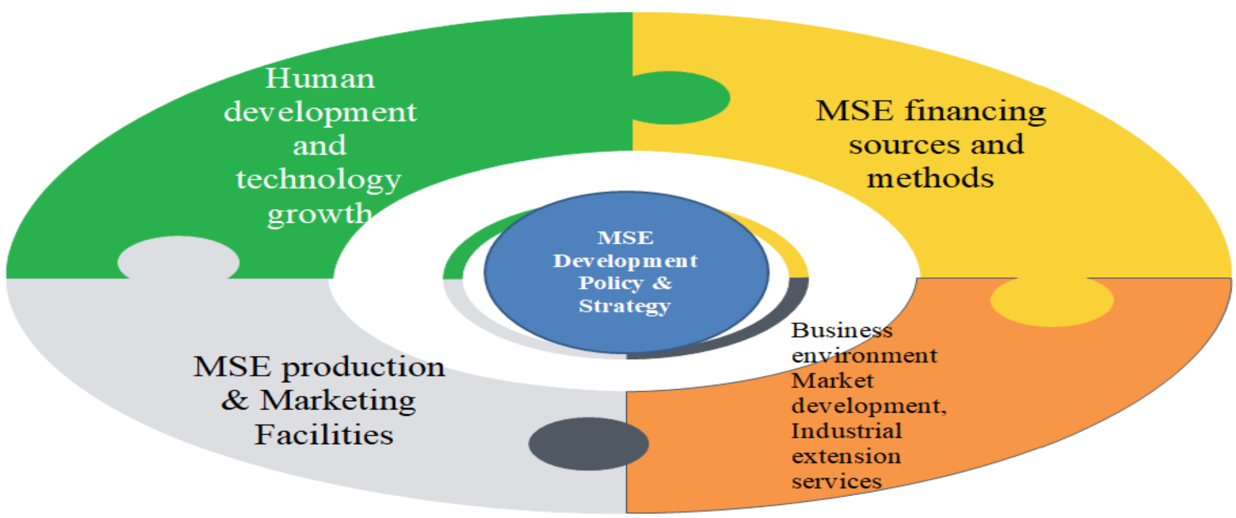


Figure 2.2: Key aspects of the MSE Strategy

Source: Author, extracted from MSEs' policy and strategy, 2011

The support packages are structured in such a way that MSEs get the support in line with their stage of growth including start-up stage, growth stage and maturity stage. Accordingly, the policy and strategy has outlined wide packages of support for MSEs which, among others, include the following:

- Addressing training and leadership limitations through incorporating entrepreneurship and management in technical training centres (TVET);
- Alleviating financial constraints through increased access to banking and microfinance services for MSEs;
- Addressing marketing problems through improvements in quality and standards and developing marketing channels;
- Improving access to infrastructure (e.g. water, electricity and communications) and work premises, facilitating production space with infrastructure for groups of MSEs and promoting better access to business development services; and
- Establishing a one-stop service delivery centre for MSEs to overcome bureaucratic hurdles.

The MSE policies and strategies recognise financial (such as microfinance) and non-financial services (such as entrepreneurship and other skill development training, financial literacy, business development services, mentoring and cultivation of a savings culture) to promote the livelihood of the youth. The role of microfinance institutions is to provide access to financial services and facilitate capacity building activities in collaboration with universities, TVETs and related institutions. Those who are interested to be engaged in the manufacturing sector (including metal and woodwork) are required to attend training (with theory and practice) which takes three to six months. After the training, the participants have to be certified to access working premises or sheds.

One-stop service centres are also responsible for facilitating the provision of services including registration of unemployed people, keeping statistics about MSE needs (including raw material and other types of support), facilitating awareness creation, processing of registration of companies, promoting best practice in strengthening MSEs, facilitating market linkages, accessing land, business premises, credit and saving, and bookkeeping, following up of loans, and audit services. One-stop centres are organised at Kebele level, which is the lowest level of government administration in the country. Such a decentralised approach is followed to provide suitable services to the community, including the youth. The institutions that are represented at one stop centres include MFIs, TVETs, Trade Bureau, Revenue Bureau, Justice Bureau and municipalities. Guidelines on services provided by one stop centres have been developed and introduced (in 2018) by Federal Cities Job Creation and Food Security Agency.

The scope of implementation of the MSE development policy and strategy is country wide which is supported by MSE development council (at federal, regional and Woreda levels), federal organisations (Ministry of Urban Development and Housing, Federal Technical and Vocational Education and Training Agency, Federal Micro and Small Enterprise Development Agency, Federal Job Creation and Food Security Agency, NBE), regional government organisations (technical and vocational education training agencies, TVET colleges, MFIs), collaborating organisations (such as non-governmental organisations and development partners, research centres, higher education and training institutions, Federal MSE Development Agency). Each of the organisations has their own specific roles and responsibilities. Moreover, different task forces have been formed at national and regional levels to support and fast track the process.

The implementation of MSE strategy contributed to the establishment of MSEs in different sectors and jobs creation for the youth. However, there are still gaps in the MSE development strategy including: gaps in the approach to microfinance; constraints in the harmonisation of policies and coordination framework; slow progress made on capacity building, coaching and mentoring of the youth; gaps in management of working premises offered by the government; and weak monitoring and evaluation practices in evidence-based policy making. Key innovation introduced in relation to MSE strategy and key gaps of the strategy are discussed in depth in Chapter 5: Results and discussions.

2.3.2 Overview youth inclusive finance related policy, strategy and regulatory framework

i) Financial inclusion strategy

The national financial inclusion strategy of Ethiopia was issued by the NBE in 2017. The overall plan was to increase financial inclusion from 22% in 2014 to 60% in 2020. The vision of the financial inclusion strategy is to achieve universal access to and the use of a range of affordable and high quality financial products and services in Ethiopia by 2025. The financial inclusion strategy has identified barriers to financial inclusion in Ethiopia including insufficient funds, attitudes, distance and relatively high cost of services, lack of documentation, distrust and religion. The specific challenges are categorised into underdeveloped (financial and other) infrastructure, an inadequate supply of a range of financial products, services and access points, inadequate financial consumer protection and a low level of financial capability and awareness.

There are four pillars of the financial inclusion strategy. The first one is expanding access through infrastructural development both traditional and digital. This, among others, includes improving public infrastructure including telecommunication, electricity and ID systems to support the expansion of financial inclusion. It also involves improving payment infrastructure including branches, ATMs, internet banking and mobile banking. The second pillar is working on products and services. This, among others, includes promoting suitable and affordable products related to savings, credit, insurance, pension and payment systems. It also covers the introduction of new products. The third pillar is financial education. A national financial education strategy has been formulated and approved by the board. The plan is to reach out 10 million (70%) adults by 2025. The fourth pillar is consumer protection that builds trust and confidence. The NBE issued financial consumer protection directive number FSP/01/2020 in 2020 that aims to promote fair, responsible and transparent transactions and fair professional conduct of financial service providers. NBE has also been working to introduce proclamation on depositors' protection. The gaps in the financial inclusion strategy are discussed in Chapter 5: results and discussion, section 5.3.3.2 (a).

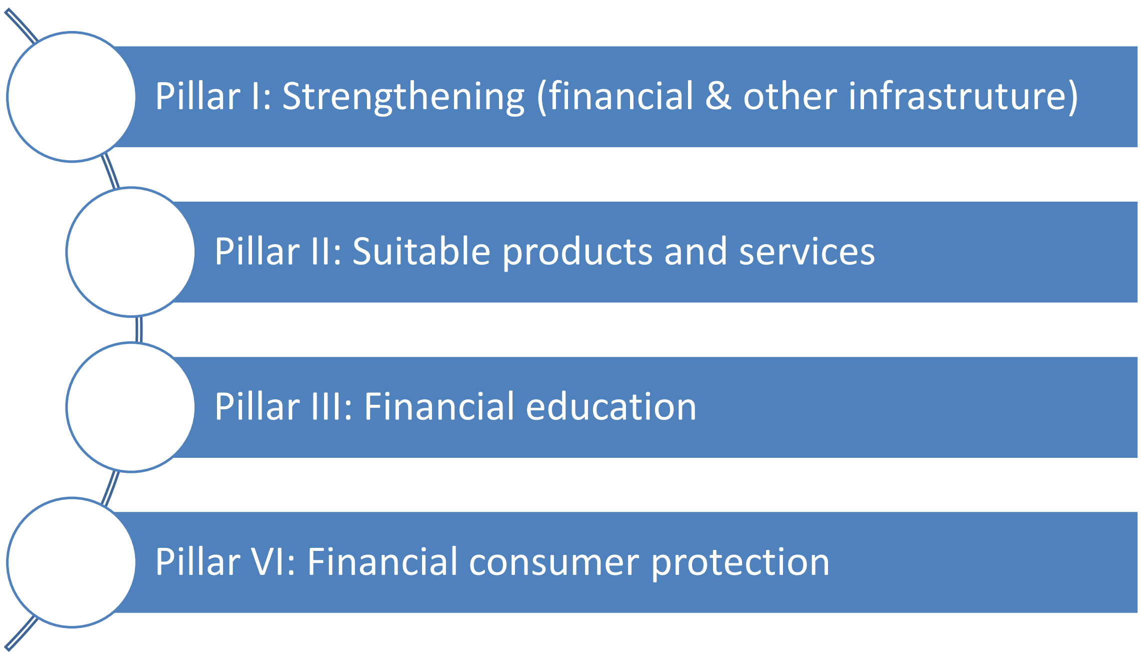


Figure 2.3: Key pillars of financial inclusion strategy of Ethiopia

ii) Microfinance proclamation

Following the unsuccessful donor funded microfinance programmes, the licensing and supervision of MFIs was introduced in 1996. One of the key objectives of the microfinance proclamation has been to create access to microfinance services to the low income segment of the population (including the youth) in a sustainable way. The NBE, in collaboration with relevant government offices and stakeholders, has gradually improved the policy and regulatory framework for MFIs. The licensing and supervision of the business of MFIs issued in 1996 was repealed and replaced by Microfinance Business Proclamation no.626 issued in 2009 which was later amended in 2019. The constraints of the current microfinance regulation in Ethiopia is extensively discussed in Chapter 5: discussion and findings, section 5.3.3.2 (b).

iii) Capital goods leasing business proclamation

One of the interventions that have been introduced to help the public, more specifically the youth, to create job opportunities and improve their livelihoods is the Capital Goods Leasing Business Proclamation number 103 introduced in 1998. The proclamation was issued to create an enabling environment for alternative sources of financing and to filling the existing gap of access to finance not addressed by existing financial institutions.

Currently, there are six capital goods financing companies licensed by the NBE. The intervention has been helpful in addressing the collateral required to access a loan. This is through financing in kind (for production and service purposes) on the basis of allowing the use of capital goods on financial or operating lease or hire purchase agreement basis and collecting loan repayments on an instalment basis over a specified period of time.

The progress of the performance of the capital goods companies has been constrained by a number of factors which are discussed in section 5.3.3.2 (e) based on feedback gathered through FGD and KII.

iv) Movable asset registration proclamation

The Movable Asset Registration Proclamation 1147 introduced in 2019 is another intervention to help individuals and entities to use their movable assets to access credit and thereby create job opportunities and expand investment and productivity. In addition, the movable property security right proclamation has a provision that requires banks to dedicate 5% of their annual lending to SMEs, cooperatives, agricultures and related sectors reaching clients directly or through MFI linkages.

v) The youth revolving fund proclamation

The youth revolving fund was introduced in 2017 to contribute to addressing the lack of tailor made financial services to the youth. The federal government allocated and announced a Birr 10 billion youth revolving fund to support the youth organised under MSE development policy and strategy. The fund was established under proclamation number 995/2017 with the objective of assisting the youth, providing job opportunities and financial assistance for organised income generating activities conducted by the youth. The revolving fund has many flexible requirements compared to criteria to access credit under the regular loan programme. The interest rate required to access a loan from revolving fund is 8% (compared to 13-17% interest rate of a regular loan) and the pre-saving requirement is 8% compared to 10% (in most cases) of a regular loan. The guidelines support the manufacturing and construction sectors, and urban agriculture.

In addition, a Birr 2 billion revolving fund was announced and implemented by Addis Ababa City Administration in 2019 with key stakeholders with the main objective of creating job opportunities for the youth. It has flexible requirements compared to the revolving fund scheme introduced by the federal government. Among the changes made in the requirement to access credit from the fund include initial mandatory savings requirements (reduced from 10% to 5%), maximum loan size (increased from Birr 1 million to Birr 1.5 million) loan repayment (from three years to four years) and a grace period (from three months to four months).

Though the youth revolving fund has been expected to address key challenges faced by the youth, the outcome has not been productive due to gaps in the youth revolving fund guidelines and challenges faced during the implementation of the scheme. This is discussed in detail in section 5.4.8.

2.4 Overview of financial system, microfinance sector and financial inclusion in Ethiopia

Major economic reforms were taken by the Ethiopian government after the fall of the socialist regime in 1991. As a result, Ethiopia has been transitioning from a socialist planned economy to a market economy. The ownership of the formal financial institutions by the private sector started after 1991. The post-1991 financial deregulation facilitated private investment in the financial sector and the provision of appropriate and affordable financial services which, before 1991, were characterised by a lack of competition. With the post-1991 financial deregulation, a number of significant reforms were introduced by the government that, among others, include: liberalising and reforming the financial sector; relaxing foreign exchange controls; dismantling the administered interest rate regime; and establishing a new regulatory framework for banks, insurance companies, microfinance institutions and cooperatives (Kassa, 2011;Wolday, 2017).

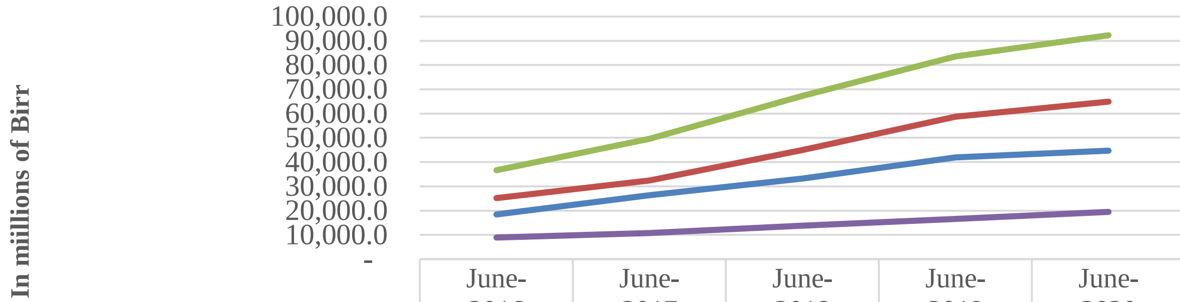
Foreign banks are not allowed to operate in Ethiopia and the banking sector is dominated by the Commercial bank of Ethiopia 100% owned by the Government. The state owned banks account 52.3% of the total banking of the banking system (NBE, 2022). The government is undertaking policy and regulatory reform to allow foreign banks to operate in the country on step by basis. The government has already enacted the capital market proclamation no. 1248/2021 to regulate the capital markets and Ethiopian capital market authority was established as a regulatory authority. The establishment of the capital market in Ethiopia is expected to create opportunities for alternative source of financial capital for businesses to grow.

The financial sector in Ethiopia, consisting of banks, microfinance institutions and insurance companies, has been expanding. At the end of the first quarter of 2022/2023, there were 30 banks (two are government owned and 28 are private banks), 18 insurance companies (one is government owned and 17 are privately owned) and 43 microfinance institutions (NBE, 2023).

The total number of bank branches has reached 9,507 which elevated the population to bank ratio to 11,062:1 (NBE, 20223). A critical challenge of branch expansion was the concentration of bank branches (34.5%) and insurance companies (54%) in Addis Ababa. This implies that banks and insurance companies have less interest in risking their capital in small and medium enterprises (MSEs) that operate in small towns as they believe that such investments could lead to low returns or the loss of the investment. The total capital of banks and the total loans outstanding of banks stood at Birr 210.1 billion and Birr 1.6 trillion (including corporate bond), respectively. Out of the total capital, the state owned banks accounted (42.7%) of the total capital and the rest by private banks (NBE, 2023).

The Development Bank of Ethiopia (DBE) is the only development bank in the country established to provide access to finance to priority sectors that promote agricultural and industrial development including access to finance for SMEs. The bank has recently started working aggressively in the area of lease financing in the form of capital goods to SMEs. DBE involvement in retail lease financing in the form of capital goods to SMEs could divert its focus of delivering long term finance to transformational agricultural and industrial projects which require huge funding and commitment from the leadership. It also could hamper the performance of capital goods finance companies working at regional and national level as DBE is now aggressively penetrating their market niche.

The MFIs were established to address the gap in financial services to the low-income segment of the population, including the youth. The microfinance sector demonstrated growth every year and, as of June 30, 2020, the number of MFI branches and the number of clients served by them reached 2,007 and 5.3 million, respectively. As shown in Figure 2.4, the total deposits, total loans outstanding, total assets and total capital reached Birr 44.7 billion, 64.9 billion, 92.2 billion and 19.4 billion, respectively as at June 2020.



	June-2016	June-2017	June-2018	June-2019	June-2020
Total Deposits	18,432.8	26,324.0	33,213.1	41,897.2	44,714.0
Gross Loan Outstanding	25,203.8	32,399.5	44,987.2	58,722.3	64,901.7
Total Asset	36,668.0	49,562.1	67,262.0	83,475.5	92,200.0
Total Capital	8,875.8	10,730.1	13,772.4	16,567.9	19,440.1

Figure 2.4: The performance of the microfinance sector in Ethiopia

Source: Author from data provided by NBE and AMFI, 2020

Taking into consideration the importance of financial services in addressing poverty, the Ethiopian government has been taking substantial measures to expand financial services in different parts of the country. The National Bank of Ethiopia, with other partners and stakeholders, has been improving the frontiers of financial inclusion. Among the measures introduced were: the microfinance regulatory and supervisory framework in 1996 (which was a pioneering intervention in Africa); the regulation of mobile and agent banking services in 2012; heavy investment by regional government on MFIs owned by the regional government; and a financial inclusion strategy by the National Bank of Ethiopia. The MFIs, such as Amhara Credit and Saving Institution (ACSI) in which the Amhara regional state has a major stake and operates mainly in Amhara region, has become one of the biggest microfinance finance institutions in Africa.

Most of the big regional government affiliated MFIs, including ACSI, have been transformed into banks. The transformation of the MFIs into banks may help SMEs to better access credit but may have negative consequences of mission drift of serving the low income segment of the population which is discussed in detail in Chapter 5: Results and discussions. The big regional affiliated MFIs have entered to be full services banks and could be tempted from serving the poor to upper income category which they think will help them to reduce credit risk and increase profitability (Bateman, 2011).

Despite positive progress made to increase financial inclusion, the financial sector has not been diversified in terms of types of institutions delivering the services and types of financial products being developed and offered (AEMFI, 2017). The use of digital financial services is at an infant stage hence the economy is still cash-based. In 2012, there were 61,628 people per branch, 0.16 ATMs per 1000km and 0.32 ATMs per 100,000 adults (AEMFI, 2017). As of June 2020, the number of adult account holders in the country reached only 46%, and the National Bank of Ethiopia (NBE) had plans to increase the number of adult account holders to 80% by 2020 which was unrealistic.

2.5 State of youth and digital financial inclusion in Ethiopia

2.5.1 State of youth financial inclusion in Ethiopia

The overall account ownership in Ethiopia is one of the lowest when compared to other African countries. As shown in Figure 2.5, based on available data at the end of 2021, Ethiopia stands 23rd out of 44 African countries considered for assessment based on available data. Ethiopia is also the lowest (46%) next to South Sudan in account ownership compared to five other countries in East

Africa (Kenya, 79%, Uganda, 66%, Tanzania, 52% and Rwanda, 50%). It implies that Ethiopia has a long way to go in terms of advancing financial inclusion.

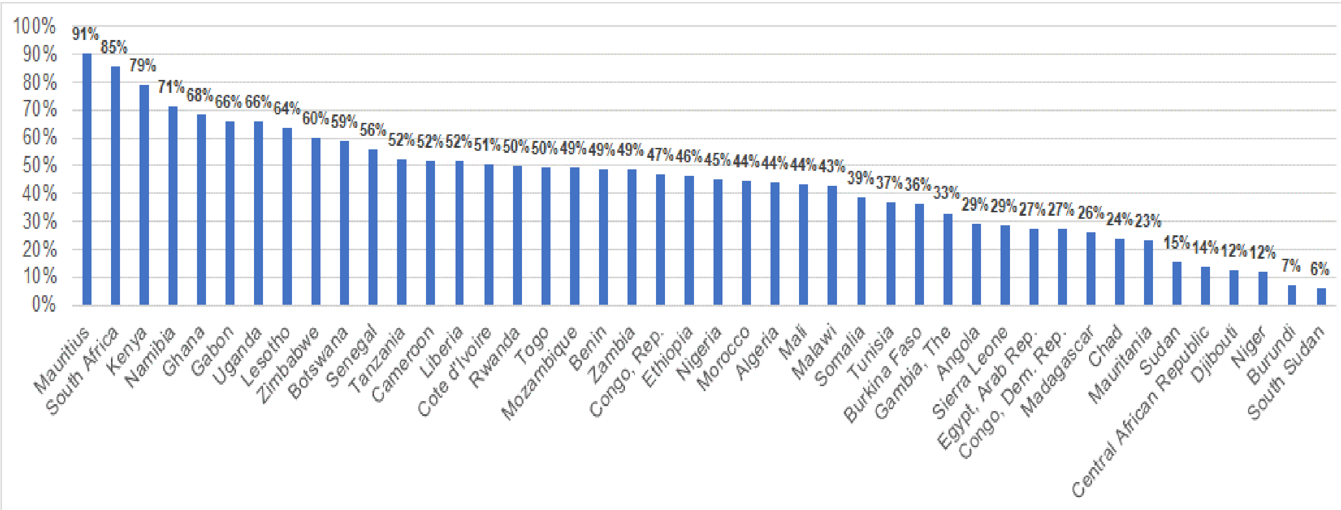


Figure 2.5: Account ownership (age 15+) in Ethiopia compared with the rest of Africa

Source: Author based on data from World Bank Global Findex Database 2021 (Demirgüç-Kunt et al., 2022)

Figure 2.6 below shows that the account ownership of the youth is low compared to other African countries. Ethiopia stands 29th out of 44 African countries in youth account ownership considered for assessment based on available data. Only 47% of the youth have account ownership; a very significant gap compared to other African countries such as Mauritius (84%), South Africa (79%) and Kenya (79%). This indicates that the youth in Ethiopia, which represent a major segment of the population, are deprived of accessing credit, savings, insurance, and other related financial services. In such a situation, the youth would not be in a position to engage in income generating activities and improve their livelihoods.

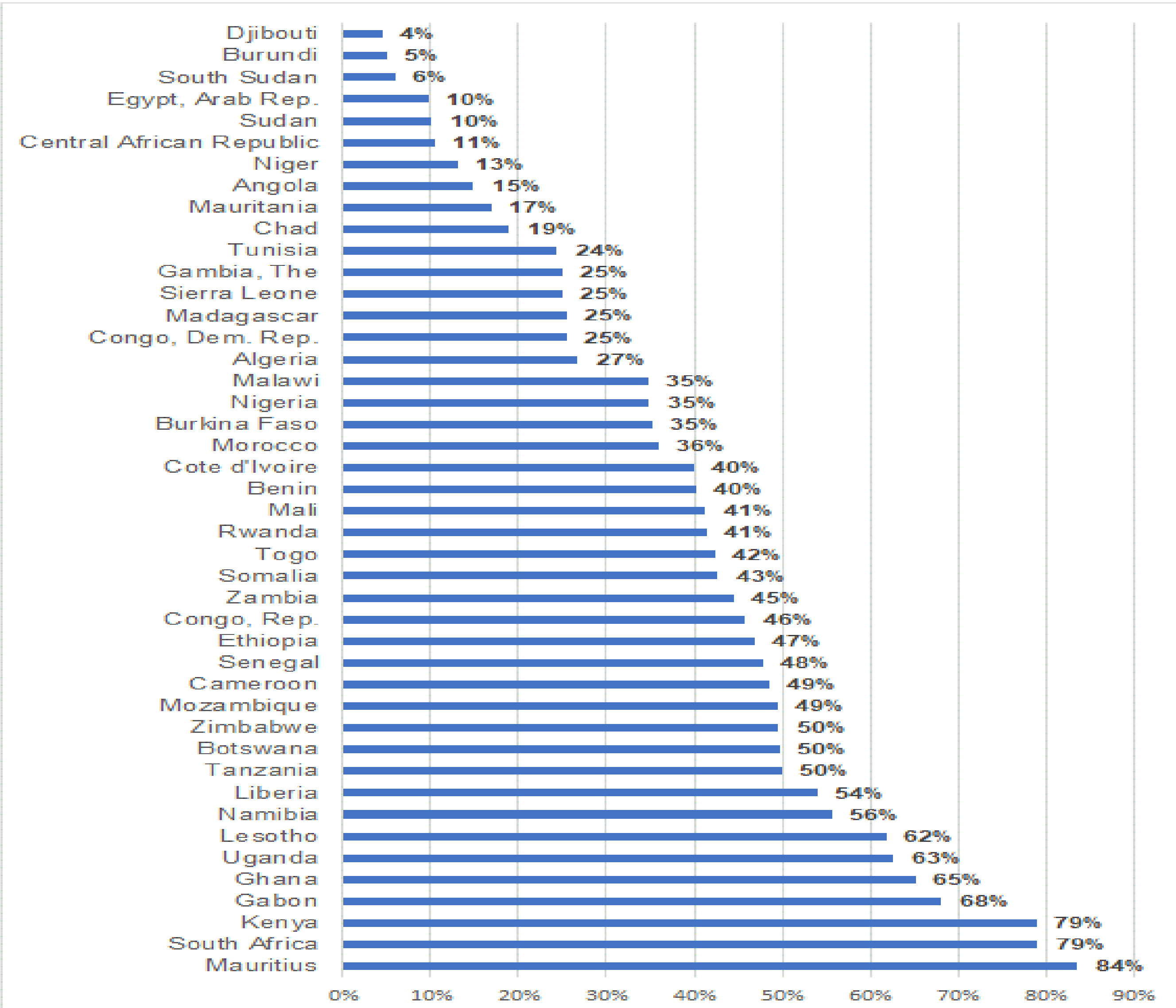
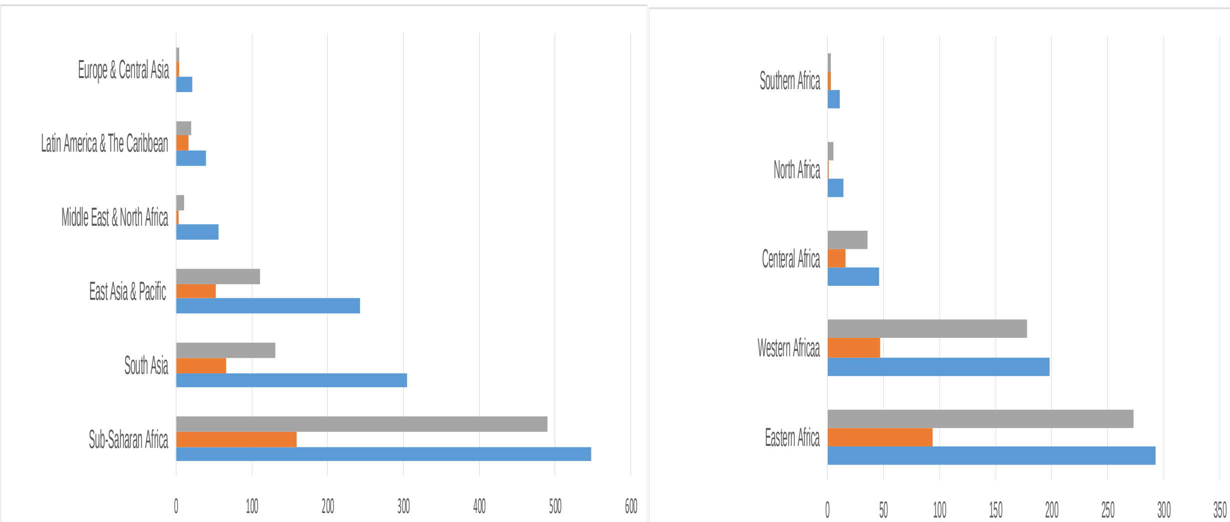


Figure 2.6: Account, young adults (% ages 15-24) in Ethiopia and the rest of Africa

Source: Author based on data from World Bank Global Findex database 2021 (Demirgüç-Kunt et al., 2022)

2.5.2 State of digital financial inclusion in Ethiopia

Sub-Saharan Africa (SSA) demonstrated an impressive performance globally in terms of mobile banking penetration. In 2020, the value of mobile banking transactions of sub-Saharan Africa grew to US$490 billion which constitutes 64% of the global value of mobile banking transactions and East Africa contributed to the major (51.1%) part of the total value of mobile banking transactions in Africa (Andersson-Manjang and Naghavi, 2021). Though countries, such as Kenya, have been leading the mobile money services globally, Ethiopia as the second most populous country has not been in a position to tap into this opportunity which could have transformed the financial inclusion landscape and contributed to the economic development of the country.



	Sub-Saharan Africa	South Asia	East Asia & Pacific	Middle East & North Africa	Latin America & The Caribbean	Europe & Central Asia
Transaction Value (in Billions of US$)	490	131	111	10.5	19.8	4
Active Accounts (in Millions)	159	66	52	3	16	4
Registered Accounts (in Millions)	548	305	243	56	39	21

	Eastern Africa	Western Africaa	Centeral Africa	North Africa	Southern Africa
Transaction Value (in Billions of US$)	273	178	35.7	5.4	3
Active Accounts (in Millions)	94	47	16	1	3
Distribution of Registered Mobile money Accounts	293	198	46	14	11

Figure 2.7: Regional and global state of mobile money

Source: Author based on data from State of Industry report of Mobile money, GSMA 2020

As indicated in Figure 2.8 below, Ethiopia is one of the African countries that performed the worst in terms of mobile money and digital financial inclusion. While South Africa (81%), Mauritius (80%) and Kenya (78%) are the top three performers in terms of digital financial inclusion, Ethiopia, with a digital financial inclusion of 20%, is one of the lowest three countries next to

Burundi (4%), South Sudan (5%), CAR (9%), Niger (10%), Sudan (12%) and Chad (18%). Similarly, as reflected in the chart below, Ethiopia was one of the lowest users of mobile banking. With such low levels of performance in digital financial inclusion and mobile banking, the youth will face a challenge of adapting to e-commerce and growing their businesses.

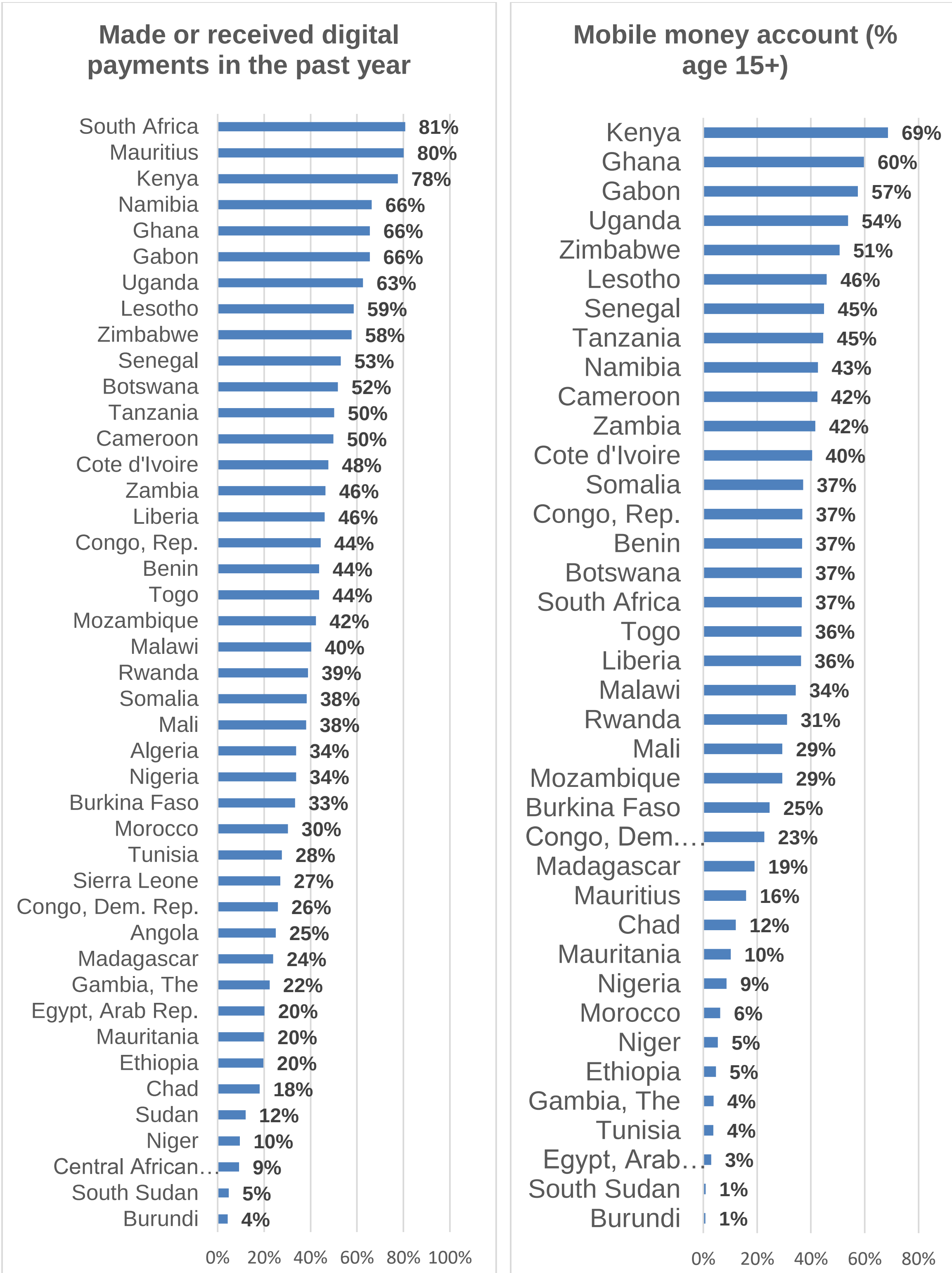


Figure 2.8: Mobile money account (+15 years old) and state of digital payment in Ethiopia and the rest of Africa

Source: Author ,adopted from World Bank Global Findex database 2021(Demirgüç-Kunt et al., 2022)

It is only recently that Ethiopia has taken aggressive measures to enhance digital financial inclusion. The country has introduced the national payment strategy (2021-2025) and improved regulations for mobile banking which facilitated an increase in financial inclusion including unreachable areas. Although the national identity card proclamation number 760/2012 was issued in 2012, it is on a pilot testing phase and has not yet been fully rolled out. This means that financial institutions, including MFIs, face challenges of conducting customer due diligence and instilling credit discipline among the public, including the youth. It also discourages financial service providers from growing their loan books, advancing the digital economy of the country and fast-tracking the achievement of the SDGs and the AU Agenda 2063.

Recently, Ethio-Telecom, a government owned telecoms company introduced a mobile money service that has been authorised by the National Bank of Ethiopia (NBE) to provide only money transfer services. The recent reports by Ethio-telecom indicate that the number of people who have subscribed to mobile phones reached 53 million, out of which 25 million (44%) have access to the internet. The plan is to register 21.2 million people with an active clientele of 12.7 million in the first year, which is expected to grow to 33.7 million people with 20.2 million active clients in the fifth year. The total value of the transaction is projected to be Birr 710 million in the first year and Birr 9.65 billion in the fifth year. With the five-year strategic plan, the objective is that between 40 and 69% of the gross domestic product (GDP) will be transacted through Tele Birr. To achieve the objective, Ethio-telecom has already deployed 1,500 agents in the first year which is expected to grow to 15,000 agents in five years (EBC, 2021;Capital, 2021).

2.6 Conclusion

Ethiopia is the second most populous country (115 million people in 2020) and one of the fastest growing economies in the African region mainly driven by huge public investment and steady growth in the services and construction sectors and aspires to be in the lower middle-income status by 2025. The expansion of industrialisation, mainly through the development of industrial parks, has attracted foreign direct investment (FDI) and increased export performance. Although the increase in economic growth helped to lift millions out of poverty, its contribution in attracting increasing rural-urban migration and addressing the high levels of urban youth unemployment was not satisfactory. The negative effects of COVID-19 and the war in Tigray held back the progress on reducing poverty and slowed down the momentum for creating and sustaining employment opportunities.

Despite positive progress made to increase financial inclusion, the financial sector development is still at its infant stage. The services provided by the financial institutions have not been diversified in terms of types of institutions delivering the services and types of financial products being developed and offered. The use of digital financial services is also at an infant stage. Only 47% of the youth have account ownership; a very significant gap compared to other African countries such as Mauritius (84%), South Africa (79%) and Kenya (79%). This indicates that the youth in Ethiopia, which represent a major segment of the population, are deprived of accessing credit, savings, insurance and other related financial services.

Taking into consideration the global recognition as one way of addressing youth unemployment and changing the dream of the youth into reality, expanding access to microfinance to the youth has been recognized by Federal Government of Ethiopia as one of the ways of promoting youth employment and building their livelihood. The Ethiopian government has been advancing the frontiers of microfinance and the creation of employment opportunities for the urban youth, in particular, and a wider group of the lower income segment of the population, in general, through establishing and investing in regional owned microfinance institutions. Additional substantial measures were taken to expand financial services in different parts of the country.

The implementation of the policies and strategies contributed to the establishment of MSEs in different sectors and job creation for the youth. However, it has been difficult to meet the huge demand of unemployed youth in urban areas which has been growing due to rural-urban migration. There are gaps in the MSE development strategy including in the approach to microfinance; harmonisation of policies and introduction of robust coordination framework; capacity building, coaching and mentoring of the youth; management of working premises offered by the government; and monitoring and evaluation practice in evidence based policy making. Key innovations introduced and key gaps of youth inclusive finance related policies and strategies are discussed in depth in Chapter 5: Results and discussions section of this study. Evaluating the extent to which youth inclusive microfinance related policies, strategies and regulation have supported access to finance to the youth and how microfinance played a role in fostering urban youth livelihood are among the main motivation of this study.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

This chapter discusses both the theoretical and empirical aspects of the relationship between microfinance and youth livelihood. It provides foundational concepts and approaches of microfinance; the relationship between microfinance and urban youth livelihood; factors affecting access to financial services for urban youth; progress made in economically empowering young women using financial services; country experiences in introducing youth to inclusive microfinance regulatory frameworks; and Micro, Small and Medium Enterprises (MSMEs) development policy.

This chapter further discusses empirical evidence on the role of microfinance in youth livelihood in Ethiopia from different contexts including within Africa, North America and Asia. It also highlights the role of microfinance in sustainable development, particularly in achieving Sustainable Development Goals (SDGs) which are set to be achieved by 2030, specifying SDGs that are influenced by microfinance intervention for urban youth.

3.2 Review of approaches and evolution of microfinance

Microfinance is defined as the provision of a broad range of small scale financial services encompassing loans, savings, money transfers, insurance and related services to the lower income section of the population to start their own micro and small businesses, raise income, improve their living standards and contribute to economic development (Robinson, 2001;WBG, 2013;WBG, 2018a). This study focused on the role of microfinance services in improving urban youth livelihoods.

The term “financial inclusion” is the process of ensuring access to appropriate financial products and services needed by vulnerable groups, such as weaker sections and low income groups including vulnerable youth and women, at an affordable cost in a fair and transparent manner by mainstreaming institutional players. Financial inclusion is “the share of individuals and firms that use financial services” (WBG, 2013;WBG, 2018a). The World Bank (2018) defines microfinance in the context of creating access to useful and affordable financial services for individuals and businesses that meet their specific needs. In addition, the World Bank definition emphasises the importance of a broad range of financial services (transactions, payments, savings, credit, and insurance) that are delivered in a responsible and sustainable way.

Financial systems in developing countries use inclusive finance which is mainly built on the microfinance revolution. Half of the adult population, which constitutes two billion people, lack access to financial services that have become a global reform agenda used by policy makers, researchers, government, development actors and multi-lateral organisations (Demirguç-Kunt et al., 2017;Demirguc-Kunt et al., 2018).

A critical review of the evolution of microfinance as a key poverty alleviation and social advancement intervention shows that microfinance originated from donors and government efforts to promote the participation of the marginalised and low income section of the population in economic development.

The microcredit models and poverty lending approach of Mohammed Yunu’s Grameen Model, which was practiced at the Grameen Bank of Bangladesh in the 1970s, started the microfinance movement (Robinson, 2001). The model was built based on group collateral where members of the group cross guarantee each other. This arrangement is a substitution for physical collateral, which is usually required by the financial institutions to get access to a loan. At an early stage, the microfinance model relied on donors and government funding to contribute to poverty alleviation and unemployment. The model demonstrated that poor people, particularly women, are bankable and that it is possible to expand financial services to the lower income and underserved section of the population around the world. However, one of the shortcomings of this model was the challenges related to affordability and sustainability as it required subsidies, which included the allocation of funds to cover losses. This led to the emergence of a modified commercial approach to microfinance but still with a concern that the microfinance institutions may shy away from serving the productive poor seeking for commercial viability (Robinson, 2001;Christen and Drake, 2001).

In the 1980s in Indonesia and later in the 1990s in Bolivia, microfinance operated in different economic and political environments emphasising the commercial approach to microfinance which focuses on the sustainability of microfinance institutions and moving away from donor dependence (Robinson, 2001). Commercial microfinance is provided by banks, MFIs and other commercial organisations as a part of the formal financial system (Clark, 2004). The commercial approach to microfinance is more sustainable as it accommodates a combination of interventions such as: the development of a market system; the application of market based interest rates; capacity development for financial institutions in terms of strengthening their governance structures; and addressing capacity issues of staff of the financial institutions involved in providing microfinance services. The commercial approach to microfinance follows three interwoven parameters: outreach; financial sustainability; and impact which requires balancing business and development (Robinson, 2001;Drake and Rhyne, 2002).

The last four decades have been a learning process from the successes and failures of the microfinance interventions which have now reached best practices that can be replicated and used elsewhere. The concept evolved from traditional microcredit programmes to the provision of a wide range of financial services, including digital systems. The microfinance sector has now expanded its outreach to many low-income sections of the population with better commercial sources of funding, products and services, regulatory framework, social performance and management practices. This has changed the lives of the marginalised and underserved sections of the population including youth and women, and led to the flourishing of micro, small and medium enterprises which are engines of development (Robinson, 2001). However, care should be made as the commercialisation of microfinance institutions may lead to temptation to mission drift from serving the poor and become full service bankers (Bateman, 2011).

The evolution of microfinance in Ethiopia has a similar history. Until 1996, the provision of microfinance services in Ethiopia was carried out mostly by donor funded programmes through NGOs and government institutions. These programmes mostly implemented a poverty lending approach with subsidised interest rates which undermined the loan collection performance leading to defaults that weakened the development of self-sustaining MFIs. After 1996, most of these programmes, carried out by NGOs, were transformed to regulated institutions by the introduction of proclamation 40/1996 (Proclamation for Regulating and Supervising Microfinance Business in Ethiopia). The proclamation required microfinance to be operated as a business by those MFIs licensed by the National Bank of Ethiopia. The regulatory framework created an enabling environment for the establishment of specialised formal financial institutions that provide financial services to businesses that were considered as not bankable. This enabled the MFIs to promote standardisation in the sector by offering a wide range of products (for example, credit, savings and money transfers, etc.) (Kassa, 2011).

Private sector led commercialisation of microfinance in Ethiopia is still at an infant stage as most of the microfinance services are provided by government affiliated MFIs. The proportion of the population served by private sector led MFIs is hampered by low capital and limited sources of funding. The commercial banking sector has not shown that much interest and has not downscaled its services to the low-income segment of the population.

3.3 Country experience related to youth inclusive finance regulatory framework

Regulatory frameworks should allow financial institutions to reach different market niches including children, farmers, businesspeople, the youth, women, pastoralists and agro pastoralists. The regulatory framework should be crafted in such a way that it encourages innovation in the financial sector including in digital finance. However, in practice, there are challenges with the regulatory framework of different countries though the complexity of the problem varies from country to country. In many countries, innovation has been outpacing regulation (Hopkins et al., 2012;AFI, 2016a).

Among the key challenges in delivering effective financial services to the youth and women are legal and regulatory barriers. This includes the requirements for identification documents such as birth certificates, proof of residence and proof of income (UNCDF, 2012). Regulatory frameworks of financial institutions are required to be flexible to help the youth to get financial services. A study conducted by UNCDF (2012) indicates that the Finance Trust Bank in Uganda accepts recommendation letters from Finance Trust Bank clients who know the youth, school IDs, letters from council leaders or youth associations, voters' cards and driving licences for youths over age

18. In Malawi, the Opportunity Bank Malawi accepts letters from the chief of the youth to open an account and, in India, biometric technology is used to uniquely identify a person without proper documentation and this is deemed sufficient to open an account and meet "Know Your Customer" (KYC) provisions (UNCDF, 2012).

Policymakers and regulatory bodies also need to consistently integrate measures to address the financial inclusion of women (AFI, 2016a). This requires an understanding of women's specific needs, the type of activities they engage in, the role of women in development, and the challenges vulnerable women face in accessing and using financial services. Digital financial services and branchless banking (Tanzania); introducing national IDs (Tanzania); mobile money, agent networks, e-money deposits (Rwanda); risk-based tiered Know Your Customer (KYC) processes (Tanzania); the protection of small and unsophisticated borrowers; and implementing awareness programmes address women's access to financial services (AFI, 2016a).

Refining and strengthening financial consumer protection regulations that address specific issues of concern among women clients and balancing protection with expanded outreach may also help in integrating women into financial systems. Countries, such as Indonesia, have integrated financial consumer protection as a fundamental element of financial inclusion. This provides guarantees and confidence in interacting with financial service providers and using financial products and services (AFI, 2016a).

The development of financial infrastructure is also an important part of implementing sound policies and enabling a regulatory environment for youth inclusive finance. Current financial infrastructure, including access to mobile phones, does not provide adequate access to an effective retail payment infrastructure. Other financial infrastructure constraints include the lack of collateral registries and credit bureaus such as those of Indonesia, Malawi and Namibia (AFI, 2016a).

Taking movable assets as collateral is another consideration for policy makers and regulators. Some countries (e.g. Zambia, Malawi, Namibia, Nigeria, and Burundi) have incorporated movable assets into their national strategies for accessing loans. This may require the establishment of a National Collateral Registry which will facilitate the use of movable assets as collateral for either business or consumer credit, expanding the scope of eligible assets. IFC countries, such as Vietnam (2012), Ghana (2008), Mexico (2011) and China (2005), have introduced similar initiatives to consider movable assets as collateral (AFI, 2016b). At regional and global levels, the introduction of innovative financing schemes, such as using movable assets as collateral, institutionalising credit information, the provision of credit guarantee mechanisms and reforms in conducting secured transactions, help the MSMEs to access capital (Martinez Peria and Singh, 2014;Wilson et al., 2019).

3.4 Country experience on MSMEs' development policy and strategy that promoted youth inclusive finance

The micro, small and medium enterprises (MSMEs) development policy and strategy, among other policies, promotes access to youth inclusive financial services and builds the entrepreneurial skills of the youth. Benchmarking exercises conducted in 11 countries (Kenya, Rwanda, Zambia, Tanzania, Nigeria, South Africa, Namibia, Indonesia, Thailand, Malesia and India) indicate that the MSMEs' development policies and strategies accommodate relevant policies, strategies and programmes in key thematic areas that are necessary for the development of the sector. As reflected in Table 3.1, the policies, strategies and programmes specified in the MSMEs' development policy and strategy of the benchmarked countries include enabling regulatory, institutional and coordination framework, strengthening entrepreneurial human capital, access to finance and markets, innovation and technology, introducing effective implementation, and monitoring and evaluation mechanisms.

Table 3.1: Summary of benchmarked practices on MSMEs' development from 11 countries that support youth inclusive finance

1. Institutional and coordination framework	
1.1 Harmonisation of policies and coordination of activities	Key stakeholders' framework that provides guidance about harmonious and coordinated programming by relevant actors is developed and implemented. Countries such as Zambia and India have established dedicated ministries for MSMEs' development.
1.2 Statistical information	Promote dissemination of information and national statistics on MSMEs is considered vital for formulation of development policies.
2. Strengthen entrepreneurial and human capital	
2.1 One-stop shop centres and business development services	MSMEs' development policies and strategies provide guidance on strengthening and expansion of one-stop centres, business incubation and acceleration infrastructures. Introduction of mentorship programmes where the business coach provides support to young entrepreneurs to guide, equip and provide technical support to them with business tools including e-commerce and resources that contribute to a successful business.
2.2 Youth and Women entrepreneurship	MSMEs' development polices and strategies provide guidance on policy interventions and strategies for promoting youth and women entrepreneurship.
3. Access to finance	
3.1 Legal and Regulatory framework	Policy measures are taken to deepen and broaden financial markets and promote the use of intangible collaterals to access funds from financial service providers (FSPs).
3.2 Promotion and expansion of other financial instruments such as credit guarantee scheme and machinery leasing	Credit guarantee and machinery leasing schemes are used as one of the mechanisms to expand financial services to MSMEs.
3.3 Provision of capacity building	Capacity building support and financial incentives

and incentives for financial service providers	provided to encourage FSPs to develop innovative financial products that meet the needs of MSMEs.
3.4 Effective coordination of funds run by different government agencies	Current emerging practices, such as the experience in Rwanda, emphasise consolidation of scattered government funds through creation of one-stop agency.
3.5 Alternative windows through stock exchange	Facilitate introduction of flexible requirements that help MSMEs to access the alternative windows opened at the Zambia Stock Exchange.

Source: Author compiled from the MSMEs' development policies of benchmarked countries (Kenya, Rwanda, Zambia, Tanzania, Nigeria, South Africa, Namibia, Indonesia, Thailand, Malesia and India).

Unlike the case in Ethiopia, most of the benchmarked countries introduced a detailed work plan to address the current challenges of MSMEs and how to enhance the institutional capacity of the relevant government agencies so that they will be best positioned to support the implementation of MSMEs' related policies, strategies and the action plan. The master plan includes a number of initiatives, high impact programmes that address the key challenges of the MSMEs, institutionalising an outcome based monitoring and evaluation system (including establishing comprehensive database about MSMEs and clear, well defined and measurable outcomes) for evidence based policy making and decision making, and addressing gaps in coordination among relevant stakeholders.

Ethiopia can draw lessons from the benchmarked practices including consolidating the scattered government funds for youth and women empowerment into a one-stop agency; the provision of financial and technical support particularly to private sector led MFIs to introduce innovative products for the youth; the establishment of dedicated ministry SME development and the establishment of a credit guarantee scheme that will increase the outreach of financial services to the youth.

3.5 Microfinance and sustainable development

There has been an increased recognition by policy makers, government, development practitioners, academics and local leaders that financial inclusion can promote economic and social inclusion of the financially excluded and underserved population. Financial inclusion provides access to financial services to financially excluded people, enterprises, and households. This will, in turn, contribute to sustainable development at a macro level therefore it is a key enabler to achieving sustainable development as envisioned in the 2030 agenda for sustainable development (Klapper et al., 2016;GIIN, 2016;Timermann and Gmehling, 2017).

A well-functioning financial system provides credit, savings, payment, and insurance products to people with a wide range of needs. An inclusive financial system which creates a broad access to financial services benefits poor people and other disadvantaged groups by providing opportunities to invest in income generating activities. These include access to credit, insurance and money transfer services to foster employment and achieve economic growth (GPFI, 2017b). Without access to financial services, it will be difficult for poor people to be engaged in income generating activities, invest in education and pursue growth opportunities. Therefore, lack of access to financial services can contribute to persistent income inequality across the social and economic divide and slower economic growth (Demirguc-Kunt et al., 2018).

In 2015, 193 countries adopted the 2030 agenda for sustainable development which consists of 17 goals and 169 targets in different sectors. It is based on one of the key principles of sustainable development related to the principle of universality which is to “leave no one behind”. This has emphasised the significance of financial services in inclusive development for underserved and vulnerable segments of the population, including the youth, who are excluded from the financial eco-system (GPFI, 2017a).

The challenge of exercising the principle of universality and “leave no one behind” is limited, if not absent, from the lives of marginalised, underserved, vulnerable and hard to reach communities, such as the youth and women, due to their lack of access to financial inclusion. For example, at the end of 2021, only 47 % the youth have a bank account as World Bank Findex database 2021. Development organisations, research institutions and governments have been testing different approaches to enhance the financial inclusion of vulnerable groups. These include digital financial services, the implementation of financial literacy programmes targeting underserved and vulnerable groups, flexibility and expanding the use of standardised ID systems (GPFI, 2017a;GPFI, 2017b). In addition, measures to enhance and strengthen research through establishing comprehensive databases, including disaggregated data, that identify underserved, vulnerable groups that are “left behind” (UNCDF, 2012;AFI, 2016a;GPFI, 2017b). This is despite the SDG’s recognition of the vital role of financial inclusion to eliminate poverty, hunger, gender inequality, and to build economic growth (GPFI, 2017a;GPFI, 2017b).

Currently, the microfinance sector is aligning its strategies of investment to fast track the achievement of the 17 aspirational Sustainable Development Goals (SDGs) by 2030 aimed at ending poverty, protecting the planet, and ensuring prosperity for all. Each goal has targets that require some form of financial investment, and the UN estimates that developing countries alone face a $2.5 trillion gap in financing (Schoellmann, 2014;Klapper et al., 2016;UNDP, 2018).

Microfinance, which focuses on investment, has the potential to unlock private capital that can contribute to addressing a wide array of societal issues including employment creation, expanding renewable energy services, and boosting agricultural production through the provision of financial services to access improved agricultural inputs and technology. Though the 2030 Agenda does not include a stand-alone SDG on financial inclusion, it considers it to be a key enabler for achieving sustainable development worldwide, hence it is featured in the seven SDG goals which are summarised in the Table 3.2 below:

Table 3.2: Potential contribution of financial inclusion to Sustainable Development Goals (SDGs)

Description	SDGs
Create job and employment opportunities, generate income and prevent people falling into poverty by mitigating risks of unexpected expenses.	1 NO POVERTY
Expand access to credit and insurance helps farmers to acquire improved seeds and other agricultural inputs, make bigger investments and increase their production to bolster greater food security.	2 ZERO HUNGER
Generate income and access to health and financial services to manage medical expenses, including financial risk protection, and rebound from a health crisis to ensure healthy lives and promote well-being for all.	3 GOOD HEALTH AND WELL-BEING
Expand access to investment in education and to student loans for the lower income section of the population.	4 QUALITY EDUCATION
Advance the economic empowerment of women by giving them equal rights to economic resources, as well as ownership and control over financial assets and services.	5 GENDER EQUALITY
Access to financial services allows people to create job and employment opportunities and gain higher returns on capital, leading to sustainable economic growth and productive employment.	8 DECENT WORK AND ECONOMIC GROWTH
Access to financial services including affordable credit, foster innovation and expansion of SMEs which are the backbone of industrialisation.	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Access to financial services contributes to reducing inequalities by helping people to absorb shocks (e.g. insurance) and position them to succeed economically.	10 REDUCED INEQUALITIES

Source: Compiled by the Author and adapted from (GPFI, 2017a)

Table 3.2 above shows that financial institutions that provide microfinance services are important actors in building sustainable economies that reduce poverty, enable all people to attain their full potential in life and contribute to the achievement of the SDGs. This requires building the capacity of financial institutions, strengthening governance; finding diversified sources of funding; expanding outreach through digital financial services; and providing efficient services.

3.6 Empirical review of the role of microfinance in youth livelihoods

Microfinance is recognised by policy makers, development partners, practitioners and researchers as an effective tool for poverty alleviation as they contribute to improvement of the quality of life and living standards of underserved and vulnerable sections of the population such as the youth. Financial services have the potential to drive development and facilitate investment in health, education and business services to escape poverty (Demirguc-Kunt et al., 2018). At the G20 Summit in Seoul in 2010, financial inclusion was recognised as one of the main pillars of the global development agenda (AFI, 2016a). Such recognition attracted more investments in the area of microfinance.

The theory behind creating adequate access to financial services for the low-income section of the population, including youth and women, is the strong belief that financial services have a positive role to play in creating sustainable livelihood opportunities and reducing poverty. Financial services foster the growth and development of small and medium enterprise by providing start-up and business expansion capital, among other financial services. Microfinance has been helping the vulnerable population to access resources to meet financial needs including to start, grow and capitalise on business opportunities; cover costs of health services; invest in education; save for the future including retirement; and create prosperity for families and communities (WBG, 2013;Demirgüç-Kunt et al., 2015;Mecha, 2017). Financial services also provide financial coping mechanisms, including financial tools to meet their financial needs and to protect their assets in the face of shocks or disasters (Gash and Gray, 2016). Individuals who do not have access to financial services may not have adequate resources to plan for their futures including saving for investment in business opportunities; investment in education; retirement; and mitigation of stresses and shocks (Demirgüc-Kunt, 2008).

The Consultative Group to Assist the Poor (CGAP), a think tank group and global partnership of more than 30 leading organisations that work to advance financial inclusion in the world, claims that appropriate financial services can improve the welfare and promote micro and small enterprises. The role of financial inclusion, more specifically microfinance in improving individual and household welfare as per the guidance from CGAP, is summarised in Table 3.3 below:

Table 3.3: The role of microfinance in improving individual and household welfare by CGAP

Type of Product	Role in Improving Welfare of Individuals and Households
Credit	Access to microfinance services means that individuals can start or expand micro and small enterprises which encourages investments in assets. In many countries, access to financial services has helped business operators to grow their business and become profitable.
Savings	Access to financial services, particularly savings, helps households to build additional capital, manage cash flow, smooth consumption, meet seasonal events, invest in education, and access health services. Saving services allow underserved and vulnerable people to save and use the saving for future use (expand their business, invest in education, access services such as health services etc.) and to obtain returns on their investments.
Insurance	Appropriate financial instruments mitigate risks, help vulnerable individuals and households to try risky business opportunities to help themselves and their families. Such financial services include weather-based index insurance which helps farmers to be less vulnerable in the face of droughts or natural disasters.
Payments and mobile money	Having an efficient way of making payments reduces households' transaction costs. Rather than travel long distances, people can do business on their mobile phones.

Source: Consultative Group to Assist the Poor (CGAP) 2018

Globally, policy makers, research organisations, development institutions, impact investors and governments have been expanding financial services to the youth. According to the Global Findex Database (2021), as reflected in Table 3.4, the numbers of the youth who have accounts in financial institutions has reached 66% globally, 58% in South East Asia, 48% in sub-Saharan Africa and 47% in Ethiopia. This signifies that, despite good progress, a high number of the youth in Ethiopia, in particular, and Africa, in general, are financially excluded. This hampers them from becoming actively involved in improving their livelihoods and contributing to economic development.

Table 3.4: Financial inclusion data by age category: Comparison of Ethiopia with the rest of the world

Financial Institution Account	**Ethiopia**		**Sub-Saharan Africa**		**South Asia**		**World**	
	2017	**2021**	**2017**	**2021**	**2017**	**2021**	**2017**	**2021**
15-24 years of age	28%	47%	37%	48%	60%	58%	56%	66%
25+ years of age	38%	46%	46%	58%	73%	72%	72%	79%

Source: Compiled by the Author from World Bank Global Findex Database 2021(Demirgüç-Kunt et al., 2022)

While access to appropriate financial services which meet their needs is believed to help youth to create job opportunities, earn income, and build their own assets and sustainable livelihoods, there is scant global literature and research on the role of financial services on youth livelihoods.

Omunjalu and Fondo (2014) conducted research in the economic empowerment of the youth in Mombasa County in Kenya. The researchers administered questionnaires, used descriptive surveys, qualitative and quantitative research methods in order to gather and analyse data to reach their conclusions. The final data were presented in the form of frequencies, tables, percentages, pie charts and bar graphs. The research findings showed that microfinancing influenced economic status, decision-making power and knowledge hence it was effective in graduating the poor youth and the middle class to higher living standards.

Megan (2014) conducted research in the West African country of Mali to understand how financial services combined with financial education allowed the youth to manage lifecycle events, finances, social capital, self-confidence, socio-financial capabilities and empowerment. The study findings show that the youth benefited in terms of better knowledge and attitudes to money management. According to the study, the biggest challenge to accessing and using financial services for the youth is saving money.

A descriptive survey was conducted by Ondoro and Omena (2012) in Migori County of Kenya to assess the effects of financial services on the empowerment of the youth on 339 purposively selected microfinance beneficiary youth groups and 513 microfinance beneficiary individual youths who had obtained financing from the Kenya Youth Enterprise Development Fund. Unlike other findings, Ondoro and Omena (2012) argue that there is no significant relationship between microfinance services and savings or investment among the youth in the Migori County. Rather, the findings indicated a positive correlation and relationship between microfinance services and financial management skills. More training is cited in the study as one of the corrective measures to be taken among the youth to enable them to understand the importance of microfinance services. The study also recommends that additional research be done to investigate the effect of the services on the financial empowerment of the youth over a period of time.

Case studies in Uganda, Burkina Faso and Ghana conducted on youth microfinance programmes as tools for promoting entrepreneurship, innovation and youth economic empowerment showed relevance of certain elements. They included: youth tailor-made financial products (like Girls' Choice, Teen Classic and youth progress); use of digital finance such as ATM by the youth in Uganda by Uganda Finance Trust (UFT); the importance of parental involvement in the provision of additional financial, emotional and risk management support including using financial services and credit accessed from financial institutions productively; the relevance of coaching and mentoring for the youth to manage their finances, business and technical matters; integrating financial services with non-financial services (business trimming, mentoring and coaching) for better results; and the role of microfinance in increasing job opportunities and income (Reinsch, 2012).

Other research conducted on specific countries, such as Mexico, to assess the impact of access to finance on the welfare of the poor indicates that access to finance improves income and reduces poverty. Aportela (1999) in Mexico notes that access to financial services increases the savings of the poor which creates opportunities for investment in innovation and expansion, building assets and fostering sustainable livelihoods. This means that, when income increases, individuals or firms have opportunities to save, which contributes to building assets. This also opens opportunities for investment, introduces innovative business opportunities, expands businesses, improves education and provides access to health services.

A national study of microfinance in India commissioned by the Small Industries Development Bank of India (SIDBI) in 2008 on 4,510 households highlights the benefits received by the client households, including youth, from their association with microfinance, in terms of expansion and diversification of livelihood activities, growth in employment opportunities, income growth, asset acquisition, savings, access to loans from various sources, reduction in vulnerability and the enhancement of women empowerment (SIDBI, 2008). The study illuminates the vast, unfulfilled demand for microfinance in India, and that the MFI sector has the potential to grow and serve the low income segment of the population.

The global focus of financial services on economic growth, poverty reduction and the creation of sustainable livelihood opportunities for young women and their families is included as a priority in the World Bank's and the OECD's progress report to the G20 (AFI, 2016a). Research conducted by the International Finance Corporation (IFC) also emphasises that financial services have a positive role in women's active participation in the economy by empowering them to help themselves and their families (AFI, 2016a).

3.7 Factors influencing access to finance for the youth

Many low-income people in developing countries still cannot access financial services, the youth, in particular, face many barriers that include: legal and regulatory barriers including age limitations to legally open an account; negative perceptions of the youth by financial institutions; a lack of specific and tailor made products and services; low financial capability; and low financial literacy. These are discussed in detail below:

a. **The youth as a target group by MFIs:** Most financial institutions, such as banks, credit unions and microfinance institutions, do not consider the youth as specific target group in providing financial services and financial products that meet their specific characteristics and needs. While financial service providers have been increasingly developing dedicated financial services, they do not have the skills or knowledge to develop youth inclusive and friendly financial products (UNCDF, 2012;UNCDF, 2015;AFI, 2016a).

b. **Perceptions about youth, characteristics and lending procedures:** The youth are considered as risky and not a bankable option. The specific characteristics of the youth that FSPs consider pose risk to them include: small and irregular income flows including deposits; and the sensitivity of the youth to price which forces them to set a minimum balance requirement and charge fees that are not acceptable to the youth (UNCDF, 2012;UNCDF, 2015;AFI, 2016a).

As a result, the FSPs do not consider serving the youth to be a good business case in the short term because providing financial services to the youth may require relatively greater initial upfront investments with the expectation of long term profitability. This could be one of the reasons that FSPs are reluctant to consider the youth as a specific target group.

Kebede and Abera (2014) and Wale and Makina (2017) found that account ownership and use is found to be higher among males, middle aged, high income and educated individuals but low among the youth. The emphasis on income and education suggests that more policy attention is required in respect of these two factors. Due to causality issues between financial inclusion and income, addressing the plight of the poor in financial inclusion projects will be a continuing challenge for policy makers (Wale and Makina, 2017). Kebede and Abera (2014) reveal that age of operator, educational level, and possession of fixed assets, employment size, lending procedure and loan repayment period are significant factors that affect MSEs' access to credit. MSEs run by operators over 40 years of age who have reached TVET/college and above, possess fixed assets and have more than six employees are more likely to access credit from formal financial institutions than MSEs run by operators of 31-35 years of age, with no formal education, no fixed assets and with 1-2 employees.

Financial institutions mainly give access to financial services to individuals who have regular sources of income, fixed assets which can serve as collateral, better employment status and financial literacy. Lipido (2012), in a study on access to financial services in Nigeria, identified factors that increase access to financial services, which include: regular income and employment status; financial literacy; appropriate means of identification; distance to financial institutions; and reduced cost of banking services. The challenge for the youth is having a regular income and employment status. The FSPs also have requirements that can hamper access to financial services which include: a lack of simple procedures; heavy documentation requirements to access services; and problem to provide close door services (Wale and Makina, 2017).

c. **Policy and Regulatory Barriers:** There are policy and regulatory barriers that set the minimum age and Know Your Customer (KYC) requirements for opening bank accounts. Most regulatory frameworks are not designed for the needs of the youth who require regulatory frameworks that are youth inclusive. Other key challenges related to regulatory requirements that affect the youth are: high collateral requirements; inadequate credit bureaus; and contract enforcement (AFI, 2021).

   The other most important issue in implementing an appropriate policy and regulation is setting a delicate balance between introducing regulatory interventions that promote digital financial services and, at the same time, supporting prudent risk management which emanates from such services. Although it is believed that digital financial services play a big role in increasing the outreach of financial services to the youth, its successful implementation requires supportive policies, strategies and regulations that help to mitigate new risks for financial services providers and the youth who are interested in using the digital financial services. Digital financial services are particularly relevant in the context of the business and economic slowdown caused by COVID-19.

d. **Capabilities of the youth:** Financial capability is defined as "the combination of knowledge, skills, attitudes, and especially behaviours that people need to make sound personal finance decisions, suited to their social and financial circumstances" (UNCDF, 2013). One of the common factors contributing to low performance in reaching out to the youth with financial services is the limited financial capacity and experience of the youth themselves. Many youths have misperceptions and a mistrust of banks that make them less willing to engage with FSPs. They may also lack basic knowledge about how financial services work, as well as having limited awareness of the financial products and services on offer and how they can benefit from them. Youth looking for finance to start and grow businesses may not only struggle to mobilise the required collateral and guarantees, they might also have unrealistic expectations about their business needs and lack the requisite business experience or credit history (UNCDF, 2012;UNCDF, 2015;AFI, 2016a). Additional business development services and capacity building are some of the key measures that may help to address constraints related to the capacity of the youth in managing financial transactions and operating successful businesses.

Overcoming barriers and achieving successful youth financial inclusion requires a multi-stakeholder approach that engages government (including policy makers, regulators, and line ministries), FSPs, Youth Service Organizations (YSOs), other youth stakeholders, as well as the youth themselves (UNCDF, 2012). The introduction and implementation of policies that foster competition among the financial institutions and the development of appropriate infrastructure, including the use of agents and mobile banking, by FSPs may reach remote markets and mitigate the distance barrier. Financial literacy programmes and flexibility in Know Your Customer (KYC) regulations can address the problem of documentation requirements and the lack of trust in financial service providers (Wale and Makina, 2017). This study assessed the barriers that Ethiopian youth face in accessing microfinance and presents recommendations to address the challenges.

3.8 Financial literacy and youth

The term "financial literacy" refers to financial knowledge and its practical application that affects material wellbeing (Zait and Bertea, 2015). Studies conducted in United States and SSA indicate that people who have a low level of financial literacy postpone saving (UNCDF, 2012;UNCDF, 2015). Enhancing financial literacy and inclusion will increase the financial capability of the youth taking in to consideration the importance of saving and the accumulation of assets to increase the educational and entrepreneurial opportunities for youth (Chowa and Ansong, 2010). This will provide opportunities for them to expand their businesses and introduce innovative business practices.

Many countries are concerned about financial literacy of the youth as it affects financial decisions which may have spill-over effects. As a result, it is an important tool for development and financial stability. Appreciating the relevance and importance of financial literacy for the youth, it is recommended that the financial education starts as early as possible and be taught in schools as a part of school curriculum that helps to build knowledge and skills for responsible financial behaviours (OECD., 2014). Financial institutions will be incentivised to consider the youth as preferred clients as they demonstrate responsible financial behaviour.

3.9 Financial services and gender

Women financial inclusion is considered a critical enabler to deliver on the global commitment to UN Sustainable Development Goals and more specifically goal number five which deals with achieving gender equality and empowering all women. The World Bank and the OECD underlined the importance of financial inclusion for economic growth and poverty reduction and identified greater financial inclusion for women as a priority in their progress report to G20 (AFI (2016a)).

Young women are also among the most financially excluded segment of the population. Reasons for the financial inclusion of women, among others, include: its empowerment and transformative effect; its ability to boost young women's economic potential; women's role in education, health and employment; the benefits for their families and societies (CGAP, 2023).

Improving financial inclusion for women, in particular young women, provides significant benefits in terms of economic growth, greater equality and societal well-being. However, the lack of women's access to finance shows gender disparity at national, regional and global levels. The Global Findex Database 2017 indicates that more than one billion women are still excluded with a 7% gender gap in access to financial services across developing economies (WBG, 2018). Globally, over 70% of women-led SMEs are either financially or materially underserved (AFI, 2016a).

Based on The Global Findex database (2021), Africa is the lowest (49%) in bank account ownership by women compared to other continents including Europe and Central Asia (88%), East Asia and the Pacific (81%) and Latin America (70%). As shown in Figure 3.1 that depicts the status of women bank account ownership in Africa, Ethiopia is among the lowest (39%) compared to other countries in East Africa including Kenya (75%), Uganda (65%), Tanzania (46%) and Rwanda (45%). The top four African countries that reported better performance in women's account ownership include Mauritius (89%), South Africa (86%), Kenya (75%) and Namibia (69%). The factors that contribute to better performance in women bank account ownership include: enabling regulatory framework; promotion of digital finance; and financial education and literacy.

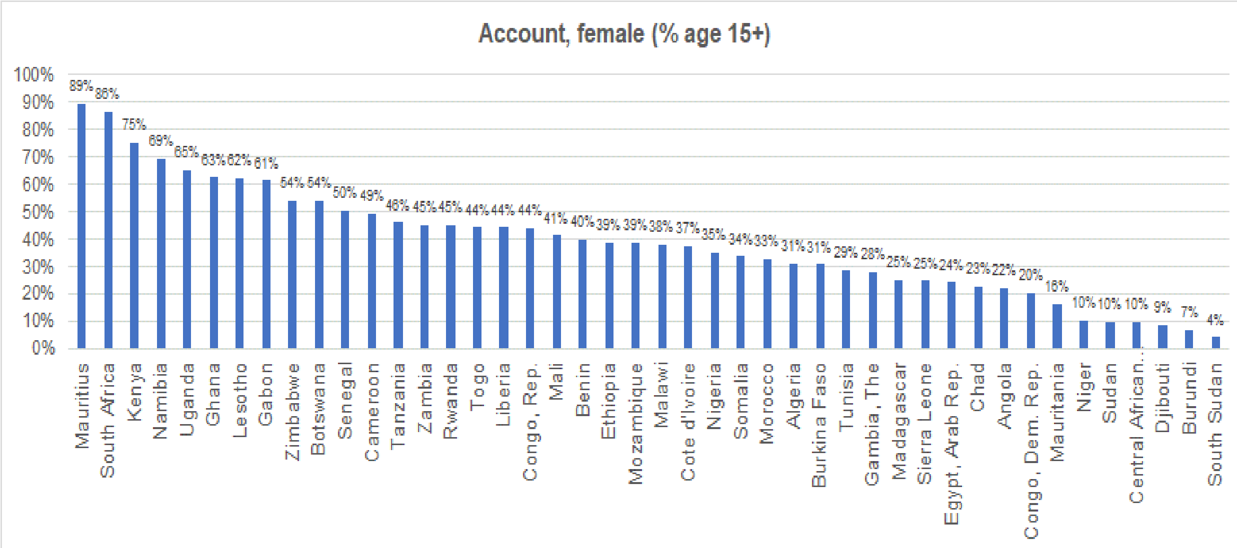


Figure 3.1: Women account ownership in Ethiopia and the rest of Africa

Source: Compiled by the Author from Global Findex Database (2021)

Increasing access to financial services to women may lead to greater security and prosperity for their families, enterprises and communities thereby breaking the cycle of poverty. Studies conducted by OECD (2010) show that women are far more likely than men to spend money on the education of their children, the health care for their family and improving their housing. These are the kinds of developmental changes that go beyond one generation and create a long term impact on the family, community and the country. The report by Mckinsey Global Institute shows that advancing women's equality could add an estimated 12 trillion USD to global GDP by 2025 (AFI, 2017;MGI, 2015). That is why the inclusion of women has become a global agenda as part of the SDGs. Zambia has established task force that focuses on women's financial inclusion that follows up and monitors the implementation of the National Gender Policy in the financial sector through advocacy and gender mainstreaming (Kawesha, 2015).

Globally the gap in access to financial services for men was 78% compared to women (74%) that dropped to 4 percentage points for the first time in the past decade according to Findex 2021 database. However barriers such as a lack of identification or a mobile phone, distance from a bank branch, and low financial capability still continue to hamper women's financial inclusion (Demirgüç-Kunt et al., 2022).

Among the positive potential benefits of financial access for women include influence over their household's spending priorities, less dependence on riskier income sources, and more resilience to weather unexpected expenses. However, there are wide variations in the gender gap across regions and countries in that, for example, the SSA one of the regions along with middle east and north Africa that the gender gap is three times the world average and two times the size of the developing economy average, at 13 percentage point and 12 percentage points, respectively Demirgüç-Kunt et al. (2022). Ethiopia has a gender gap of 16 percentage points. Mozambique has a gender gap of 22 percentage points and South Africa has not gender gap. Mobile phone penetration in SSA is contributing to building financial inclusion and closing gender gap (Demirgüç-Kunt et al., 2022).

Access to financial services may not guarantee successful women owned enterprises. Most women who lead enterprises are likely to face challenges to access a wide range of financial services, due to a lack of collateral, insufficient skills and knowledge in entrepreneurship, and inadequate financial literacy (ADB, 2014). Therefore, women need training and business development, entrepreneurship advisory support and access to markets.

In Ethiopia, the government has put in place policies and programmes that promote women owned MSEs to facilitate their access to financial services. The theory behind gender financial inclusion is that women can be socially and economically empowered with equal access to financial services including credit, savings, insurance and related services (CGAP, 2021; ILO, 2021).

3.10 Conclusion

Inclusive financial systems in developing countries are mainly built on the microfinance revolution. The key shortcomings of a donor based microfinance model include a lack of sustainability as it requires the allocation of fund to cover loses. This has led to the emergence of a modified commercial approach to microfinance that is more sustainable as it accommodates a combination of interventions such as: the development of a market system; the application of market based interest rates; capacity development for financial institutions in terms of strengthening their governance structures; and addressing capacity issues of staff of the financial institutions involved in providing microfinance services.

There has been an increased recognition by policy makers, government, development practitioners, academics and local leaders that access to financial services can promote economic and social inclusion of the financially excluded and underserved population. The theory behind creating adequate access to financial services for the low income section of the population, including youth and women, is the strong belief that financial services have a positive role to play in creating sustainable livelihood opportunities and reducing poverty. Financial inclusion provides access to financial services to financially excluded people, enterprises and households. Without access to financial services, it is difficult for poor people to be engaged in income generating activities, to invest in education and to pursue growth opportunities. Access to financial services, in turn, contributes to sustainable development at a macro level therefore it is a key enabler to achieving sustainable development (particularly SDG1, SDG2, SDG 3, SDG 4, SDG 5, SDG 8, SDG 9 and SDG 10) as envisioned in the 2030 Agenda for Sustainable Development.

The other interrelated intervention is the micro, small and medium enterprises (MSMEs) development policy and strategy that promotes better access to inclusive financial services and supports building the entrepreneurial skills of the youth. The lesson learned from 11 benchmarked countries indicates that, to be effective, MSME's development policies and strategies should accommodate programmes in key thematic areas that are necessary for the development of the sector. Among others, they include: enabling regulatory, institutional and coordination frameworks; strengthening entrepreneurial human capital: access to finance and markets; innovation and technology; and introducing effective implementation, monitoring and evaluation mechanisms.

In many countries, innovation has been outpacing regulation in the financial sector. Regulatory frameworks should allow financial institutions to reach different market niches including children, farmers, business people, the youth, women, pastoralists and agro pastoralists. The regulatory framework should encourage innovation in the financial sector including in digital finance. However, in practice, there are challenges with the regulatory framework of different countries though the complexity of the problem varies from country to country. The regulatory framework that promotes youth inclusive finance includes: introducing a risk-based KYC framework that allows flexibility to identify the low segment of the population including the youth; the use of movable assets as a collateral; the implementation of credit guarantee schemes; promotion of digital financial services; protection of small borrowers through introducing tailor-made consumer protection regulations; integrating MFIs into credit information bureaux; and promoting and supporting capital goods leasing companies. Ethiopia should learn from flexible regulatory interventions, such as risk based KYC, credit guarantee schemes and digital financial services.

Empirical literature evidence on the role of microfinance in improving livelihoods in different contexts of Africa, North America and Asia were considered. The empirical literature discussed in this chapter used a variety of empirical approaches to assess the role of microfinance on livelihoods, including the youth. They include: descriptive surveys, and qualitative and quantitative research methods to gather and analyse data and reach their conclusions. These empirical studies showed different results. For example, the empirical study conducted in Mali emphasised the use of both financial services and financial education; the study conducted in Uganda identified youth tailored financial services, parental involvement and coaching and mentoring for the success of livelihood programmes; and the empirical study in Migori county of Kenya showed no significant relationship between microfinance and savings. Most of the empirical evidence supports the potential of the microfinance sector to serve the low income segment of the population.

Although many low income people in developing countries still cannot access financial services, the youth, in particular, face many barriers that include: negative perception of the youth by financial institutions as risky and not a bankable option; legal and regulatory barriers including age limitations to legally open an account; a lack of specific and tailor made products and services; low financial capability; and low financial literacy. Young women are also among the most financially excluded segments of the population. There are several reasons that young women financial inclusion is critical.

CHAPTER 4: CONCEPTUAL FRAMEWORK AND METHODOLOGY

4.1 Introduction

This section discusses the conceptual approaches, research design and methodology of this research. The conceptual framework was developed based on a sustainable livelihood framework to examine the existing inclusive finance policies, regulations, context and structure in Ethiopia, understand the type of the financial services provided by MFIs and find out whether the products and services are meeting the needs of the youth to enhance their livelihood opportunities.

The research design and methodology section cover issues including: the research approach; sampling technique; variable definition and measurement; data collection instruments; method of data analysis; validity and reliability and ethical aspects of the study. A mixed method research (MMR) design was used to achieve the objective of the research, answer the research questions, and come up with the findings and conclusions that add value to the role of microfinance in urban youth livelihoods.

4.2 Conceptual approaches

The provision of microfinance is not an end in itself but is an enabler that facilitates the access to financial resouces to start or expand businesses, introduce innovative business practices or save money for future investment, including in health and education. It has important benefits that allow vulnerable youth to become productive citizens and to achieve their aspirations, and women to improve their livelihoods to benefit their children, families, community and contribute to the economic development of the country. Financial inclusion, as an enabler for realising full and equal access to financial services, is recognised by the Addis Ababa Action Agenda (AAAA) which is the financial framework for the Sustainable Development Goals (SDGs)(UN, 2015a).

A sustainable livelihood framework with a Sustainable Livelihood Analysis (SLA) complemented by Household Economic Portfolio (HEPM) was adopted and used as the theoretical approach taken for this study (Ashley and Carney, 1999;Krantz, 2001;Solesbury, 2003). In the 1990s and at the beginning of the new millennium, livelihood studies became part of development studies and the Department of International Development (DFID) started promoting sustainable livelihoods as the core of the institution's poverty alleviation policy (Haan, 2017). Sustainable livelihood means that a social unit, such as the youth, has the ability to enhance its assets and capabilities and cope with shocks and stresses over time (Krantz, 2001;Solesbury, 2003). SLA has been a dominant approach used to understand the implementation of development interventions, strategies and activities that have a role in building sustainable livelihoods at household level. These approaches are expected to provide long-term and sustainable improvement in the fight against poverty.

HEPM, a conceptual model, developed by Chen and Dunn (1996), is considered in developing the conceptual framework as it helps to overcome the problem of fungibility of money. With the application of HEPM, credit received by the youth is considered an additional resource that supports their livelihood activities. The model explains the interactions among a package of resources (human, physical and financial), economic activities and the key links and flows among them.

Following the context of the SLA framework, the provision of financial services, including savings and credit, is considered to increase income, savings as well as the ownership of household assets. This is applicable to the urban youth in a sense that, in order to manage as well as improve their livelihood, they pursue a number of different activities including urban agriculture, manufacturing (leather, textile, woodwork and related), trade, creatives and handcrafts, and related businesses. Applying the concept of SLA, a livelihood is considered to be sustainable when it can cope with and recover from stress and shocks and enhance its capabilities and assets both now and in the future (Rakodi, 2014).

The other important concept considered in the SLA and in the framework for this study is the role of policies and strategies which enable the low income segment of the population, such as the youth, to carry out effective livelihood strategies. Development policies and strategies, and interventions such as microfinance can be considered effective if they facilitate better access to financial services for the youth, open up productive business opportunities and provide better access to markets which contribute to improve livelihoods.

Mago (2014) assessed how the provision of financial services, such as microfinance, contributes to strengthening household assets in the context of the SLA approach. The sustainable livelihood framework was adopted to assess the link between microfinance and livelihood through strengthening the assets owned by the household (Mago, 2014). The other important aspect of the SLA is how it treats the relationship between economic growth and poverty reduction. The approach acknowledges that economic growth should trickle down to the low income segment of the population, such as the youth, and that they should benefit from the advantages of economic growth by enhancing their capabilities. Moreover, the SLA approach addressing poverty is considered multidimensional as it involves not only an increase in income but also enhanced access to health, capabilities and related factors.

The following conceptual framework was drawn for this study based on the SLA approach and previous studies conducted by Stewart et al. (2010), Harvie (2010), Abul et al. (2012) and Megan

(2014) on the role of microfinance in improving livelihood in communities in sub-Saharan Africa.

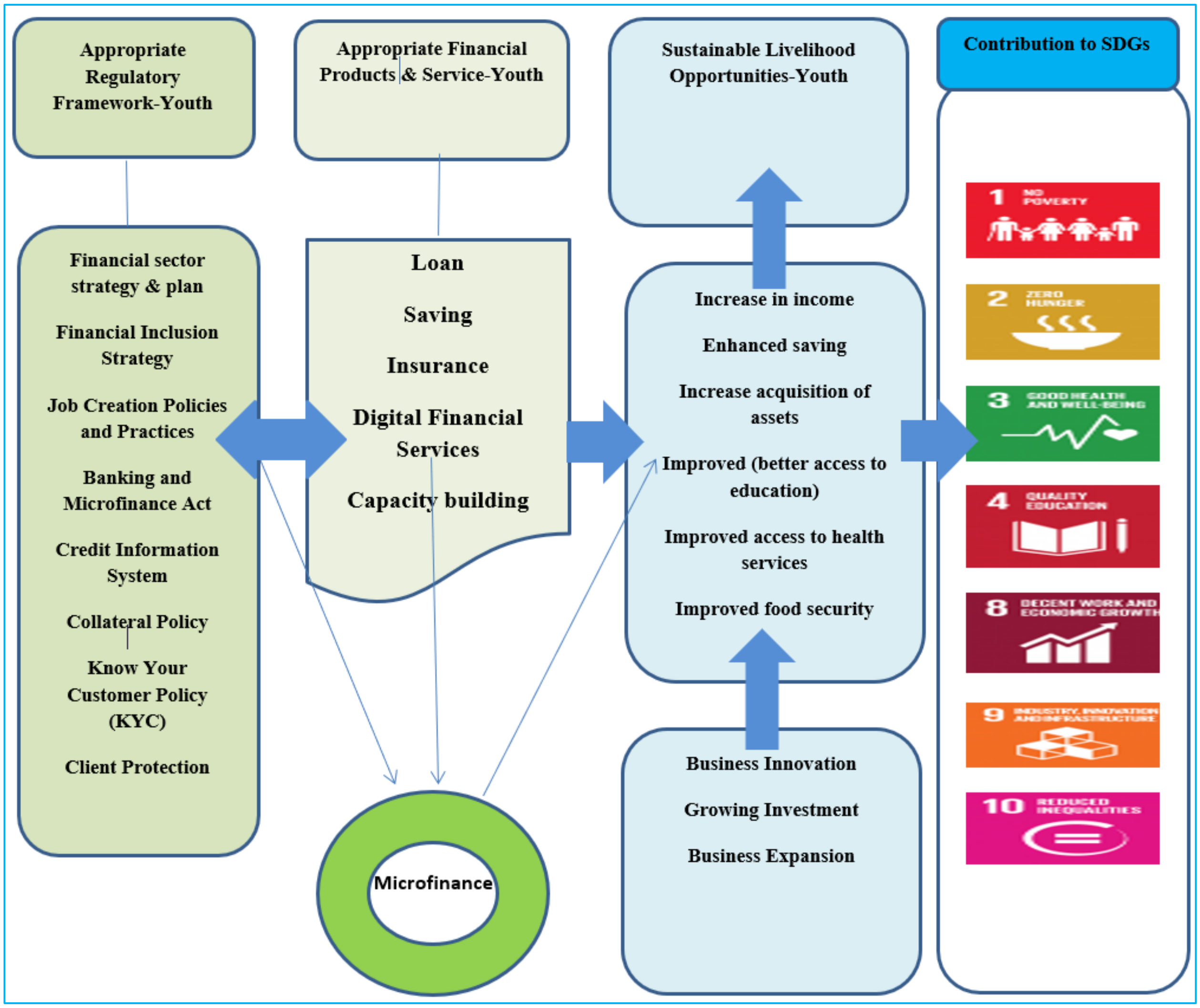


Figure 4.1: Conceptual framework-role of microfinance in youth livelihoods

Source: Adapted from Stewart et al. (2010) and Klapper et al. (2016)

The theoretical framework aims to answer the research questions. The conceptual framework (as shown in Figure 4.1) was developed to examine the existing context and structure of youth inclusive finance policies and regulations in Ethiopia; understand the type of financial services provided by MFIs; and find out whether the products and services meet the needs of the youth to enhance their livelihood opportunities. Improvements in the livelihoods of the urban youth were measured by assessing how microfinance helps them to increase income and savings, and the acquisition of assets through business innovation and expansion, growth of investments and creating access to education and health services. This way, an attempt is made to see the role of microfinance in contributing to Sustainable Development Goals through improving the youth livelihoods.

For the purposes of this study, the youth are defined as between 18 and 35 years of age which is aligned with the definition in the youth revolving fund establishment proclamation (number 995/2017) and African Youth Charter (2006) which was adopted by the seventh ordinary session of the AU Assembly. The definition of the youth in terms of age has not been commonly agreed by policy makers and development actors. The Youth Policy (2004) of Ethiopia, which follows the definition applied by United Nations (UN) defines the youth as "part of society who are between 15-29 years". The youth revolving fund establishment proclamation (number 995/2017) defines youth as "male and female of Ethiopian nationality falling within the age of 18-34 years". The African Youth Charter defines youth as persons between the ages of 18 and 35 (excluding the minors between ages 15 and 17 which are covered in the African Youth Charter). Other African countries which have extended the age of the youth to 35 include Tanzania, Egypt and Madacscar (AFI, 2021).

The framework presents the key factors and linkages for microfinance to create sustainable livelihood opportunities for the youth. First, a successful youth inclusive microfinance depends on the introduction of enabling policy, strategy and a regulatory framework to establish strong institutions that provide meaningful financial services that meet the specific needs of the youth.

The provision of proper microfinance services supports the youth to meet financial service needs to capitalise on business opportunities, generate income and transform their lives by unlocking the potential of microfinance to address youth unemployment and achieve the SDGs as presented in the conceptual framework.

The conceptual framework is used to understand the regulatory and policy frameworks of microfinance, the types of financial services, the role that financial services play in improving the livelihoods of the urban youth. It identifies challenges and makes recommendations that will foster sustainable youth livelihoods.

4.3 Research design and methodology

4.3.1 Research approach

A mixed method research (MMR) approach, as illustrated in Figure 4.2, was used to achieve the objective of the research, answer the research questions, produce findings that add value and reach a conclusion on the role of microfinance for urban youth livelihoods (Ngulube, 2020). A mixture of both qualitative and quantitative methods with cross sectional data was used to achieve the objectives of this study that had a multi-disciplinary nature. More specifically, a convergent mixed method research approach was followed by a single phase timing design that collected statistical data through quantitative method (survey) and captured the views and opinions of financial service providers, central bankers and other key stakeholders through a qualitative method that included Focus Group Discussions (FGDs) and key informant interviews that were conducted separately but concurrently. A mixed method was used as it provided a comprehensive picture in circumstances where a single research method was unable to fully investigate the phenomenon

(Ngulube, 2020).

The research captured statistical information and views and opinions from central banks and relevant government bodies, microfinance institutions, non-governmental organisations and key stakeholders that promote the use of financial services to empower the youth. The mixed method approach captured multiple perspectives and insights to answer the research question, explain the phenomenon and contribute to building a better world as envisaged in the 17 Sustainable Development Goals (SDGs) by “leaving no one behind” (Ngulube, 2020). Primary and secondary data were collected. The primary data were obtained from the beneficiaries and key stakeholders and the secondary data were gathered from the Central Bank of Ethiopia, selected financial service providers and selected governmental and non-governmental organisations.

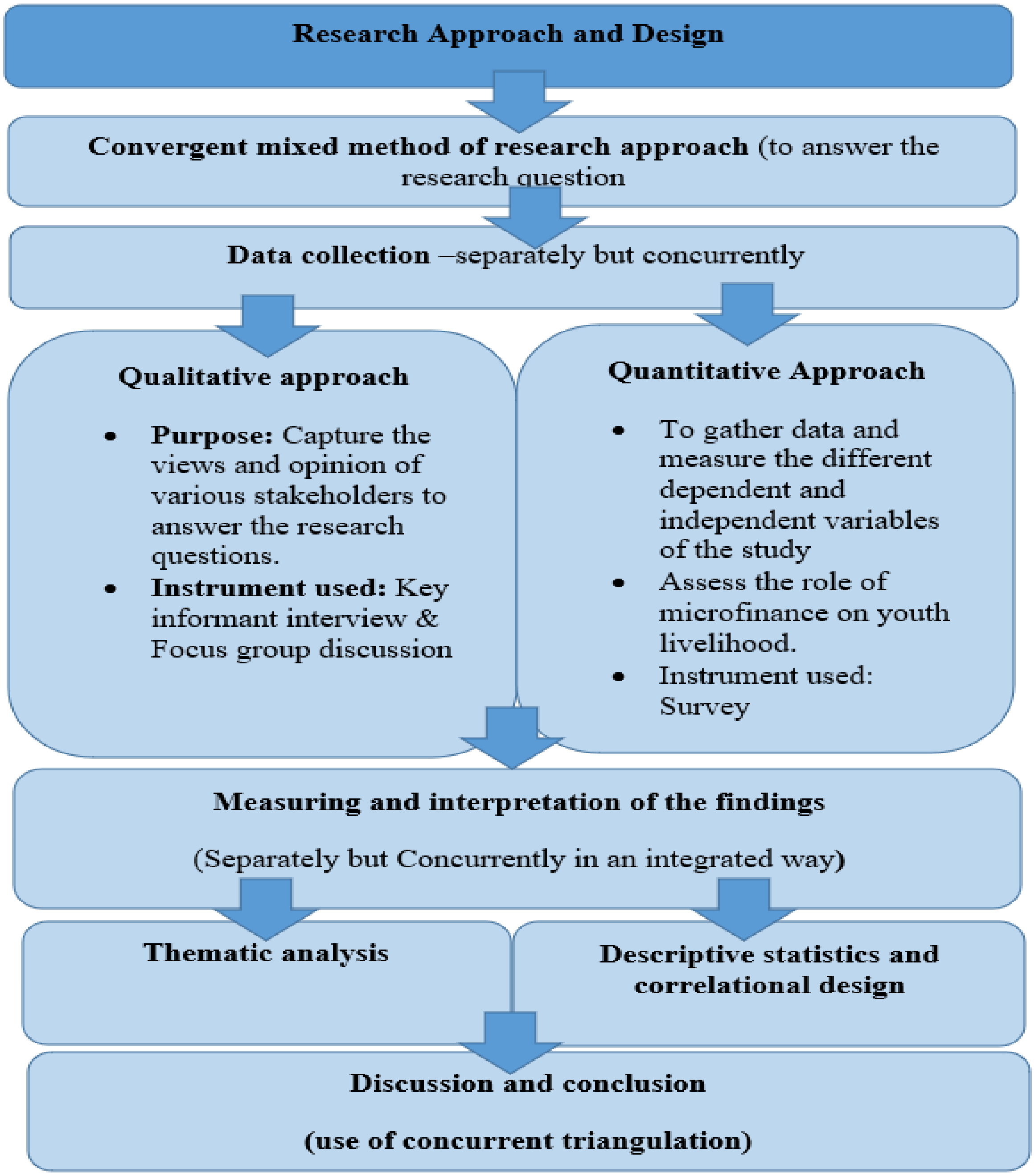


Figure 4.2: The research approach and design

Source: Author adapted from Ngulube (2020).

4.3.2 Research design

The study was based on cross sectional data where the variables considered for this study are compared at the same time. A descriptive and correlational design was used to measure the independent variables' credit performance and its constructs, saving performance and its constructs, youth capacity building and its constructs, and the dependent variable of youth livelihood and its constructs. Thematic analysis was used to systematically analyse the qualitative data. SPSS was used to analyse the quantitative data and Atlas ti.9 software to analyse qualitative data.

4.3.3 Population

The research population included 500,000 MSE operators at national level including the selected four major regions (Addis Ababa Administration, SNNP, Oromia and Amhara) of Ethiopia who benefited from the government microfinance programme (FEMSEDA, 2016). The microfinance programme is mainly designed to support the youth and women. The cities that represent the four regions and considered for the study were Addis Ababa, Hawass, Adama and Bahirdar, respectively.

4.3.4 Sampling frame, technique and sample size

The researcher employed a sampling technique to study a relatively small part of the target population and yet obtain data that were representative of the whole population (Sarantakos, 2017). A purposive three stage sampling with cluster-based sampling was deployed to determine the sampling frame at each stage, to select regions, towns, and branches from three MFIs considered for this study. In Ethiopia, the administrative structure is divided into regional government, chartered cities, zones (sub-city in towns), Woreda and Kebele. Kebele is the smallest administrative unit.

Accordingly, the MFIs purposively selected for this study, which are assumed to be representative at national level based on number of clients they serve and size of total loan outstanding portfolio, are Addis Credit and Saving Institution (ADCSI), Amhara Credit and Saving Institution (ACSI) from Amhara regional state, Oromia Credit Saving Share Company (OCSSCO) from Oromia regional state and Omo Microfinance Institution (OMFI) from SNNP. Considering the resource implications and to minimise the difficulties accessing the research participants, five branches from ADCSI, three branches each from ACSI, OCSSCO and OMFI that are believed to represent the population, were purposively selected for the study.

Here is a summary of list of branches selected from the three MFIs considered for this study following the above specified procedure:

Name of the MFI	Branch selected for the study
ADCSI, Addis Ababa Addis Credit and Savings Institution S.C. (ADCSI) is a legally registered micro finance institution operating primarily in Addis Ababa to provide access to financial service to MSEs in Addis Ababa that is the capital city of Ethiopia. As of September 2021, ADCSI had 18 branches and 132 sub-branches (AEMFI, 2021)	1. Nefas silk sub-city Wodera 12 branch 2. Kolfe K/ Ketema Woreda 11 Branch 3. Kolfe K/ Ketema Woreda 12 Branch 4. Bole K/ Ketema Woreda 13 Branch 5. Bole K/ Ketema Woreda 7 Branch
ACSI, Bahirdar Amhara Credit and Saving Institution (ACSI) is a microfinance institution that is established to provide microfinance service focusing in Amhara region. As of September 2021, ACSI had 471 branches (AEMFI,2021).	1. Tana Branch 2. Higher finance branch 3. Bahirdar branch
OCSSCO-Adama Oromia Credit and Saving Share Company (OCSSCO)a microfinance institution that is established to provide microfinance service focusing in Oromia region. As of September 30,2021, OCSSCO had 391 branches (AEMFI, 2021)	1. Main Branch 2. Oda branch 3. Brentu branch
OMFI Omo Microfinance institution is a microfinance institution that is established to	1. Tabor branch 2. Meneharia branch 3. Addis sub city branch

provide microfinance service focusing in region. As of September 2021, OMO MFI had 18 district offices and 232 branches.	

A large sample for the survey was determined to be 400. The sample size was determined based on Cochran (1963) equation of determining a representative sample size for a large population. Determination of the sample size based on the Cochran equation is shown below:

$$n_0 = \frac{Z^2pq}{e^2} \qquad \frac{(1.96)^2 X(0.5X0.5)}{(0.5)^2} = 384+16=400$$

Where n_0 is the sample size,

Z^2 is the abscissa of the normal curve that cuts off an area α at the tails;

(1 – α)- The desired confidence level, assumed to be 95%;

e is the desired level of precision, in this case, taken as +(-)5

p is the estimated proportion of an attribute that is present in the population, and is assumed to be 0.5= (1-0.5)

The value for Z is found in statistical tables which contain the area under the normal curve and with 95% confidence Z = 1.96.

None response adjustment of 4% is considered.

The breakdown of the sample size by the research cities is shown as follows:

As shown in the Table 4.1 below, a sample 400 youth was selected which in the absence of list of the 400 youth by town was distributed non-proportionally across the four cities as follows: 160 from Addis Ababa and 80 each from the other three towns (Bahirdar, Hawassa, and Adama). Addis is taking the largest proportion of the sample with the assumption that it is the capital city of the country and has the highest unemployment rate compared to the other three cities. The other cities (Bahirdar, Hawassa and Adama) together constitute 60% of the sample size, which indicates that the regional towns are adequately represented. Based on the multistage sampling frame applied for this study, the list of the youth beneficiaries at the branch level was used as a sample frame from which research participants were randomly selected.

Table 4.1: Breakdown of sample size by research cities

Name of the city	**Sample size**	**Percentage**
Addis Ababa	160	40
Bahirdar	80	20
Hawassa	80	20
Adama	80	20
Total	**400**	**100**

The unit of analysis for the research was a youth group from age 18 to 35 who benefited from government regular microfinance programme.

4.3.5 Data collection method and procedure

Table 4.2 below shows a summary of specific research methods employed to answer the research question and meet the objective the study.

Table 4.2: Data collection methods and instruments

No	Research Objective	Research Methodology
1 2	Assess how access to microfinance services helps urban youth including women in livelihood development. Assess whether the current financial inclusion strategies and financial services meet the need of the youth in diversifying and creating sustainable livelihood opportunities.	**1. Survey:** The researcher conceptualised and operationalised research variables of this study into a specific set of questions based on research questions, the respondents and meeting the objectives of this study. Accordingly, a questionnaire survey was used to examine the progress made by 400 youths who benefited from microfinance. The survey instrument (structured questionnaire) included questions related to the type of business they have, financial products accessed including digital financial services, type of training attended and how it was helpful to them, challenges faced in accessing financial services, status of expansion of business, the role of credit in enhancing their livelihood including income and saving, acquiring assets, improve education and access health services and how COVID-19 has impacted them. and, and recommendations of the respondents on what has to be improved. A five scale Linkert scale-based questionnaire was developed and deployed to conduct the survey. After developing the survey and FGD questionnaire, it was critically critiqued by the candidate supervisor and three other research experts. A pilot study was made with three purposively selected youth groups (with 6-10 members) who have accessed financial services from MFIs. The survey questionnaire was operationalised after incorporating feedback from research experts and pilot testing The survey data was gathered through in person interviews by well-trained data enumerators trained intensively on each question of the structured questionnaire prepared for this study and with a very close supervision by the candidate. The field survey allowed the enumerators to cross check and get reliable information from the respondents comparing with the facts on the ground. Responses related

No	Research Objective	Research Methodology
		to income, saving, assets and education were cross checked through observation and records the respondents can offer. Furthermore, as discussed in section 4.3.5 below, the validity and reliability of the research instrument was tested using validity index and Cronbach's Alpha reliability coefficient test for Likert-type scales, respectively. Kobo collect, an Android application, was used in collecting data. All the data was collected while the enumerators were in the field using mobile phones or manually which later was migrated to Kobo collect tool. Kobo collect tool has made the data management easier. **2. Focused Group Discussion (FGD):** Group-level data (6-7 members) from purposively selected 15 focus groups were gathered to understand the types of income generating activities, types of financial products accessed by the youth, challenges faced in accessing financial services, how financial services have contributed to fostering sustainable livelihood opportunities and understanding the gender dynamics in financial services. The key informant interview was guided by KII questionnaire which was critiqued by the candidate supervisor and three research experts. The focus groups that share common characteristics and can provide the best information for the study were considered. A minimum of 2 women were involved in a group discussion to capture women voices. With the focus group discussions, the researcher was able to allow participants to express their experiences from their own perspectives. The research issues were raised by a moderator which encouraged the discussion and focused the topic. The researcher ensured that such groups did not include relatives and friends (W Lawrence, 2014;Silverman, 2015;Sarantakos, 2017).

No	Research Objective	Research Methodology
3 4	Assess the existing microfinance policies and regulations, context and structure in Ethiopia that promote financial inclusion and identify strengths and constraints in terms of addressing the needs of the youth. Provide recommendations for regulators and the financial service providers to contribute more in improving access to financial services for youth to create sustainable livelihood opportunities.	3. **Key Informant Interview (KII):** Key informant interviews from purposively selected 43 participants were conducted with a wide range of people who have first-hand information and specialised knowledge of the microfinance programme that is designed to improve the livelihood of the youth. The key informant interview was guided by KII questionnaire which was critiqued by the candidate supervisor and three research experts. Leaders of key government offices (like Central Bank, Ministry of Youth and Sport, Ministry of Women Affairs, Micro and Small Enterprises Development Agency, NGOs and selected financial institutions including banks, MFIs and Insurance companies and civil societies such as youth and women's associations) were used as key informants to further understand the current financial regulatory and policy practices, key challenges faced in terms of meeting specific needs of the youth and improvements that can be made. A purposively selected 43 key informants were interviewed. 4. Benchmarking with other selected countries' experiences. 5. Secondary data: Secondary data sources were also used.

4.3.6 Variable definition and measurement

The MSE development policy and strategy recognises financial (microfinance) and non-financial support (technical and entrepreneurship training to improve the livelihood of the Youth. MFIs follow the microfinance plus approach which is considered to be an innovative approach. In addition to the provision of financial services, MFIs also work with relevant government bodies to facilitate training services (such as entrepreneurship and technical training) for the youth. The assumption is that financial services (basically, credit and saving with other services like micro-insurance), coupled with capacity building, contributes to business growth which, in turn, helps the youth to generate income and enhance the viability of their enterprises. When the youth can generate income, they can save and have increased food security and better access to education and health services. Accordingly, the independent variables considered in this study were credit performance with its constructs, saving performance and its constructs and youth capacity building and its constructs. The constructs of credit performance, as independent variables, are access to credit and use of credit while those of saving performance are access to saving and use of savings. The dependent variable is youth livelihood with its constructs that are increased income, increased saving, asset acquisition, improved education, improved nutrition, and improved health.

Many studies in social science, such as Sullivan and Artino (2013), confirm that the Likert scale is one of the preferred tools in social science research to measure people's opinions, beliefs, or preferences on various topics. This study followed Likert (1932) which provides guidance in quantifying the constructs for both dependent and independent variables. A Likert based survey questionnaire was used to examine the progress made by the youth in terms of the variables of this study. The statement of the variable under each construct were measured in a 5-point Likert scale where 1=Strongly disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly agree. The scores yielded by the Likert scale are considered composite mean scores derived from an individual response to the multiple items on the scales. As discussed below, Cronbach's Alpha technique is used to provide evidence that the components of the scale are sufficiently inter-correlated and that the group items measure the underlying variable.

The combined mean scores of the independent variables, including credit performance, saving performance and youth capacity building, were derived by summing the composite mean scores of the constructs and measured as continuous variables following Likert (1932) to satisfy the basic assumptions of classical linear regression models, including the assumptions of normality and linearity variables, and coefficients. The dependent variable (youth livelihood) is also a composite mean score of each of the constructs including income, saving, acquisition of assets, improved education, improved nutrition and improved health.

The qualitative assessment was focused on answering the research questions of this study based on data gathered from focus group discussions and key informant interviews for selected towns and research participants identified for this study.

4.3.7 Method of data analysis

A step-by-step approach was followed in analysing the qualitative data gathered through focus group discussions and key informant interviews. After gathering the responses from KIIs and FGDs, the data were transcribed, coded and translated into well-defined themes which were networked using ATLAS.ti9 software and further thematic analysis was conducted on key findings (Ngulube, 2015). The quantitative data were processed using SPSS and the data analysed are presented in the form of tables, graphs, and figures. Furthermore, both descriptive and inferential techniques were explored. Descriptive statistical techniques were utilised using percentages and mean and standard deviations to present data. Inferential techniques involved the use of correlation and a multiple linear regression analysis to assess and establish the relationship between the microfinance services and livelihoods.

4.3.8 Validity and reliability

As described above, this study was conducted with a clear conceptualisation, operational plan, collection and analysis of empirical data and production of the research report. This enhanced the reliability and consistency of data collected for this study (W Lawrence (2014). Appropriate statistical tools and procedures were used to check the validity and reliability of the research instrument,

4.3.8.1 Validity of the research instrument

The content validity of the questionnaire was checked to ensure that the questions covered the subject matter under study. An internal validity check was made to ensure that the result of the study was not affected by the instrument or study (Sarantakos, 2017). The validity test measured how each construct in this study was appropriately measured and how the research tools achieved the intended purpose of this thesis (Heale and Twycross, 2015). Accordingly, content validity index was established using a technical evaluation of the relevance of each question considered in the constructs. In addition, three research experts were requested to refine the questionnaire in terms of content including clarity, relevance and comprehensiveness. In order to maintain reliability of the data collected in the survey, a draft version of the questionnaire was pilot tested by asking participants the questions and confirming that they understood the question in the same way. A final version of the questionnaire was produced after incorporating the feedback gathered from the pilot test. The content validity index (CVI) was computed to ensure that the questionnaire met the minimum requirements to measure its validity. The CVI was computed and was greater than 0.7 as reflected in the Table 4.3 below. The CVI was computed using the following formula:

$$\textbf{CVI} = \frac{\text{Number of items rated relevant}}{\text{Total number of items in the instrument}}$$

Table 4.3: Validity analysis

Constructs	Items	Expert 1 (IRR)	Expert 2 (IRR)	Average IRR	I-CVI
1. Saving Performance	10	7	7	7	0.700
2. Credit Performance	11	10	8	9	0.818
3. Youth Capacity Building	7	6	6	6	0.857
Youth Livelihood	7	7	5	6	0.857
Overall	35	30	26	28	0.778

KEY: IRR = Items Rated Relevant; **I-CVI**= Item Content Validity Index

Source: Primary data, 2020

As per the data presented in the Table 4.3, the Content Validity Index (CVI) for saving performance, credit performance, youth capacity building and youth livelihood were at least 0.70. This implies that the instrument was valid since the CVI for all the variables was 70% and above (Kothari, 2004;Amin, 2005).

In addition, during the report writing, credible interpretations were conveyed taking into consideration relevance, precision and accuracy (Sarantakos, 2017). All inferences that are made in this research are supported by data and follow scientific principles. In addition, respondent validation was made by going back to the respondents with tentative results and findings were refined taking into consideration the reactions of the respondents (Silverman, 2015;Sarantakos, 2017).

Moreover, data were validated through triangulation and cross verification from the application and results of the different research methods and sources (questionnaire, focus group discussions and key informant interviews) that were used to gather data for this research work.

4.3.8.2 Reliability of the research instrument

All the research instruments, including the survey, FGDs and key informant interviews, were checked through peer review, debriefing and feedback mechanisms to address challenges of reliability (Sarantakos, 2017). Outlier negative cases were analysed separately and informants were used to check the accuracy of perceptions (Sarantakos, 2017). In addition, the instruments were pilot tested on the subjects before use.

A multi-modal approach and participatory process were followed in conducting the review of inclusive microfinance policies and strategies to arrive at an objective assessment. The review of the policy is, among others, based on data analysis drawn from on-site key informant interviews with relevant government agencies, MFIs and development actors relevant to the operation and implementation of youth inclusive finance, a desk review of various policies and research reports associated with youth inclusive finance and a comparative analysis of the Ethiopian youth inclusive finance policies and strategies with regional and international best practices. The youth inclusive finance policies and strategies were compared with 11 selected countries (Kenya, Rwanda, Zambia, Tanzania, Nigeria, South Africa, Namibia, Indonesia, Thailand, Malaysia and India) which are considered to have better experience.

The reliability of the survey questionnaire was checked to ensure that the research instrument yielded consistent results when the same group of individuals was repeatedly measured under the same conditions (Sekaran and Bougie, 2003). The Cronbach's Alpha Reliability Coefficient test for Likert-Type Scales was performed to ensure reliability of the data. As indicated in Table 4.4 below, the result shows a Cronbach Alpha Coefficient of 0.803 for saving performance with seven items, 0.736 for credit performance with nine items, youth capacity building 0.714 with six items and 0. 893 for youth livelihood with six items. Therefore, the tool passed the test of reliability and all the variables had a reliability coefficient of 0.6-0.7 (Hulin et al., 2001). According to Hulin et al. (2001), a reliability coefficient of 0.6-0.7 indicates an acceptable level of reliability. The formula used to compute the reliability coefficient is shown below:

$$\alpha = \frac{N.C}{v+(n-1).C}$$

Where

N = number of items;

C = average inter-item covariance among the items

V = average variance.

Table 4.4: Reliability analysis

Variable	Cronbach Alpha Coefficient (α)	Number of Items
Saving performance	0.803	7
Credit performance	0.736	9
Youth capacity development	0.714	6
Youth Livelihood	0.893	6

Source: Primary data

Cronbach's Alpha technique is a tool that is used to provide evidence that the components of the scale are sufficiently inter-correlated and that the group items measure the underlying variable (Sullivan & Artino, 2013). Dr Geoff Norman, one of the world leaders in medical education, provides compelling reasons to use Cronbach's Alpha with actual and simulated data from a Linkert scale. According to Dr Norman, parametric tests, such as Cronbach's Alpha reliability coefficient test, are sufficiently robust to provide largely unbiased answers that are acceptable to "the truth" when analysing Linkert scale responses ((Sullivan and Artino Jr, 2013)).

4.3.9 Ethical considerations

Ethical clearance was obtained from UNISA before conducting this study. Care was taken to comply with ethical principles during the study. Participants of the study were informed about the purposes of the study and participation was voluntary and based on informed consent. Data enumerators collected signed informed consent forms from research participants.

Data that were gathered for the purpose of this research were based on prior consent from research participants, the relevant national and local level institutions. The first step followed in this process was to obtain a formal support letter from Development Studies of UNISA and UNISA branch office in Addis Ababa, Ethiopia. The support letter from UNISA introduced the researcher to get appropriate support from the specified institutions to collect data for the research.

The researcher made an effort to protect the confidentiality of information shared by participants. The information shared by participants was not used in any way that would identify specific individuals.

The study was carried out on youths aged from 18 to 35, which is legally acceptable, using the research methods described above. The result of this study will be shared with microfinance institutions, regulators and other relevant stakeholders for possible adoption. The quantitative data will be kept on Kobo collect data base and SPSS, and the qualitative data on Atlas ti.9 software.

4.4 Conclusion

The SLA conceptual approach, complemented by HEPM, was adopted to conceptualise, formulate and provide evidence that supports the findings obtained from data analysis and interpretation. The SLA approach, supported by HEPM, was relevant as it is the dominant approach used by different agencies to assess and implement developmental interventions that are introduced to address poverty and improve livelihood. The framework considers that a social unit, such as the youth, has the ability to enhance its assets, capabilities and cope with stress and shocks.

The methodology section discusses the type of research design adopted to answer the research questions of this study. The sampling technique, data sources, variable definitions and measurements, and data collection instruments, method of data analysis, validity and reliability analysis (using validity index and Cronbach's Alpha reliability coefficient) and ethical considerations are discussed. The study employed a mixed research methodology with cross sectional data involving structured questionnaires administered to 400 participants, 43 KII and 15 FGD. A descriptive and correlational design was used to measure the independent variables' credit performance and its constructs, saving performance and its constructs, youth capacity building and its constructs, and the dependent variable of youth livelihood and its constructs. Thematic analysis using Atlas ti.9 software was used to analyse the qualitative data. Descriptive statistics, correlation and multiple linear regression analysis were used to analyse the quantitative data to answer the research questions of this study.

CHAPTER 5: RESULTS AND DISCUSSIONS

5.1 Introduction

This chapter presents the results of the study on the characteristics of the urban youth, state of the policy, strategy and regulatory environment in promoting youth inclusive microfinance, the provision of tailor-made microfinance services to the youth and the role of microfinance in improving urban youth livelihoods. In line with the conceptual framework, the livelihood outcome indicators used to measure youth livelihood include income, accumulation of assets, savings, access to education, access to health services and food security.

This chapter has six main sections. The study findings from qualitative and quantitative study are presented following the study objectives. Section 5.2 describes the socio-economic characteristics of the respondents using descriptive statistics. This is discussed in terms of respondents' social and demographic characteristics, employment status (before they start their current business), line and legal status of the business, current stage and size of business, source of capital for establishing the business, types of business they run, time taken to access the loan and the size of the loan accessed by the youth. This is followed by section 5.3 which mostly based on qualitative study analyses the comprehensiveness of microfinance related policies, strategies and regulations, progress made in the implementation of policies and strategies, and assesses the level of policy harmonisation and coordination. Section 5.4 discusses the state of provision of tailor-made microfinance services to the youth, section 5.5 discusses the role of microfinance in improving urban youth livelihoods using descriptive statistics, section 5.6 discusses the findings of the correlation and regression analysis and section 5.7 presents the conclusion for this chapter.

5.2 Descriptive statistics

This section provides information and discusses the key socio-economic characteristics of the respondents. This includes age, gender, and marital and educational status. This section also covers the status of the respondents before their current business, line of business, size and sources of capital for the business.

5.2.1 Socio-economic characteristics of respondents

This is based on the data collected through the survey of 400 youth respondents from purposively sampled regions and four key towns to address the needs of this research. Table 5.1 below shows the profile of the respondents in terms of the socio-economic factors.

Table 5.1: Respondents' socio-demographic characteristics

Variable	Response Options	Frequency and Percentage (%)
Age Group	18-24 years	23 (5.75%)
	25-29 years	112 (28%)
	31-35 years	265 (66.25%)
Gender	Female	158 (39.5%)
	Male	242 (60.5%)
City	Adama	80 (20%)
	Addis Ababa	160 (40%)
	Awassa	80 (20%)
	Bahirdar	80 (20%)
Marital Status	Married	244 (61%)
	Single	151 (37.7%)
	Widow	5 (1.3%)
Educational attainment of respondents	**Column1**	**Column2**
Educational attainment	Frequency	Percentage
High School(9-10)	77	19.25
10+2	73	18.25
Diploma	62	15.5
Degree	59	14.75
Elementary School (1-8)	50	12.5
Preparatory (11-12)	34	8.5
Vocational Training	23	5.75
10+1	18	4.5
Illiterate	4	1
Total	400	100

Source: Primary data, from field survey, 2020

5.2.2 Gender and marital status of the respondents

As shown in Table 5.1, the gender composition of the respondents indicates that females constitute 39.5%% and males constitute 60.5%. This could indicate gender disparity in youth microfinance which is not aligned the general membership profile of the MFIs where women represent a higher percentage than men. Regarding the marital status, a majority (61%) were married, 37.7% were single and 1.3% were widowed.

5.2.3 Age distribution of the respondents

As presented in Table 5.1, the youth age category falls between 18 and 35 years inclusive which is in line with the definition of the youth as described in the youth revolving fund proclamation and Africa Youth Charter. The age composition of the respondents indicates that youth, who are in age categories 18-24, 25-29 and 31-35 constitute 5.75%, 28% and 66.25%, respectively. This implies that financial inclusion increased together with the age category. Highest proportion (66.25%) of the youth clients were in the upper age category of 31-35 which were almost transitioning to be adults. The lowest number who accessed financial services from the MFIs were youths below 20-24 years (5.75%). This implies that financial exclusion is high for the youth in the lowest age category of 20-24 years. This is consistent with the findings by Niguse et al. (2014) that account ownership is higher for middle-aged people. The youth under this category (20-24) were either not interested in accessing credit from the MFIs or were less likely to get access to credit which requires policy attention. This is also consistent with the outcome of the research done in Ethiopia by Wale and Makina (2017) that account ownership is more skewed towards men than women though the study did not focus on youth.

5.2.4 Educational attainment of the respondents

The respondents were asked to state their highest educational attainment at the time of conducting the survey. The results are shown in Table 5.1 that indicates that 19.25% have completed high school and 18.25% have completed 10+2. The result also revealed that university graduates (diploma, 15.5% and Degree, 14.75%) have started benefiting from the microfinance programme. This implies that students who graduate from universities and who face difficulties getting employment are accessing microfinance services that create opportunities to be self-employed and improve their livelihoods. Microfinance is therefore one of the enablers that address youth unemployment.

5.2.5 Status before the current business

Respondents were asked to share their status before they started their current businesses. As indicated in Table 5.2 below, a majority (33%) were unemployed, followed by students (23%), employed in private organisations (21.3%), running their own businesses (11.8%), fully dependent on family (6.3%) and employed in government organisations (4.8%). This shows that MFIs are mostly targeting and serving the unemployed and students (62.3%). This means that MFIs contribute to addressing the financial service needs and creating employment opportunities for the unemployed youth.

Table 5.2: Background on previous employment status, line of business, capital size, stage of growth of business and source of capital of the youth

Variable	Response Options	Frequency and Percentage (%) N=400
Employment status before getting in the current business	Unemployed	132 (33%)
	Student	92 (23%)
	Employed in a private company	85 (21.3%)
	Other private business	47 (11.8%)
	Dependent on family	25 (6.3%)
	Employed in government	19 (4.8%)
Line of business/industry	Manufacturing sector	166 (41.5%)
	Trade sector	121 (30.3%)
	Services sector	73 (18.3%)
	Urban agriculture	18 (4.5%)
	Other	22 (5.5%)
Business turnover in the fiscal year 2019	30,0000-50,0000 Birr	116 (29%)
	50,000-100,000 Birr	67 (16.8%)
	10,000-30,0000 Birr	63 (15.8%)
	100,000-200,000 Birr	63 (15.8%)
	200,000-500,000 Birr	60 (15%)
	Over 500,000 Birr	31 (7.7%)
Current size of growth	Small	213 (53.3%)
	Micro	135 (33.7%)
	Medium	52 (13%)

Source: Primary data

5.2.6 Line of business/industry sector of the respondents

In order to understand the whether the youth clients of the MFIs are engaged in the targeted sectors as defined in the Micro and Small Medium Enterprises (MSEs) development policy and strategy, youth respondents were asked to indicate the line of business they are engaged in. As shown in Table 5.2, a majority (41.5%) of the youth clients of the MFIs were engaged in the manufacturing sector which is one of the priority sectors identified by the government in creating job opportunities for the youth. The rest of the youth considered for this study were engaged in trade, services and urban agriculture that represents 30.25%, 18.3% and 4.5% of the respondents, respectively. In addition, the youth that were engaged in other sectors, including construction, represent 5.5%. The fact that most (42.5%) of the youth were engaged in manufacturing businesses implies that, if they are adequately supported, they can grow to be small and medium enterprises.

5.2.7 Capital size of the respondents

As presented in Table 5.2, the smallest business turnover starts from Birr 5,000 and the largest turnover constitutes over Birr 500,000. Those in the business turnover range between Birr 30,000 and Birr 100,000 represent the major proportion (45.8%). Those in the capital ranging between Birr 100,000 and Birr 500,000 represent 30.8%. The youth that have registered business turnovers above Birr 500,000 represent only 7.7%. The overall result shows that an opportunity exists to improve the business performance of the youth.

5.2.8 The stage of growth of the businesses

This section discusses the classification and the stage of growth of the respondents' enterprises. This is conducted in line with the definition and classification of MSEs by Micro and Small Enterprises Strategy (2011).

As shown in Table 5.2, the majority of the respondents were small enterprises (53.3%) followed by micro (33.7%) and medium (13%) enterprises. This implies that most of the youth clients of the MFIs have not yet graduated to be medium enterprises in line with definition and classification specified under MSEs' development policy and strategy.

The majority of the respondents, regardless of the above definition and classification, were at the growth stage (47.5%) followed by the start-up stage (45.5%) and the maturity stage (7%).

5.2.9 The source of capital of the enterprises

The youth have difference sources of capital to start and run business. Regarding the source of capital of the respondents, a majority (90.3%) accessed capital to start business from MFIs followed by loans/gifts from friends (30.5%), partnerships (22.3%) and from banks (2%). This reflects that most of the youth accessed financial services from the microfinance institutions and that they have limited access to credit services from banks due to stringent requirements, particularly as most youth who do not have the capacity to offer physical collateral.

5.3 Review of policy, strategy and regulatory environment for promoting youth inclusive microfinance in Ethiopia

Appropriate policy, strategy and regulation is critical to promote youth inclusive microfinance. The main purpose of this section is to understand the current youth inclusive microfinance related policies, strategies and regulations in Ethiopia, assess the progress of implementation, identify key gaps, and make recommendations to address the gaps. The review is based on the thematic analysis of primary data gathered from 43 key informant interviews from relevant organisations, secondary data from relevant government agencies, comparative assessments made with other countries' experiences (Rwanda, Ghana, Kenya, Uganda, Tanzania and Zambia) and best practices.

5.3.1 Policy, regulatory context and reflections on the youth inclusive microfinance in Ethiopia

As youth unemployment is one of the major challenges, the Government of Ethiopia (GRE) has been intensifying efforts to introduce policies, strategies and regulations aimed at promoting youth inclusive finance which, in turn, is expected to contribute to enhancing youth employment and livelihoods. A number of policies, strategies and regulations have been developed and introduced, as shown in Figure 5.1, to facilitate access to finance for the public, in general, and the youth, in particular. Based on the outcomes of key informant interviews and a review of secondary data, the youth inclusive microfinance is supported by policies, strategies and regulatory frameworks which, among others, cover the following**:**

i. Microfinance business proclamation (first introduced in 1996 and revised in 2009 and revised in 2019);
ii. Movable property security right proclamation introduced in 2019;
iii. Youth revolving fund-introduced in 2019;
iv. Financial inclusion strategy introduced in 2017;
v. Capital goods leasing proclamation - introduced in 1998 and revised in 2013;
vi. MSE development policy and strategy - first introduced in 1997 and revised in 2012;
vii. Project on introduction on national identification system - an ongoing project;
viii. Regulation on agent and mobile banking introduced in 2012;
ix. National payment system proclamation introduced in 2011.

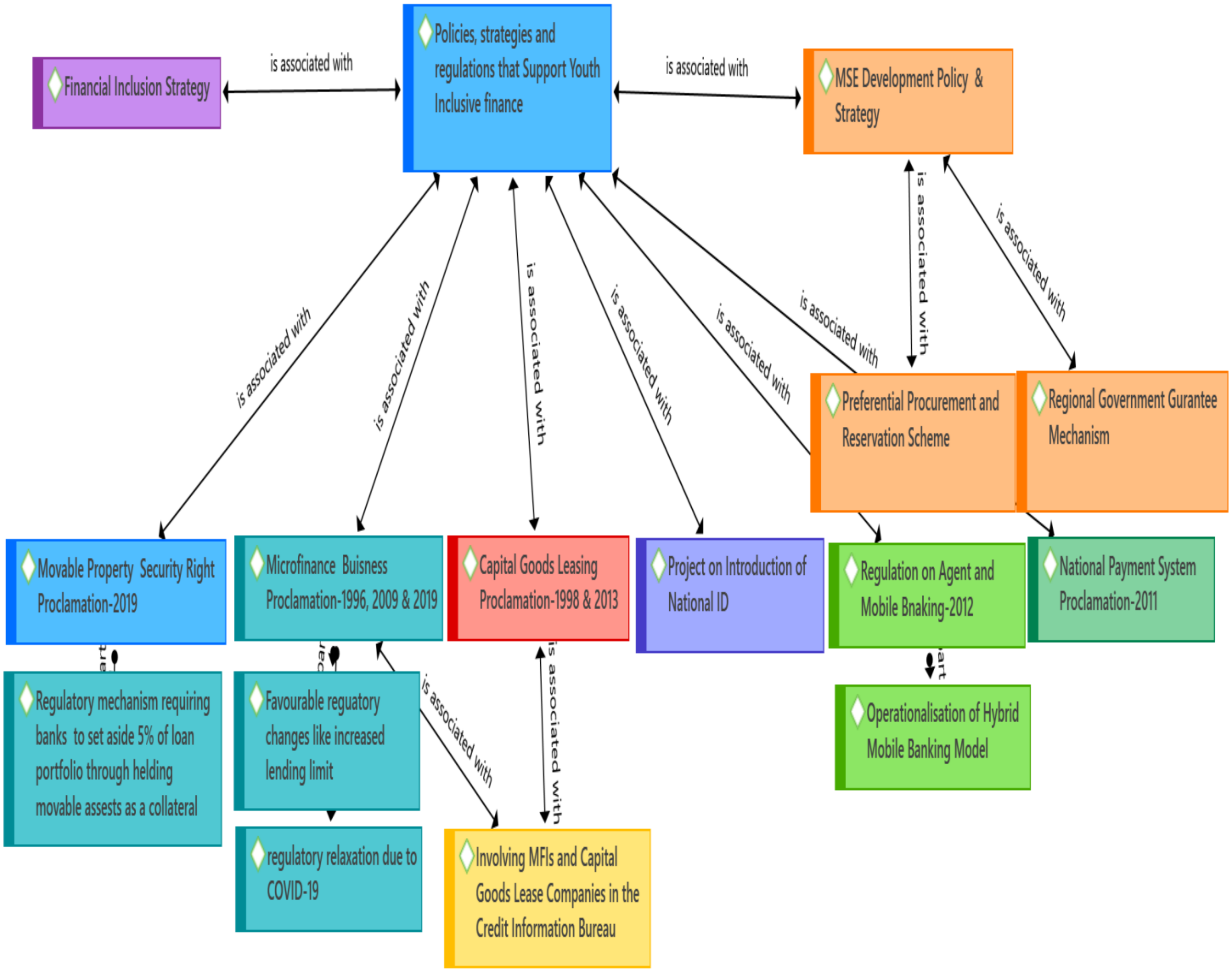


Figure 5.1: Policies, strategies and regulations that support youth inclusive finance in Ethiopia

Source: Author based on based on primary and secondary data

5.3.1.1 Relevance and state of MSE development policy and strategy

The outcome of the key informant interviews indicates that, though there are gaps (discussed in section 5.3.3.1) that need to be addressed, the MSE policy and strategy developed around microfinance and promoting youth livelihood is conductive as expressed by senior officials:

> *"We do not have that much gaps with the policies, strategies and regulations (MSE development and Youth policy, Microfinance Regulation and other associated policies and strategies) that have been introduced to contribute to improving youth livelihood. Most of them have a positive intention and, if effectively implemented, could have brought a lot of change in improving the livelihood of the youth. Most of the gaps are in implementing them."* (Senior manager, MFIs, 2020)

> *"We have a mechanism to prioritise and special support those who come with innovative projects and business ideas. The introduction of the MSE policy and strategy, youth policy, youth revolving fund and related guidelines has helped a lot in mobilising resources (financial, human, land, etc.) and use it in producing a productive citizen."* (Senior Manager, MSEs development and promotion bureau, 2020)

> *"Most of the policies and strategies issued since 1997 are very good policies. The problem is the practical implementation of the policies and strategies."* (Senior Manager, MSEs development and promotion bureau, 2020)

> *"For us, the SME policy and strategy has helped us to see opportunities in the urban areas. The branches have increased from 90 to 180. The government has been providing financial support to expand microfinance services and branches. The saving mobilised by our MFIs has also doubled because of the strategy. If MSE policy and strategy was not there, our MFI would not have reached to this stage. Our microfinance institution has been growing from time to time in terms of its asset and capital and expanding its outreach."* (Senior Manager, MFI, 2020)

The gaps in the MSE development policy and strategy challenges encountered during its implementation are discussed under section 5.3.3.1.

5.3.1.2 Financial sector development policy and inclusion strategy

The discussions from the key informant interviews revealed that the National Bank of Ethiopia has not yet introduced financial sector development policy and strategy which is a critical gap. This implies that the country does not have a policy which articulates the current situation of the financial sector, the challenges faced and a vision for the future of the sector. The experiences of other African countries (including Zambia, Kenya, Uganda and Rwanda) indicate that the financial sector development policy and strategy encompasses issues such as situational analysis (progress made in financial sector reform, the financial infrastructure, financial sector structure and operation, regulation and supervision), policy objectives and measures, mission and vision for the sector, guideline principles, priorities for the sector, road map for the development of the sector, implementation, monitoring and evaluation framework.

a. Microfinance Business Proclamation

Data gathered from key informant interviews of key relevant government offices (including the NBE, AEMFI, MFIs, Ministry of Women, and Youth Affairs) indicate that, overall, the microfinance proclamation has introduced many benefits to the sector including the creation of an enabling environment for the establishment of formal financial institutions and has promoted standardisation and transparency in the sector. This is consistent with previous research findings by Kassa (2011). In addition, with the amended microfinance business proclamation, MFIs are allowed to conduct businesses such as accepting demand and time deposits, digital financial services, provision of agent banking services and the provision of interest-free microfinance services in addition to the traditional microfinance business.

Moreover, in line with Article 21 of Microfinancing Proclamation number 626/2009, MFIs are allowed to be transformed to operate as a bank subject to a commitment to continue provision of the microfinance services to the low-income segment of the population. However, considering the current behaviour of the MFIs where the regional governments have a major stake, the issue of transformation of microfinance services into banks is a sensitive matter which needs to be managed in a very careful manner. The risks associated with the transformation of MFIs into banks is discussed in depth under section 4.3.1.3 (b).

The outcome of the discussion with MFIs, MSME coordinating offices and relevant key government agencies confirmed that NBE actively engages them to gather input before proposed proclamations or directives are issued for enforcement and implementation. The NBE works very closely with the MSE development council where it is a member. The council consists of a steering committee and a technical committee from relevant government offices and other key stakeholders. The NBE is also a chairperson of a finance technical committee organised under the MSE development council. The constructive engagement of the key stakeholders has contributed much to the regulatory framework for microfinance business. Here is the statement by one of senior microfinance officials on the consultation process:

> *"Such consultation and discussion have led to significant changes in the regulatory framework including lending limits (which was Birr 5,000), capital requirement (which was later increased), lending methodology (where some kind of flexibility has been introduced of using group, individual lending, collateral or without collateral etc.). The current regulation contains significant changes compared to the old one."*

In addition, there has been progress made in improving the regulatory framework in the context of COVID-19 and the monitoring and supervisory mechanisms of the MFIs. In line with the feedback gathered during key informant interviews of the three selected MFIs for this study, the NBE has made regulatory relaxations for microfinance institutions in the context of COVID-19 which covers key issues such as rescheduling of loans, lending limit (which is temporarily suspended) and revision on procedures for blacklisting borrowers on credit information bureau. This was a temporary intervention for the period from June 1 to September 2020. NBE is also partnering with Financial Sector Deepening Africa (FSDA) to introduce automated monitoring mechanisms. At the time of data gathering for this thesis, a diagnostic credit market development assessment was being conducted and it is expected that the online supervision application that enables us to get the required information from MFIs will be pilot tested before fully rolling out the platform.

However, there are still areas of improvement in the microfinance business proclamation which are discussed in section 4.3.3.2(b)

b. Youth revolving fund proclamation

The state of implementation of the youth revolving proclamation and fund is discussed in detail in section 4.4.8 of this study.

c. Movable Asset Registration Proclamation

The outcomes of the discussions from the key informant interviews indicate that the movable property security right proclamation is believed to be a transformative regulation that is expected to help the community (more specifically the youth) to access credit using movable assets as collateral.

The community and financial institutions, particularly MFIs, are waiting for the full operationalisation of the movable property right proclamation to practically start exercising the registration of movable assets to access credit from financial service providers. Directive number MCR/01/2020 has already been issued with detailed guidelines to facilitate the operationalisation of the proclamation. Here is the statement from one of senior government officials about the relevance of the movable property security right proclamation:

> *"Using the group as collateral has not been functioning well. With the introduction of movable property security right proclamation, the citizens will be allowed to use movable assets (such as cattle, crop, forest, inventory etc.) as collateral. This facilitates translating such kind of movable assets into productive assets. A provision*

has also been introduced with movable property security right proclamation that requires banks to dedicate 5% of their annual lending to SMEs, cooperatives, agricultures and related sectors reaching clients directly or through MFIs that brings linkage. This brings a lot of change." (Senior Officer, National Bank of Ethiopia, 2020)

5.3.2 Key innovations in promoting youth inclusive finance in Ethiopia

Among the key innovations introduced in terms of promoting youth inclusive microfinance are: the introduction of MSE market share enhancement models; the role of the universities, TVETs and one-stop centres in enhancing the capacity of the youth; strengthening of digital finance (through operationalisation of a hybrid mobile banking model, mobile and agent banking and project on the introduction of national identification system); regulatory mechanisms requiring banks to set aside 5% of their portfolio through holding movable assets as a collateral; youth revolving fund scheme; innovation in addressing physical collateral requirements; and automation of supervision of MFIs including involving capital goods lease companies in the credit information bureau as depicted in Figure 5.2.

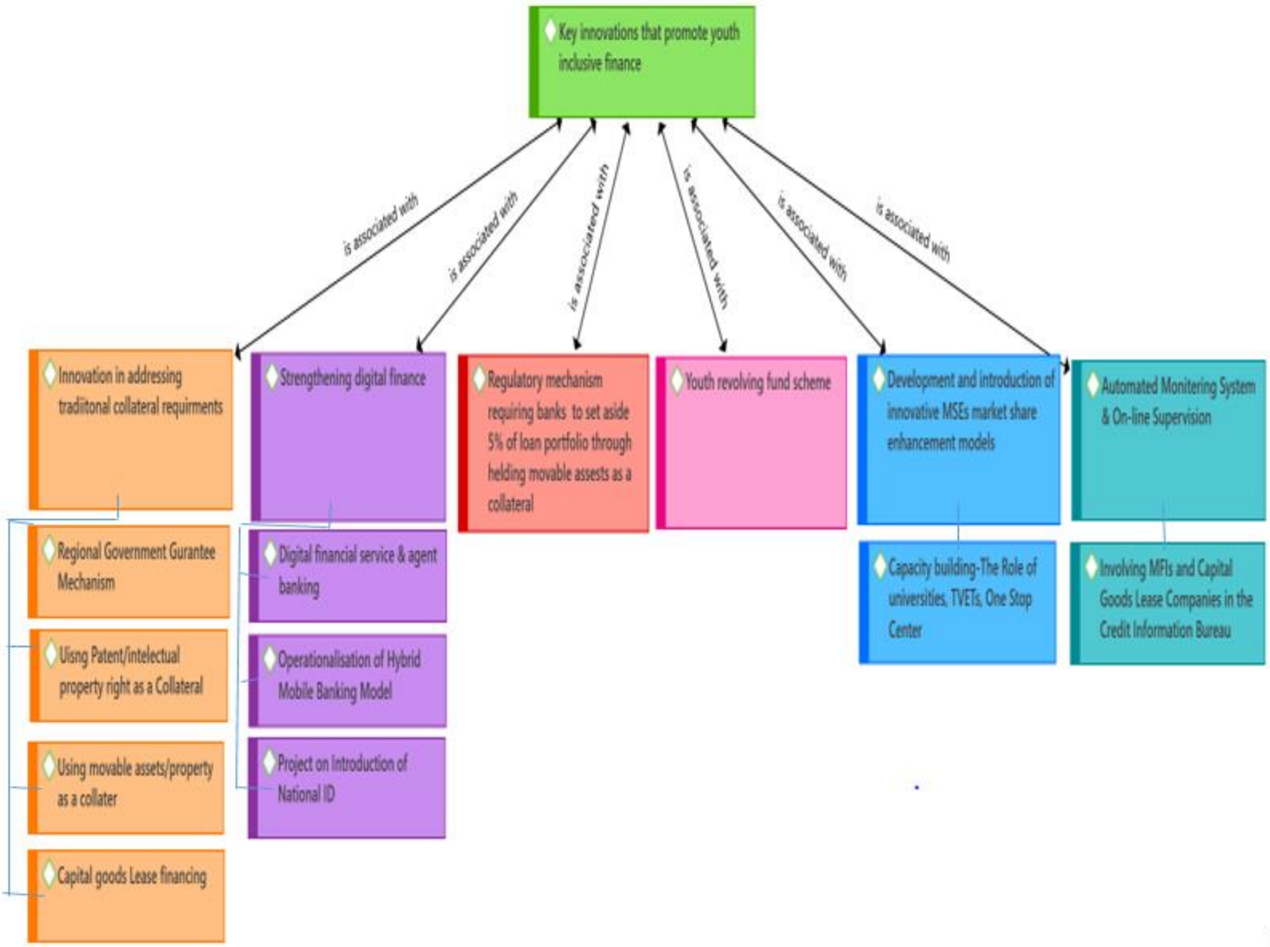


Figure 5.2: Key innovations in promoting youth inclusive microfinance in Ethiopia

Source: Primary data 2020

Key innovations coming out from the above interventions are summarised in Table 5.3 below.

Table 5.3: Innovations that promote youth inclusive microfinance in Ethiopia

Innovative practice	Description	Remark
Using movable assets as collateral	This is introduced with Movable Property Security Right Proclamation number 1147/2019. In addition, the NBE issued directive number MCR/01/2020 that governs the operationalisation of movable asset registry. The registry is housed at the NBE.	The effort will be helping the low income segments of the population like the youth to use movable assets like crops and livestock to access credit.
Using patent as a collateral	Movable Property Security Right Proclamation 1147/2019	Promoting use of intangible collateral such as viable business ideas, knowledge and expertise as principal assets help to get funds from financial institutions.
Development and implementation of innovative MSMEs' market share enhancement models	Regions like Addis Ababa Regional Administration and Amhara Regional State have introduced innovative MSMEs' market share enhancement models including subcontracting, outsourcing and preferential procurement schemes which facilitate penetrating market opportunities for the youth.	Such models help in facilitating and promoting businesses run by the youth.
Digital financial services: Provision of mobile and agent banking services	Directive on mobile and agent banking (FIS/01/2012) allows microfinance institutions to conduct mobile and agent banking.	This contributes a lot in terms of reaching out and expanding financial services to the youth. It promotes access to credit and savings through innovative delivery channels.
Dedicate 5% of their annual lending to SMEs, cooperatives, agriculture and	This is introduced with the Movable Property Security Right Proclamation 1147/2019	This facilitates attracting better funding opportunities for microfinance institutions which also helps to expand financial services to

related sectors reaching clients directly or through MFIs that bring linkage.		the youth.
Integrating microfinance institutions and capital goods finance companies into the credit information bureau	Directive number CBB /02/2019-directive on establishment and operationalisation of credit information bureau. The credit information bureau is operated by NBE. All financial institutions including banks, MFIs and capital goods finance companies are required be registered and be a part of the system.	Supports promoting a better credit culture and discipline by the public including the youth. It is an important tool which helps in addressing the risk of multiple borrowing which leads to risk of indebtedness that affects the soundness of the financial institutions including MFIs.
Youth revolving fund Regional government guarantee Financial leasing	Youth Revolving Fund 2019 and Regional Government Guarantee Mechanism Result of the MSE Development Policy and Strategy 2012 Capital Goods Leasing Proclamation -1998 & revised in 2013	The interventions facilitate to some extent access to credit by the youth without a physical collateral requirement.
One stop shop centres, role of TVETs (training & certification programme)	Result of the MSE Development Policy and Strategy 2012	They are very relevant institutions in terms of enhancing the capacity of the youth which facilitates effective use of credit accessed from MFIs.

Source: Primary data (key informant interviews) and secondary data

5.3.3 Gaps in the youth inclusive microfinance related policies, strategies and implementation challenges

The outcome of the key informant interviews and FGDs revealed that, though there has been progress made in the implementation of the youth inclusive microfinance policies, strategies and regulations, there are still gaps and critical challenges faced during implementation that hampered the expected result of improving youth livelihoods. As a result, there is still a huge unmet demand due to a growing youthful population that is struggling to get employment opportunities. As shown in Figure 5.3, the key gaps in the youth microfinance related policies, strategies and regulations include gaps in the policies and strategies, approach to microfinance, the risk of mission drift, lack of regional focus and gender lens, inadequate awareness of policies and strategies, lack of timely amendment of the policies and strategies, constraints on the structure, harmonisation of policies and coordination framework, weak monitoring and evaluation mechanism and practicing evidence based policy making.

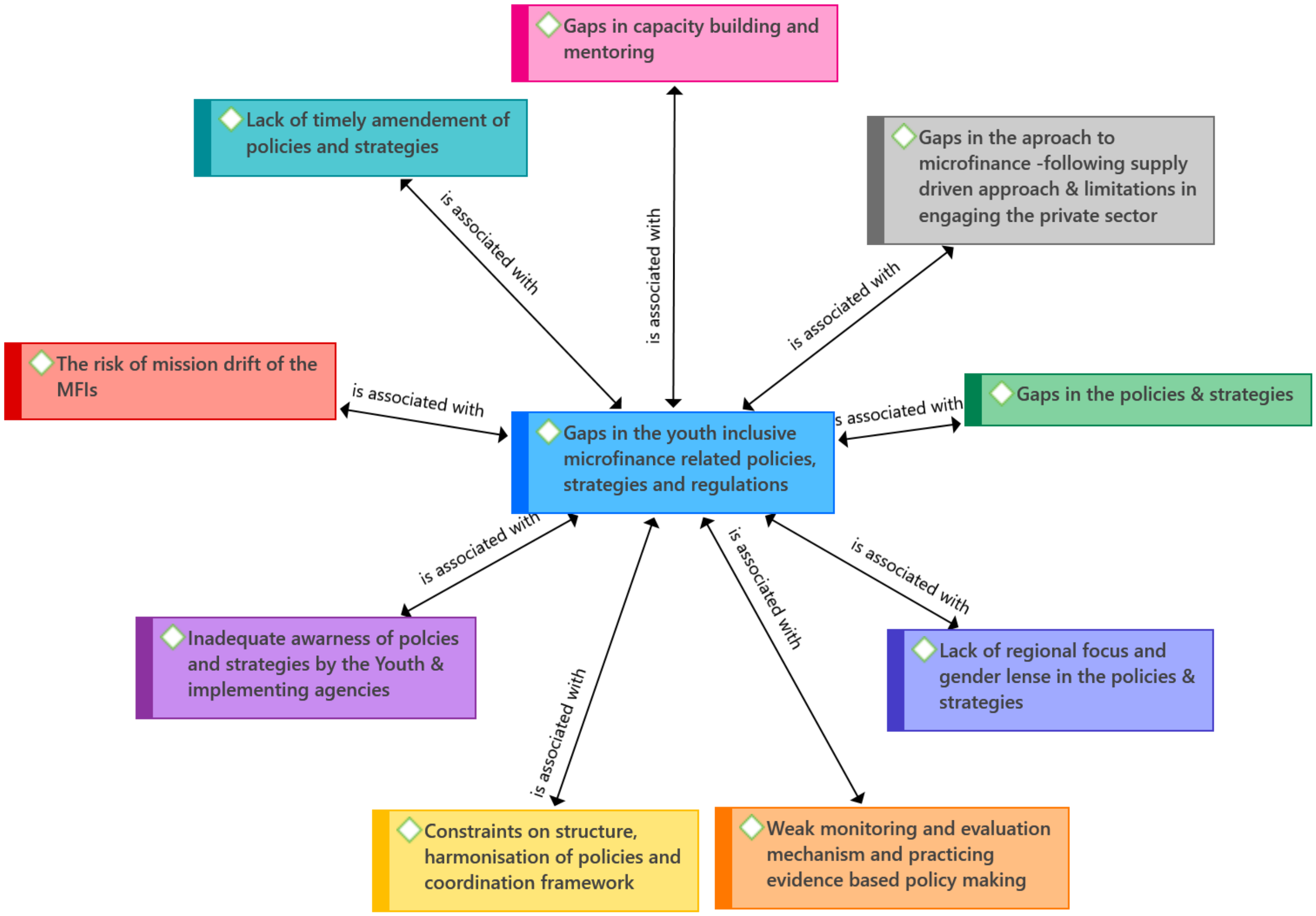


Figure 5.3: Gaps in the youth inclusive microfinance related policies, strategies and regulations

Source: Primary data (key informant interviews), 2020

5.3.3.1 Constraints on MSEs' development policy, strategy and implementation challenges

The constraints in the MSEs' development policy and strategy include gaps in the policy as well as practical challenges faced during implementation of the policy. Though the MSE development policy and strategy (with respect to promoting youth inclusive microfinance services) is considered by policy makers and practitioners as a comprehensive policy document that accommodates relevant policies, strategies and programmes, there are still areas of improvement. These areas of improvement are based on the outcome of the key informant interviews and discussions and are related to gaps in the approach to youth inclusive microfinance, constraints related to structure, harmonisation of policies and effective coordination of relevant government bodies and development actors, timely amendment of the policy and strategy, a lack of regulation for the implementation of the policy and challenges, a weak monitoring and evaluation mechanism and practicing evidence based policy making.

a. Gaps in the approach to youth inclusive microfinance

Access to financial services for MSMEs can expand business, promote innovation and enhance the capacity to participate in the export market and global value chains. Though the MSE development policy accommodates a number of policies and strategies to expand financial services, it follows mainly a government supply driven approach with limited diversification of sources of finance and provision of support services to the youth. The current MSME development policy and strategy focuses on promoting microfinance services, providing training and technical support, industrial extension and business development services (BDS) for the youth mainly through government owned MFIs and relevant government agencies, such as one stop shop centres and TVETs. The business development services are solely provided by the government without the involvement of the private sector.

The MSEs' development policy and strategy does not provide adequate guidance on how the private sector can be actively engaged in delivering youth inclusive finance, the provision of BDS and capacity building services to the youth. In the current context, it is the government-owned MFIs and relevant government actors that have been involved in the implementation of the policies strategies. As a result, the government driven approach did not meet the demand and provide quality financial and business development service to the youth. Three specific cases that substantiate this are: Firstly, the regional government backed MFIs that have been actively engaged in the provision of microfinance services to the youth operate from the perspective of implementation of MSE policy and strategy. The MFIs owned by the private sector have been rarely involved or not involved at all in the implementation of MSEs' development policy and strategy. Secondly, the provision of industrial extension services is facilitated mainly by the government (through government agencies such as the micro and small enterprises promotion bureau) and, as a result, it has been difficult to facilitate adequate and impactful entrepreneurial training services to help the youth develop innovative business ideas and implement them successfully. Thirdly, Business Development Services (BDSs) are provided solely by the government without the involvement of the private sector. Senior officers of MFIs explain the overall situation as follows:

> *"Most, the approach followed by the government is the handout mode (not market system approach) which undermines the effectiveness of the government programmes."* (Key informant interview, MFIs, 2021)

> *"The problem is that the policies and strategies followed by the government are supply driven. A mind set has been already developed that everything is expected to be provided by the government. The private sector has not been actively engaged in the process."* (Key informant interview, MFIs, 2021)

As most of the interventions that are designed to promote youth livelihoods are supply driven, the government has to invite the youth to benefit from different programmes including government provided access to credit services, provision of working sheds, facilitation of market linkages and related services. Consequently, it has been a challenge for the government to meet the demand for the microfinance, capacity development and other technical support services for the youth. The demand for the microfinance and capacity development service is so large that it cannot be solely met by MFIs that are mainly owned by the regional governments and capacity development facilities that are managed by the government. The key informant participants felt that the supply driven approach did not reach out to those with innovative business ideas who have already started their businesses.

The other critical gap in the approach to youth inclusive microfinance is a lack of diversification of financial services that include: the role of factoring; venture capital; Engel investments; equity funds; crowd funding; alternative credit scoring mechanisms including credit algorithms; introduction of country wide credit guarantee system; and practical ways of promoting the use of intangible collateral. These innovative financial instruments are used in other countries to promote inclusive microfinance to the youth as they promote high risk but youth-led innovative start-up ventures that have the capacity to transform the way business is done in the country.

In addition the following gaps still exist: a country wide credit guarantee scheme has not yet been operationalised which may further enhance access to financial services for the youth; although the setting up of regional government guarantees has been considered in the MSEs' development policy and strategy, it has not been applied at regional level; and the provision of capacity building and incentives for private sector financial service providers to develop innovative financial products to meet the needs of the youth are not covered in the current MSEs' development policy strategy.

There are also critical gaps in the coordination of funds run by different government agencies. The youth and women economic empowerment programmes are run by different government agencies and are operating in silos without clear linkages and regular assessment of the performance of the funds. Such economic empowerment funds are managed by government agencies without adequate capacity to assess risks and manage such funds. The experience of countries, such as Rwanda, indicates that scattered government funds can be consolidated through the creation of a one stop agency called the Business Development Fund (BDF), a subsidiary of the Development Bank of Rwanda.

b. The risk of mission drift

The key informant interviews and discussions revealed that there has been a strong tendency by regional government owned MFIs to shy away from non-collateral lending to collateral based lending mainly due to lack of risk mitigation tools, including guarantee funding, which helps MFIs to maintain the portfolio quality and financial soundness. This tendency will gradually divert MFIs from fulfilling their core mandate which is serving the low income and vulnerable segment of the population including the youth.

The other concern is the current move made by a number of the biggest MFIs (such as ACSI, OCSSCO and SMFI) in the country to be transformed into banks. Some of the MFIs have started the process to be licensed and operate as banks rather than as microfinance institutions. Although the transformation of such MFIs will help them to diversify clientele, create opportunities to address the financing needs of the SMEs (the missing middle), they may also drift from serving core clientele which is the low income segment of the population, including the youth.

c. Constraints related to structure, harmonisation of policies and coordination framework

Interviews and discussions held with relevant government bodies and key stakeholders indicate that there have been frequent changes made to the organisational setup of government institutions that have a role in promoting MSEs. The organisational setup of the relevant government agencies (at federal and regional levels) involved in promoting MSEs has been complex, which has hampered smooth communication, coordination and collaboration among the various government agencies. Regional government departments, in some instances, also follow different organisational setups which is not consistent with the structural setup established by the federal government. This affects the harmonisation of interventions, communications and reporting. The way that the government institutions, such as the MSE promotion bureau, are set up at federal and regional levels has been frequently changing that hampered effective communication and coordination.

There are also overlaps of functions among key government actors at regional and federal levels. A comprehensive key stakeholder's engagement, monitoring and evaluation framework has not been put in place which affects the successful implementation of the policy, including the provision of tailor-made financial services to the youth. The government agencies include, among others, Federal Micro and Small Enterprise Development Agency (FEMSEDA) that is accountable to the Ministry of Urban Development, Housing and Construction, the Federal Urban Job Creation and Food Security Agency and the Job Creation Commission (JCC). Senior officials who participated during the KII explained:

> *"The critical challenges that affected our effectiveness have been frequent change of our organisational setup."* (Key informant interview, MSEs Promotion Bureau, 2021)

> *"There are gaps in organisation and coordination of key government offices at federal and regional level. There are overlapping roles and responsibilities among government entities such as Job Creation Commission (JCC), MSE Development Agency, Federal Urban Job Creation & Food Security Agency and other related government offices."* (Key informant interview, MSEs' promotion bureaus, 2021)

> *"It looks that the key stakeholders involved in creating sustainable livelihood opportunities to the youth work in silos and focus on conducting their day-to-day routine activities and reporting rather than focusing on creating long lasting job opportunities that can radically transform the livelihood of the youth."* (Key informant interview, Senior Officers from MFIs, 2021)

d. Lack of timely amendment of policies and strategies

The MSME policy and strategy has not been regulatory reviewed since 2012 in line with emerging developments and best practices at national, regional and international levels in terms of key thematic issues including: strengthening entrepreneurial human capital; increasing access to finance; increasing access to markets; fostering innovation and technology; and introducing effective implementation, monitoring and evaluation mechanisms. A key informant respondent agreed:

"The MSE development strategy that was issued in 2011 has not been revised capturing the recent progresses and best practices. It does not consider the regional and international best practices and still requires improvement." (Key informant interview, MSEs promotion bureaus, 2021)

e. Lack of regulation or proclamation for implementation of the MSE policy and strategy

The outcome of the key informant interviews revealed that as the five key support areas stipulated in the MSEs' policy and strategy are not reinforced by law because a legal framework has not been developed for practical execution of the key support areas. As a result, relevant government bodies, the private sector and development actors do not consider the MSE policy and strategy as binding, as echoed by one of the key informant respondents:

"Lack of binding policies and strategies that can be commonly practiced and can be a basis to adapt into local context for implementation hampered the progress of implementation of the five support areas stipulated in the MSEs policy and strategy." (Key informant interview, MSEs' promotion bureaus, 2021)

f. Weak monitoring and evaluation mechanism and practicing evidence based policy making

Evidence based policy making facilitates continuous improvement. A national system of programme evaluation is recommended to assess the effectiveness of policies, strategies and programmes in supporting MSMEs to make continuous improvements to policy and strategy. The outcome of the discussion with key informants indicates that a national framework of programme evaluation has not been put in place and formal assessment of the impact of the MSE policy has not been done on a regular basis to improve the MSMEs' development policy and strategy. The lack of adequate disaggregated data (by age, rural, urban, etc.) also created gaps in assessing and monitoring the progress of youth inclusive microfinance and its role on improving youth livelihoods.

Implementation challenges faced on the practical execution of the MSE policy and strategy: In addition to the gaps in the MSEs' development policy and strategy discussed above, a number of challenges faced during implementation that includes the following:

g. **Inadequate awareness creation about youth inclusive policies, strategies and regulations**

Adequate sensitisation and awareness are very critical for the successful implementation of policies and strategies. During key informant interviews and discussions, it was revealed that the MSME policy and strategy has been introduced with limited sensitisation and awareness creation among relevant government stakeholders, the private sector and development actors. This is one of the factors that have hampered the successful implementation of such policies and strategies.

A practical example is to assess how key players such as MFIs (particularly those privately owned), banks, insurance companies, mobile banking technology providers, the private sector (engaged in other business other than financial services), and development actors are actively engaged in the implementation of MSE development policy and strategy. MSEs' development policy and strategy is silent on the policies and strategy to be followed and how to actively engage these key players that have a vital role in promoting youth inclusive finance. As a result, key actors have not been adequately sensitised with in-depth understanding about the MSEs' development related policies and strategies. Therefore, the private actors are not able to play an active role in promoting youth inclusive finance and youth livelihoods. Non-regional government owned financial institutions, including banks, MFIs and insurance companies, have not been actively engaged in facilitating financial services for the youth as expressed by one of the key informant respondents:

> *"There are gaps in creating awareness, bringing the right service providers and beneficiaries to participate in the scheme."* (Key informant interview, MSEs promotion bureaus, 2021)

h. Gaps in capacity building, coaching and mentoring of the youth

As specified in the MSMEs' development policy and strategy, MSE promotion agencies, TVETs, one stop centres, the National Bank of Ethiopia and MFIs have a critical role in providing institutional capacity support to strengthen the capacity of the youth for self-employment that contributes to MSE development and the formation of broad based developmental investors and industrialists, as specified in the MSEs' development policy and strategy.

However, the relevant government agencies have faced a number of constraints in successfully implementing interventions, including capacity building, coaching and mentoring, which has hampered the progress of creating a productive youthful population with an entrepreneurial mind set. This mainly emanates from a lack of one stop centres operating at full capacity, inadequate supply of professional staff, equipment and budget for TVETs, a high turnover of experienced staff and senior management members and the assignment of political appointees (in key government agencies such as MSEs' promotion bureau), who do not have professional experience and background in the sector. As a result, it has been difficult for TVETs to transfer employable skills to the youth to initiate and run successful business.

i. **Challenges with delivery and management of working premises and sheds offered by the Government**

A number of challenges have been encountered in relation to the provision of appropriate business premises and the management of sheds provided by the government. Firstly, there are instances where business premises and working sheds are not constructed to meet the needs of the enterprises. Some of the sheds constructed by the government and availed to the youth have been constructed following a similar layout, regardless of the type of business, and the business premises do not have adequate infrastructure including electricity and water facilities. There are cases where the enterprises were disintegrated after passing through the process and accessed the loan due to a lack of infrastructure such as roads, water and electricity.

The discussions revealed cases where it took two or three years to get access to electricity after the construction of the sheds. Thirdly, there is a limited supply of business premises and sheds compared to the high number of youths who need facilities. Fourthly, there has been a weak enforcement of policy related to using the sheds on a rolling basis with a definite time period. Though the youth are required to graduate from using the business premises provided by the government within five years, those who accessed sheds with good locations and adequate infrastructure have not vacated their places for newcomers which has affected the outreach to as many youths as possible. One of the key informant respondents mentioned:

> *"The gap in the provision of adequate working and business premises with the required infrastructure (including water, electricity, etc.) has hindered us to quickly*

organise the youth and engage them in productive businesses ventures. This is a big challenge that has not been resolved up to now." (Key informant interview, MSEs promotion bureaus, 2021)

"There are youth who have been working in the sheds for many numbers of years without graduation which restricted entrance of other youth." (Key informant interview, MSEs promotion bureaus, 2021)

5.3.3.2 Constraints on youth inclusive microfinance related policy and regulation

Among the current policies and regulations that are expected to enhance youth inclusive microfinance are microfinance proclamation, mobile banking, capital goods lease financing proclamation and movable asset proclamation. Experiences from other countries indicate that appropriate policies and initiatives can promote youth inclusive microfinance.

a. Financial inclusion strategy

Although the financial inclusion strategy of Ethiopia identifies the key challenges of financial inclusion and the key strategies to be followed to fix the gaps, youth and women financial inclusion has not been integrated into the national financial inclusion strategy. These two groups represent a substantial proportion of the total population but specific outreach targets have not been set for them. In addition, the strategy does not appreciate the existing significant variation in financial inclusion among the regional governments in the country and hence lacks regional focus.

b. Microfinance Business Proclamation

The microfinance regulation is one of the most important regulations that promote youth financial inclusion. Though the microfinance regulation in the country is considered conducive, there are still areas on the microfinance business proclamation that can be improved. They include the lack of youth issues from a regulatory perspective, the absence of innovative KYC assessment mechanisms that meet the specific requirements of the youth and a lack of clarity by MFIs on the operation of checking accounts.

The problem for expanding youth inclusive microfinance starts with a KYC assessment. One of the critical gaps in Ethiopia in advancing youth financial inclusion is the absence of a national ID system and database, as seen in other countries. The key informant interviews revealed that, because of this, people are able to access multiple loans with different identifications. Currently, regulatory reforms carried out in African countries, such as Tanzania and Rwanda, utilise emerging innovations, such as the e-KYC, which allows digitally enabled customer identification and verification, but are absent in Ethiopia. The national ID system and proper database greatly helps to better manage youth inclusive interventions in a responsible and accountable manner.

The microfinance regulation also does not have specific regulatory interventions and directives which promote the provision of financial services to the youth and women, as do the regulatory practices in countries that include Nigeria, Zambia, Sierra Leone and Tanzania (AFI, 2021). The NBE has recognised the existing gaps in the regulatory framework that promote financial services to the youth, as explained by one of the key informant respondents:

"There are gaps as specific regulatory interventions have not been incorporated in the microfinance business proclamation or any other directives issued by NBE that more promotes provision of financial services to the youth and women. I believe such considerations should be made as we move forward." (Key informant interview, National Bank of Ethiopia, 2021)

c. Credit Guarantee Scheme

Financial services around the world promote financial instruments such as credit guarantee schemes that expand the outreach of microfinance services to low income segments of the population, including the youth. A full-fledged National Credit Guarantee Scheme has not yet been introduced in Ethiopia. The limited regional government guarantee funds are not operating in line with the accepted best practices and principles that promote responsible lending. As a result, MFIs lack risk sharing mechanisms for availing microfinance services to the youth.

d. Factor finance

Factoring is a type of finance that can help SMEs owned by the youth to meet short term financial needs through selling account receivable and without requiring any additional collateral. The discussion with relevant policy makers, regulators and financial institutions revealed that factoring is not practices in Ethiopia. Factoring is not practiced in Ethiopia as a traditional trade finance product. As it has been difficult or impossible for the urban youth to access loan from commercial banks, factoring could provide an alternative source of finance to address their cash flow problems by discounting their bills/accounts receivables as a key source of working capital.

Afreximbank, which has a vision to be "a trade finance bank for Africa" has been providing support to national governments in Africa to make factoring as a viable alternative source of finance to SMEs.

e. Movable asset registration

The introduction of a movable asset registration proclamation is expected to address the problems faced by citizens' access to credit due to a lack of tangible collateral including buildings. With the full operationalisation of this proclamation, the financial institutions are expected to accept movable assets (such as machines, livestock, etc.) as collateral. While the movable asset registration proclamation will help individuals and entities who need collateral to access credit, it requires appropriate infrastructure

The NBE, with the support of donors, has been making preparations, including the procurement and installation of the necessary hardware and software, in order to provide such services. The practical application of the movable property security proclamation may, though, be difficult in areas that do not have reliable internet connections to access the system and create adequate public awareness. While the NBE will be managing the registration of movable assets in the short term, the registration process is expected to be transferred to a separate relevant government agency.

f. Capital goods lease financing

One of the interventions that have been introduced to create job opportunities for the youth and unemployed people is the Capital Goods Leasing Business Proclamation introduced in 1998 to allow the youth to access credit even if they lack tangible collateral but this has not been progressing as expected as it is constrained by a number of factors. The key challenges are: a lack of awareness about the services provided by capital goods leasing companies; the processing of tax exemption privileges; a shortage of foreign currency; power supply problems; a shortage of funding; a shortage of suppliers that meet the increasing demand of capital goods and machinery; and a lack of national standard specifications for machinery and equipment bought from domestic and international sources.

5.4 Status of provision of tailor-made microfinance services for youth in Ethiopia

Access to microfinance services in Ethiopia is growing. This section discusses and analyses the outcome of a survey conducted to understand the progress of youth inclusive microfinance (youth account ownership, access to credit, savings, insurance and digital financial services), to identify key challenges faced by the youth in accessing microfinance services, ascertain the constraints faced by MFIs to avail financial services to the youth and propose recommendations to address the gaps.

5.4.1 State of youth account ownership

Despite the various policy and regulatory interventions taken by the Federal Democratic Republic of Ethiopia (FDRE), Ethiopia is still one of the lowest performers in terms of financial inclusion. This has affected the lowest income section of the population's access to microfinance services (credit, savings and insurance services) to start or expand their businesses and meet other financing needs that include basic necessities such as education, health, agricultural inputs and social commitments and prevents them from actively supporting themselves and contributing to economic development. This includes most of the youth, which represent a majority of the population, who are excluded from accessing financial services.

As discussed in section 5.4.3 below, the result of the survey indicated that 94.75% of the youth, who are accessing the financial services from MFIs, have a saving account. MFIs, in most cases, require mandatory savings accounts to encourage the youth to save and help in mitigating the risk of loan default.

5.4.2 Sources of capital and purposes of the loans

This section provides a brief overview of sources of capital and purposes of the loans accessed by the youth. Based on the result of the survey, the sources of capital and purposes of loans accessed by the youth is summarised in Table 5.4 below.

Table 5.4: Sources of capital and purposes of loans of the youth

Source of Capital	**Frequency and Percentages (%)**
Loan from MFIs	361 (90.3%)
Loan/gift from friends and relatives	122 (30.5%)
Partnerships	89 (22.3%)
Loan from banks	8 (2.0%)
Others	5 (1.25%)
Purpose of loan accessed by the youth	
Expansion of business	259 (64.75%)
Starting business	141 (35.25%)

Source: Primary data

In line with the findings of the survey and as shown in Table 5.4, the source of capital for youth is from multiple sources including from MFIs (90.3%) followed by loan/gift from friends and family (30.5%), from partnerships (22.3%), from banks (2%) and other sources (1.3%). This implies that the key sources of capital for the youth were MFIs. Only 2% of youths accessed loans from banks which reflect the challenge faced by the youth to fulfil the stringent requirements (including collateral requirements) to access credit from banks.

5.4.2.1 Purposes of the loans

Data were gathered to understand the purposes of the loans the youth borrowed from MFIs. As shown in Table 5.4, the survey result revealed that 64.8% of the youth used the loan for expanding existing businesses and 35.3% for starting businesses. This implies that most of the youth enterprises (64.8%) that accessed the loan are existing enterprises and start-up enterprises that have limited opportunities to access loans from the MFIs. The MFIs and other financial institutions, such as banking institutions, predominantly serve the existing enterprises to minimise challenges they face including the risk of default by start-up businesses. Consequently, the youth who, in most cases, are new to the business world, face similar challenges to access credit from MFIs. That is why, as reflected in the literature review of this study, development agencies like ECA and ECOSOC advise that it is desirable to set up a scheme, such as guarantee funds, to incentivise MFIs and other financial institutions to serve the youth.

5.4.3 State of access to savings

The youth have been saving money for different purposes. The result of the survey indicated that 94.75% of the youth, who are accessing the financial services from MFIs, have a saving account. A mandatory savings account is usually required by MFIs to encourage the youth to save and help the MFIs in mitigating the risk of loan default.

Types of Saving by The Youth		
Description	**Frequency**	**Percentage**
Current account	68	17
Fixed times deposits	9	2.3
Voluntary saving	373	93.3
Sample size	400	

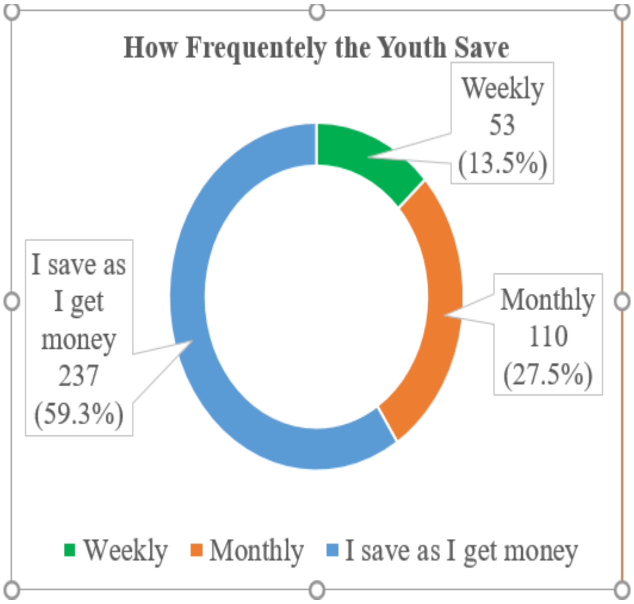


Figure 5.4: Types and frequencies of savings by the youth

Source: Primary data

a. Types of savings maintained by the Youth

As shown in Figure 5.4, a major proportion (93.3%) of the youth, who have been accessing credit services have savings accounts followed by current accounts (17%) and fixed time deposit accounts (2.2%). This means that a small number of the youth use checking and fixed time deposit accounts for savings.

Among the reasons that the youth do not have current accounts are cumbersome procedures (57.5%), a lack of income generating from the account (43.8%) and a limited availability of cash to put in the current account (32.5%). As traditionally most business transactions are made using checking accounts, low access of the youth to checking account may negatively affect the performance of their businesses.

The amount of saving made by 25 randomly selected youth from Omo Microfinance institution, one of the MFIs, was gathered to see the amount of voluntary saving made by the youth. The data indicated that the smallest amount of saving was Birr 4,000 and the largest Birr 90,000.

b. How frequently the youth save

Data were also gathered on how frequently the youth save. As shown in Figure 5.4, the result of the survey indicates that most of the youth save as they get money (59.3%), on monthly basis (27.5%) and weekly basis (13.5%). This implies low saving culture as most of the youth (59.3%) do not save on regular basis which hinders their future plans and from maintaining a healthy financial position. In addition, a low culture of savings restricts the youth from setting aside funds for development purposes, including education, investment to expand businesses and other opportunities that can strengthen the performance of their businesses. As the youth represent a major segment of the population in Ethiopia, this is a reflection of the low culture of savings in Ethiopia.

c. Reasons for saving for the youth

The saving mobilised by the youth has been utilised for different purposes including for future investment (94.5%), to buy assets (53.5%), cover expenses related to health (19.5%), education (15.8%) and other expenses (7.5%). Using savings for investment accounted for the major share of the purpose of savings. This shows a desire of the youth to grow and expand their businesses.

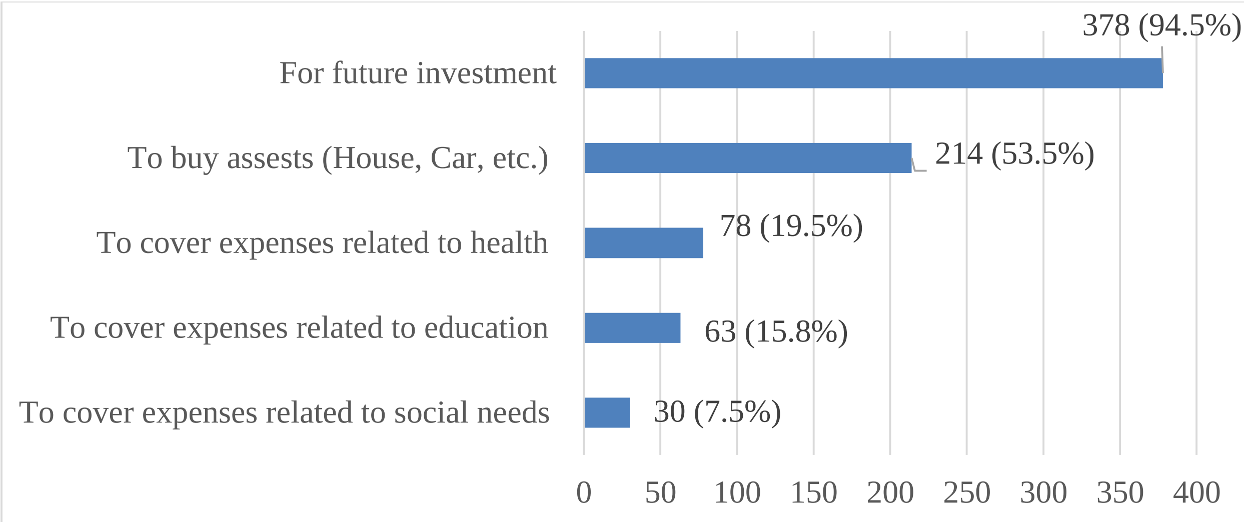


Figure 5.5: Reasons of the youth to save

Source: Primary data, 2020

5.4.4 Access to insurance services

5.4.4.1 Types of insurance services accessed by the youth

Microfinance institutions are legally allowed to provide micro-insurance services to their clients. The four MFIs considered for this study have introduced only credit life insurance products. The percentage of the youth who have accessed insurance services other than the credit life insurance is low (27.2%). This implies that most (72.8%) of the youth do not have access to any form of insurance other than credit life insurance. During the focus group discussions, those who used insurance services, such as vehicle insurance and housing insurance, mentioned that financial institutions required them to get insured to access credit.

5.4.5 Access to digital financial services for the youth

a. Opportunities for the youth in using digital platforms to conduct business

Access to digital financial services is critical for the youth to be successful in their businesses. With the revised proclamation for conducting microfinance business, microfinance institutions are allowed to conduct digital financial services in addition to the provision of the traditional microfinance services. The youth were asked to provide feedback about opportunities to do business using digital platform. Most (73.5%) of the youth felt that there is an opportunity to do business using digital means including the provision of online services to continue operation and sustain businesses during difficult times.

However, despite the potential to provide business online, only 23.5% have attempted to use online ways to conduct business including using online media to promote their products. The survey result indicates that, out of 94 (23.5%) who used online means, 72.3% used Telegram/WhatsApp followed by Facebook (43.6%) and received payments from clients using digital means (18.1%).

b. Mode of payment used by the youth in conducting business transactions

The urban youth have better opportunities to use mobile banking, ATMs and internet banking to access financial services using their cell phones. Despite this, the mode of payment used by most (96.5%) of the youth has been cash followed by bank transfer (31.8%) and online banking (3.5%). This implies that most of the youth are not using digital means for doing business. This reflects the existing low level of penetration of digital financial services in the country characterised by the lack of access to ATMs, the internet and mobile banking. The low level of digital technology means the youth must rely on traditional financial services. The findings gathered from focus group and key informant interviews reflected similar results of low levels of the youth using digital access to financial services.

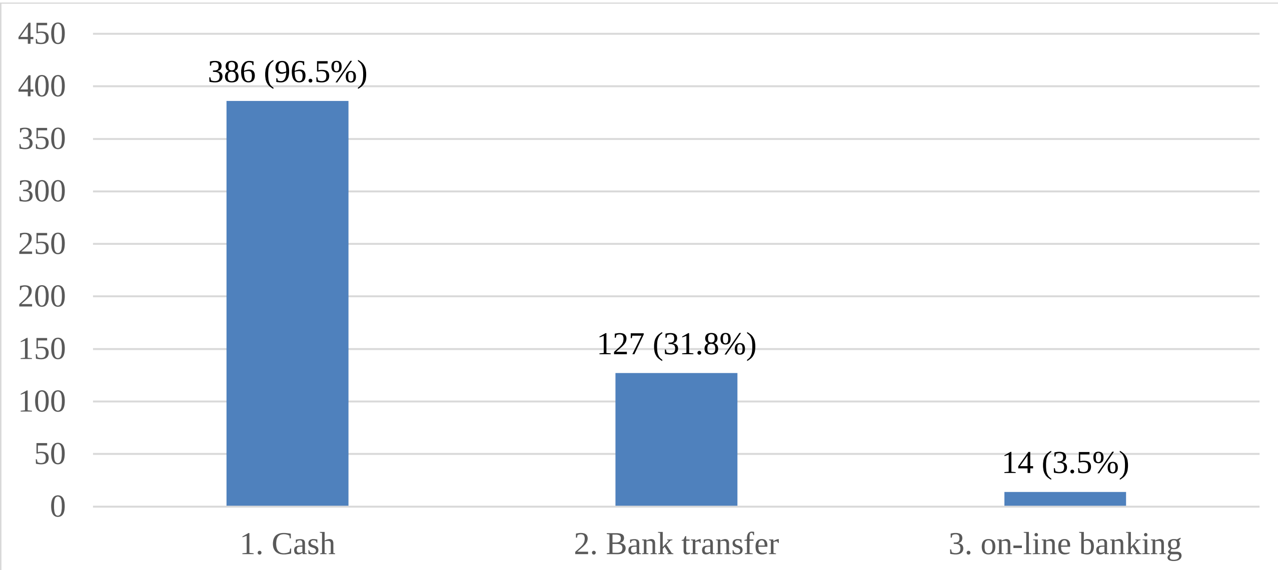


Figure 5.6: Form of payment used by the youth

Source: Primary data

One of the digital platforms used by youths include mobile banking for receiving payments from customers (35.8%), to pay suppliers (25%), utility bills (25%) and employees (14.2%). The main reason for using electronic payment include reduce time spent (41.4%), to satisfy suppliers (22%), reduce cost of financial transactions (18.7%) and reduce risks of manual financial transactions (17.9%).

Among the reasons that a significant portion of the youth do not use electronic payments/mobile money, as shown in Figure 5.7, are that suppliers and customers do not use the platform, no value addition (78.2%), do not know enough about electronic payment/mobile banking (39.7%), fee is too high (20.6%), not easy to use (8.7%), a lack of trust (4%) and difficulty fulfilling the requirements (3.2%).

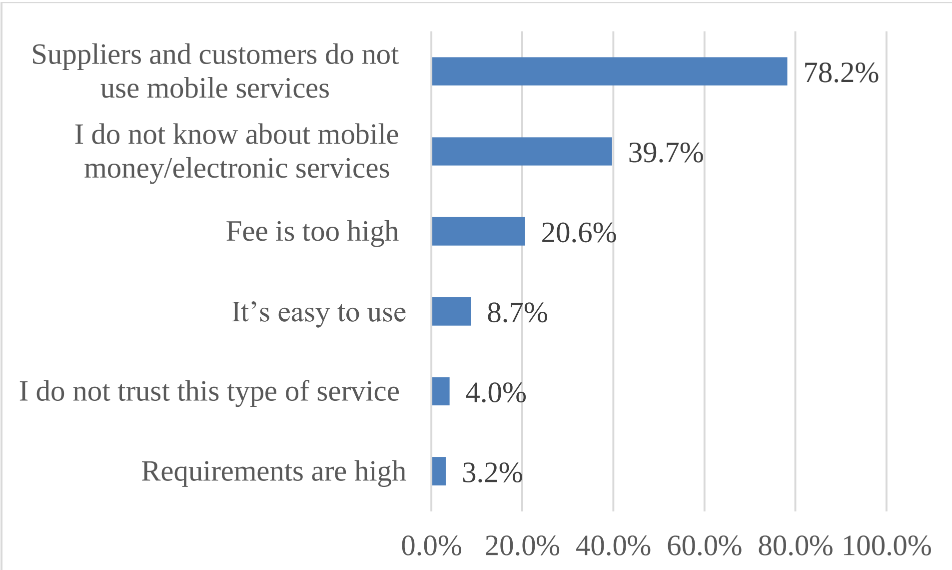


Figure 5.7: The reasons why youth do not use electronic/mobile payments

Source: Primary data

Statements from the youth and MFIs about using digital payment mechanisms:

> *"We use electronic banking including mobile banking. However, we are not exploiting the full potential of mobile banking as many of our clients and business partners do not use the service."* (FGD, Youth, Addis Ababa, 2021)

> *"Though we all personally use social media, we have not used it for promoting our business. We use mobile banking in a limited way as our customers do not use it in transacting business."* (FGD, Youth, Addis Ababa, 2021)

> *"Use of Mobile banking: what has been happening in most cases is that the youth come*

and open a mobile banking (M-Birr) account but do not use it on regular basis." KII, MFIs, 2021)

Data gathered from NBE indicate that, out of 39 MFIs licensed by the central bank, eight have been actively engaged in the provision of mobile banking services to their clients. As indicated in Table 5.5, at the end of June 2020, the MFIs had 2.4 million subscribers, 17,227 agents, 15.9 million transactions and the total value of the transactions reached Birr 24.3 billion. Although mobile banking has been improving (in terms of number of subscribers and value of transactions), it represents a very small percentage (4%) of the adult population. Ethiopia has been lagging behind compared to other East African countries, such as Kenya, which have been showing impressive performance in terms of number and value of mobile money transactions. As discussed in the literature review of this study, the country has started taking drastic measures to change this situation.

Table 5.5: Mobile and agent banking data

	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
No.of MFIs	6	6	7	7	8
Total No. of Subscribers	253,214	757,949	1,295,190	1,862,932	2,440,182
Total No. Of Agents	1,753	3,524	5,761	9,005	17,227
Total No. of Transactions	824,092	3,527,664	4,670,508	12,076,028	15,948,493
Total Value of transaction (in 000's of Birr)	872,146.5	4,390,871.9	6,082,219.4	14,681,957.0	24,289,253.1

Source: National Bank of Ethiopia

5.4.6 Key challenges faced by the youth in accessing microfinance services

The youth face multiple challenges in accessing microfinance services. The survey result (as shown in Figure 5.8) revealed that the most difficult challenge that the youth face in successfully running their businesses is access to markets (84.8%) and finance (82.5%) followed by a lack of raw materials (72%), access to business premises (56.3%) and political instability (53%). Access to electricity (46.5%) and other factors are depicted in the chart below.

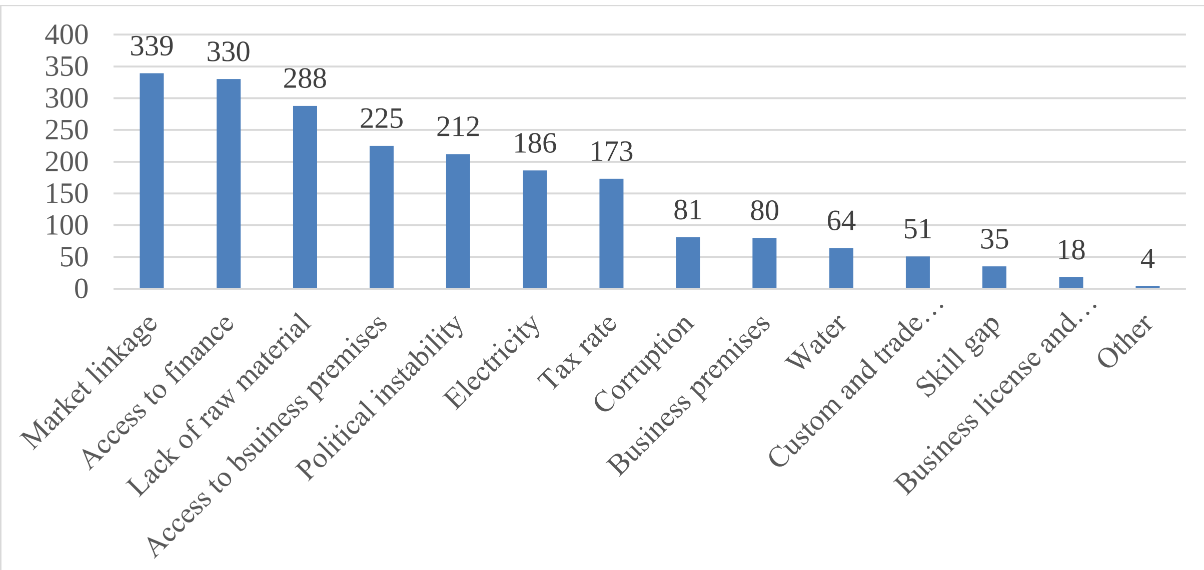


Figure 5.8: Key challenges the youth face in running their business

Source: Primary data (including the percentages)

A rigorous assessment was made through conducting a survey, key informant interviews and focus group discussions to understand the key challenges of the youth in accessing microfinance services. The findings of key challenges identified through a thematic analysis of the response from the respondents using Atlas.ti software is presented in Figure 5.9 below:

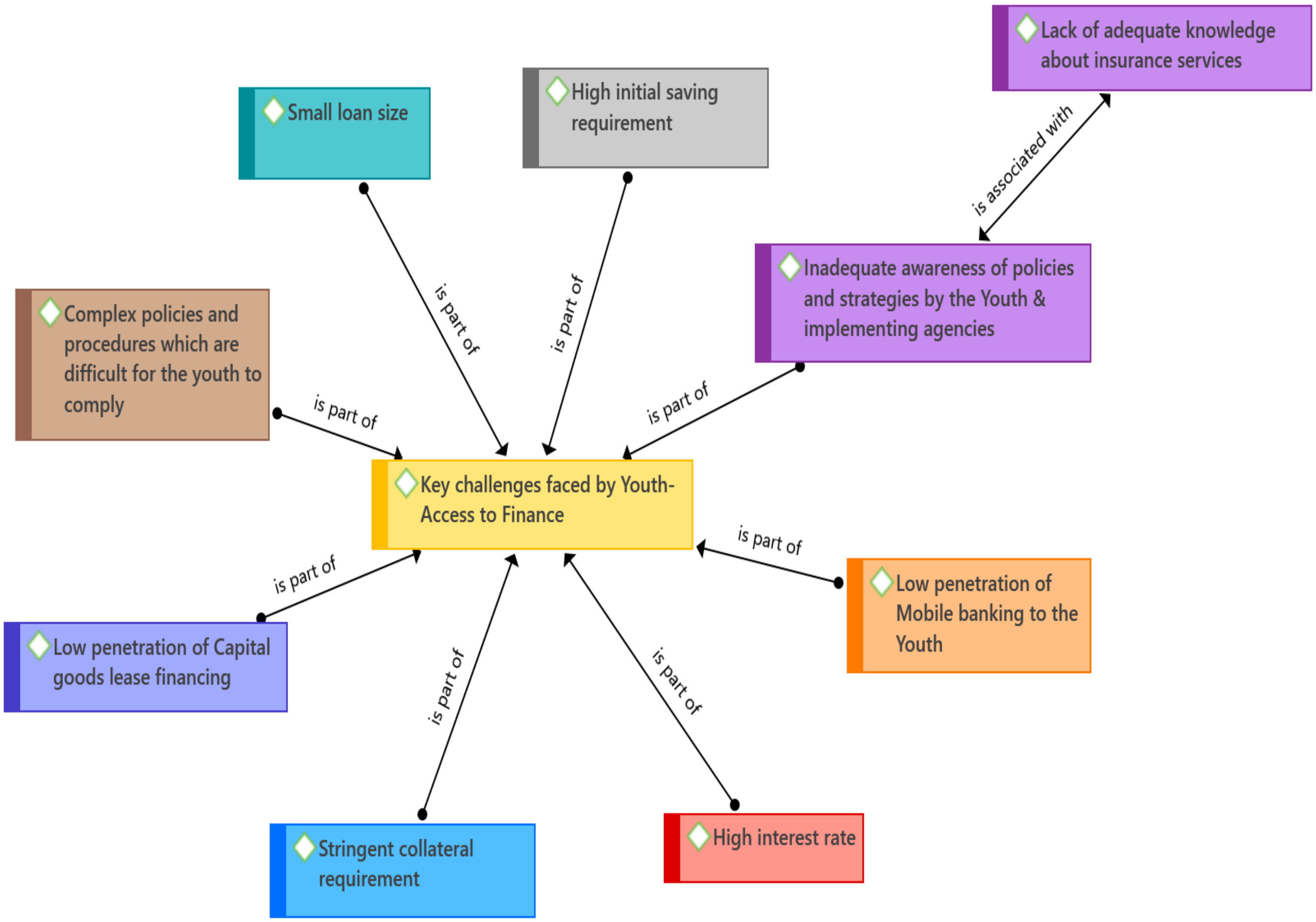


Figure 5.9: Key challenges of the youth in accessing microfinance services

Source: Author from primary data including key informant interviews

a. Lack of tailor-made financial products for the youth

The survey results revealed that MFIs have not yet introduced tailor-made financial products that consider the specific needs, characteristics and risk profile of the youth. The current products and services of MFIs in urban areas are mainly tailored to meet the financial service needs of the adult population who are running existing businesses. In a situation where the products and services do not take into account the needs and specific characteristics of the youth (including young women), the interventions may not produce the expected result.

b. Major gaps in accessing credit services

The availability of affordable credit helps the youth to start businesses, invest and take advantage of opportunities for existing businesses, meet short term liquidity needs, become engaged in income generating activities and live decent lives through building their livelihoods. The majority of the youth are dissatisfied with credit services from MFIs. The survey result indicated that the majority (54.3%) cannot access credit from the MFIs when they need it. This creates a number of challenges for the youth to address financial needs of their businesses, generate income, and meet basic and other social needs including investment required to access education and health services.

The survey result revealed that most (57.5%) of the youth feel that they also need loans for other purposes in addition to the business loans. This implies the financing need of the youth goes beyond business loans and requires the attention of the policymakers and MFIs. As reflected in Table 5.6, among the types of the loans that the youth proposed, in addition to business loans, are education loans (39%) followed by emergency loans (35.5%), health loans (29%), consumption (15%), counselling (8.3%) and other (3%). This implies that the policy makers and MFIs need to introduce tailor-made financial products and also to diversify the financial products to meet the other needs of the youth (such as education and health) and emergency needs.

Table 5.6: Type of additional loan services proposed by the youth

Type of Loan Product	Frequency	Percentage
1. Education	156	39%
5. Emergencies	142	35.5%
2. Health services	116	29%
4. Consumption	60	15%
3. Counselling	33	8.3%
6. Other	12	3%

Source: Primary data, 2020

c. Size of loan

The youth were asked to provide feedback on the suitability of the size of the loan offered by the MFIs which helps to successfully run their businesses. The survey result indicates that most (72%) of the youth consider the loan size offered by the MFIs is too small to meet their needs. The rest (28%) feel that the loan size is enough to either start up a new business or expand their existing businesses. In a situation where the youth are not able to access the right size of loan, they may not be able to run a successful business.

The outcome of the focus group discussions revealed that one of the critical factors that contributed to the size of a loan is the lack of revision of the loan size by MFIs for long period of time. The loan size specified in the credit policies and procedures of MFIs have not been revised to the current inflationary situation and increased cost of living. When the size of the loan is too small to start a business, the youth could divert the loan for other purposes, including for consumption, which prevents them from running successful businesses. In addition, the small loan size may not support their personal goals in terms of expanding existing businesses or meet their development needs such as education, access to health services and emergency needs. Respondents of key informant interviews and focus group discussions shared their views:

> *"The other gap in provision of tailor-made financial services to the youth is the size of the loan which has not been reviewed for so long. For example, the smallest size of loan is Birr 700 which has not been revised."* (Key informant interview, Job creation and enterprise development office, 2021

> *"The loan size is so small and is not well aligned to the current inflationary situation and increase in cost of living."*

> *"We have not been able to provide the right loan size to the youth as we do not have the capacity to carry the risk."* (Key informant interview, MFIs, 2021)

> *"The critical challenge that we have been facing is the size of the loan. The size of the loan has been small to meet our needs and run a successful business. It can only partially meet our needs."* (FGD, Youth, 2021)

d. Long gestation period to access loan

Data were collected to understand how long it takes for the youth to access loans from the MFIs. As shown in Figure 5.10, a high proportion (31.8%) of the youth accessed the loan within 4-8 weeks followed by 3-4 weeks (29%), 8 weeks (27%), 2-3 weeks (10.8%) and less than two weeks

(1.5%). This duration covers the time from loan application to disbursement of the loan. The factors that determine how long it takes to access the loan depends on a number of factors including the extent to which the application complies with the requirement by MFIs, the level of complexity of the policies and procedures of the MFIs and the efficiency of the appraisal and approval process. The findings from the FGDs also indicate that the youth are not satisfied with the existing requirements and are frustrated with the long gestation period it takes from application to disbursement of the loan.

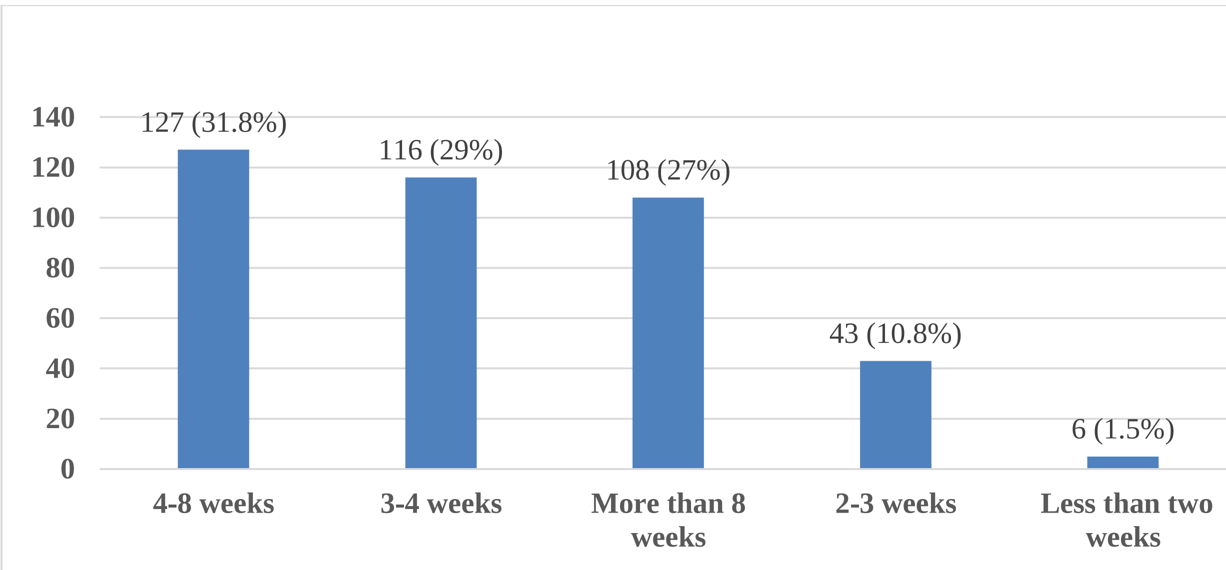


Figure 5.10: Duration it takes for the youth to access credit from MFIs

Source: Primary data, 2020

One of the critical challenges that MFIs face in providing loans to the youth in good time is the youths' lack of appropriate business records to understand the financial position of the enterprises. Most (80%) of the youth keep business records but the rest (20%) of the youth do not have business records.

Out of the youth who keep business records, 88.4% use manual and traditional record keeping practices including paper based ledgers which do not provide complete information to access financial services, such as credit, from financial institutions, including MFIs. Manual recording practices also create difficulty in introducing and promoting digital financial services for the youth. Only 11.6% of the youth keep business records on computer applications.

e. Lack of financial incentives for the youth to access credit

In general, financial institutions including banks, microfinance and insurance companies are expected to offer better rates for the youth to access their services. This research has found that MFIs treat the youth in the same manner as adults regarding interest rates when the youth access credit services from the MFIs' regular programmes.

With regard to affordability of the loan, 63% of the youth feel that the interest rate for loans is high. Twenty-one point seven percent feel that the interest rate for a loan is low and the rest (15.3%) of the youth do not know the rate of interest rate they pay to the MFIs which calls for MFIs to strengthen the way they disclose and share features of loan products to clients. The youth reflected similar incidences for savings they keep at MFIs. The interest rate paid by MFIs for savings ranges between 5% and 7% which is not better than the interest rate offered by other financial institutions, including banks. Information gathered from MFIs revealed that they have not yet introduced a preferential interest rate to incentivise the youth to save, engage in income generating activities and improve their livelihoods. One of focus group participants, with regard to interest rate, loan size and repayment period of a loan, maintained:

"The key challenges that we have been facing include size of loan (small), interest rate

(which is high) and the repayment period which is not aligned with cash flow of our business." (FGD, Youth, 2021)

f. Stringent collateral requirements

The other key challenges the youth face during the application process to access loans is stringent collateral requirements and initial mandatory savings requirements. The findings of the survey indicated that the collateral requirement (73.8%) is the most difficult for the youth to access loans from the MFIs followed by initial mandatory savings requirement (20.2%) and others (6%). This is consistent with findings by UNCDF (2015) as reflected in the Rwanda report that the youth usually struggle to mobilise the collateral required by financial institutions.

Among others, the types of collateral required by MFIs are: group collateral; personal guarantee; physical collateral (such as house, car); and others. As summarised, in Figure 5.11, the outcome of the survey revealed that 51% accessed the loan with group collateral followed by personal guarantee (41.5%), house (38.5%), car (35.5%) and other (3.8 %).

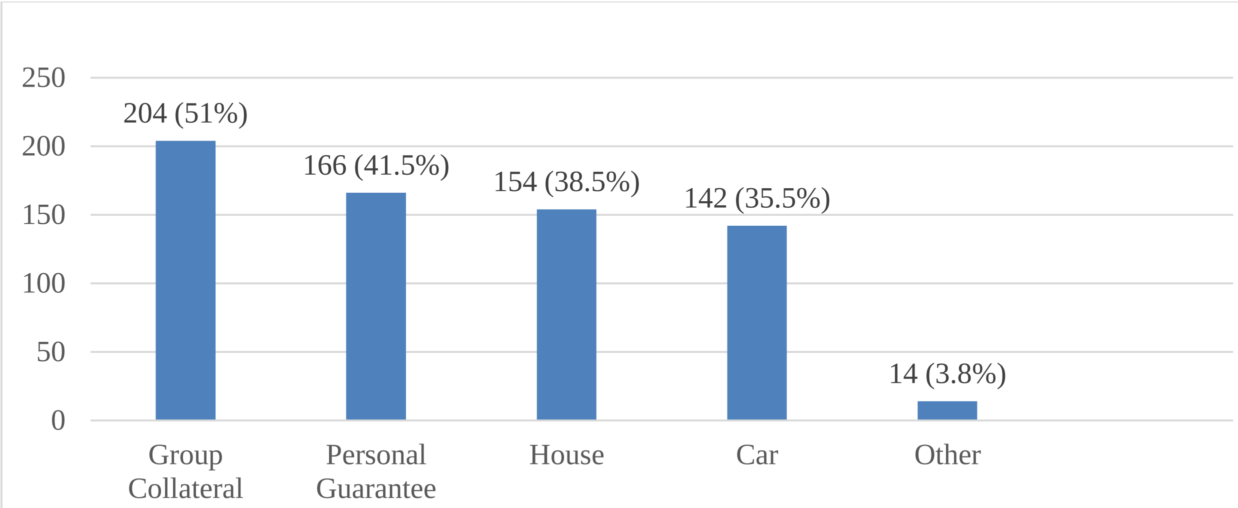


Figure 5.11: Type of collateral required from the youth to Access Credit

Source: Primary data

The assessment with regard to the suitability of the collateral requirements indicates that the youth face difficulty to complying with the collateral requirement by MFIs. Seventy-two point five percent of the youth feel that the collateral requirement is difficult, somewhat difficult (8.5%), neutral (6.25%) and not difficult (12.75%). The outcome of the FGDs indicates that the size of the loan depends on the type of collateral offered by MFI clients. The better the youth are in a position to offer traditional collateral, the higher the size of the loan. With group collateral, the youth can only access relatively small loan sizes as defined in the policy of each of the MFIs.

The MFIs follow both individual and group lending methodologies. Clients can access relatively larger loan sizes by offering traditional collateral (house, vehicle, etc.). The group lending methodology is used to serve as a collateral substitute for the low-income segment of the population (including the youth) who may not be able to offer traditional collateral. The amount of the loan that can be accessed following group lending is small compared to the individual loan. This means that the youth who, in most cases, cannot offer traditional collateral, can only access small loan sizes from MFIs.

g. Lack of incentives for the youth to save at MFIs

One of the incentives provided by the MFI to encourage the youth to save is offering them better interest rates for saving. Data were gathered to understand incentives provided by MFIs to encourage the youth to save. The survey result revealed that 48.6% of the youth felt the interest rate for saving is low, 14.2% felt it was high and the rest, 37.2%, did not know the interest rate paid by MFIs for saving. This reflects a low level of satisfaction of the youth on the interest rate offered by MFIs for savings and a call for more disclosure of information to create awareness of the interest rate offered for saving.

The youth were also asked to reflect their views on how quickly they get access to their savings during financial needs. The result of the survey revealed that 40.8% are satisfied with the services, 38.8% dissatisfied and 20.4% neutral. This implies that MFIs need to avail savings services that meet the needs of the youth. One of the key challenges MFIs face in the provision of efficient services is the lack of automation of their operations. This is discussed in the next section of this study.

h. Low level of satisfaction on existing limited insurance services

The youth were asked to provide feedback about their satisfaction on the credit life insurance services provided by the MFI. The findings of the survey indicate that only 19.6% were satisfied with the credit life insurance services and 41.8% were dissatisfied. The rest, 28.6%, were not yet sure if they were really getting additional value from the credit life insurance services. The result from the FGDs showed similar results that most of the youth do not know much about the credit life insurance services. It is mandatory that every client of the MFIs has to be a part of the credit life insurance scheme which helps the MFIs to mitigate risk of default on the death of a client. The credit life insurance also has a benefit to the youth that, on the death of the client, the risk of the loan default will not be transferred to their families. MFIs need to create awareness and improve the services related to credit life insurance services.

As discussed in the previous sections with empirical data, among the factors that contributed to low access to insurance services are inadequate awareness about insurance services and a lack of tailor-made products that meet the needs and the characteristics of the youth. The low level of awareness and access to insurance services for the youth implies that the income generating capacity of the youth can be damaged due the dynamic nature of their business situations which change frequently.

i. Low level of financial literacy and education

Ethiopia has introduced a national financial inclusion strategy but there are gaps in the strategy regarding specific outreach targets that have not been set for the youth and women. Though more than 45 million people have already mobile phone subscriptions, the penetration of digital financial services has not been progressing well due to challenges including the lack of deliberate efforts by relevant government bodies, such as NBE and MSE development and promotion agencies that promote financial literacy and education, including digital financial services, among the youth. The outcome of the KII revealed that government agencies, such as the NBE, do not have specific departments that deal with financial education and consumer protection.

j. Negative perception towards lending to youth by financial institutions including MFIs

The outcome of the KII showed that there is a widespread perception that the youth are not disciplined, do not have motivation and commitment to work, and that it is risky to finance their businesses. Such negative perceptions affect the trust and confidence of the financial service providers and the public at large on the youth. In addition, there are capacity gaps as lending to SMEs requires specific skill sets. As a result, MFIs shy away from the provision of non-collateral loans to traditional loans which require traditional collateral. With all those negative perceptions, the youth find that accessing loans from MFIs is difficult to achieve.

k. Limited specific support from MFI and the government during COVID-19 crisis

The enterprises run by the youth faced challenges in business performance due to the negative effects of COVID-19 which have spill-over effects on loan repayment to the MFIs. Guidelines on loan rescheduling and refinancing have not been introduced by MFIs to support the business enterprises in managing cash flow and liquidity challenges that emanate from the negative effect of COVID-19. The senior management of MFIs believes that the impact of COVID-19 has been moderate and that loan rescheduling and financing guidelines to support enterprises may be misunderstood by clients and may hamper the repayment performance. Accordingly, the MFIs have not formally introduced a rescheduling policy to support business enterprises in coping with COVID-19. MFIs followed an informal process of rescheduling loans to those enterprises critically affected by the pandemic. The overall objective was to discourage clients of MFIs from applying for rescheduling of their loans and maintaining their credit discipline. However, a lack of transparent practices related to loan rescheduling and refinancing may lead to unfair treatment and dissatisfaction of clients.

5.4.7 Key challenges faced by MFIs in promoting youth inclusive microfinance

There are a number of challenges that constrained MFIs from promoting youth inclusive microfinance. Among the key challenges faced are: a lack of tailor-made financial products for the youth; gaps in the entrepreneurship and technical skills of the youth; and productive use of loans accessed from the MFIs; gaps in loan appraisals which are mainly manual with tiresome documentation, application, review and approval processes; a lack of a core banking system; a shortage of funding; and weak coordination and harmonisation activities by relevant government actors.

a. lack of tailor-made financial products and services for the youth

MSE development policy and strategy considers MFIs (more specifically those with major ownership by regional government) as key financial institutions that contribute to promoting youth inclusive finance. The microfinance sector played a role in promoting tailor-made financial services and advancing financial inclusion for the low income segment of the population. As discussed in section 2.4 (Overview of financial system in Ethiopia), the microfinance sector has been growing in terms of loan portfolios outstanding, assets and outreach. In this study, an assessment was made to understand the role of MFIs in enhancing youth livelihood through the provision of microfinance services as guided by MSE development policy and strategy. Most of the services provided by MFIs are implemented in coordination and collaboration with other relevant government agencies.

The major shareholder of the four MFIs (ACSI, OMo MFI, OCSSCO, ADCSI) considered for this study are the regional governments. Key informant interviews made with regulators, other relevant government bodies which have a role in promoting youth livelihoods and MFIs revealed that the

MFIs under consideration have so far introduced generic financial products (savings, credit and insurance) to serve the general public. The MFIs (with their regular microfinance programme) have not yet introduced tailor-made financial products that meet the specific characteristics and needs of the youth other than a few initiatives that are being tested with the support of non-government organisations (like UNCDF). This shows a significant policy gap that hinders MFIs in terms of promoting youth livelihoods through youth inclusive microfinance as specified in the MSE development policy and strategy. In such a situation, the MFIs will not be in a position to play their critical role of promoting youth livelihood development as expected.

To successfully contribute to the promotion of youth livelihoods (through youth inclusive microfinance), the MFIs have to take a number of actions including introducing appropriate youth inclusive microfinance policies and procedures, conducting market studies and understanding market segment, developing tailor-made products and services, pilot testing and rolling out of the financial products.

The regular loan products and services include business loans, asset loans (for house construction, maintenance and furnishing), consumptions loans, interest free loans (which MFIs have introduced recently) and other related loans. In most cases, the business loans target existing businesses not start-ups. Most of such loans require traditional collateral (including institutional guarantees, land ownership certificates, certificates of time deposits and vehicle ownership certificates) which are difficult to be fulfilled by the youth. The asset loans, housing loans and consumption loans are also developed to serve mostly government employees. Such stringent conditions create hindrances for most unemployed youth to access financial services from MFIs and start income generating activities. Consequently, the focus of the MFIs has been gradually diverting from serving the youth.

MFIs have adopted individual and group lending methodologies. With individual lending, borrowers can access relatively large loans but with rigorous lending requirements including collateral requirements, submission of financial statements and rigorous appraisal processes. Whereas the youth, who are interested to borrow with group lending (which also contains group formation process), can only access relatively small loan sizes compared to individual lending. Therefore, it is difficult for the youth to access individual loans with better loan sizes due to the specified requirements that they cannot comply with. The MFIs have been experiencing challenges in applying group lending methodology to reach out the youth with their loan products. This is mainly due to weak group cohesiveness which leads to group disintegration. In addition, the outcome of the FGDs with the youth indicates that most of them prefer borrowing individually rather than in a group. Here is feedback gathered from the KII respondents with regard to the progress made by MFIs in introducing tailor-made financial products that meet the need of the youth:

> *"Our MFI has not yet introduced tailor-made financial products that meet the need of the youth. However, the youth have been benefiting from the generic financial products designed to serve the general public. This has, to some extent, constrained and diverted our focus from serving the youth."* (KII, MFI, 2020)

> *"The problem is that the products offered by microfinance institutions are generic products that are designed to serve the public at large. The products are not designed*

in such way that they address the specific characteristics and needs of the youth. As a result, the youth has not that much been served by the microfinance institutions". (KII, MSE Promotion Bureau, 2020)

"We have different loan products including housing loans, asset loans (mostly for government employees), business loans (mostly for existing business), consumption loans (to buy items like vehicle) and interest free loans. However, it is difficult for youth to access these types of loan as it is difficult to fulfil the collateral requirement." (KII, MFI, 2020)

Though most of the products are generic, MFIs, such as Addis MFI, have introduced policies and procedures that encourage those with innovative business ideas. A policy was introduced to motivate the youth to introduce innovative business ideas. One of the policies included opportunities for innovative businesses to access to credit up to Birr 2 million using intellectual property rights or their patent as collateral. A committee was formed at Addis Ababa City Administration that reviews and approves such loans. However, such practices have not continued due to a number of challenges encountered including designing appropriate policies and procedures that facilitate practical application and allocation of adequate resources.

b. Gaps in entrepreneurships and financial education of the youth

Another factor that has been hindering MFIs from promoting youth inclusive finance is inadequate entrepreneurial and financial education. The relevant government institutions that are responsible for enhancing youth entrepreneurial capacity include MSEs, promotion bureaus, one stop centres, TVETs and Polytechnic institutes. In spite of some progress made, the specified government agencies have not been in a position to successfully play their roles and responsibilities due to a number of challenges they face including the lack of adequate manpower and budget. The relevant government bodies have long way to go to be in a position to produce a productive work force with the right attitudinal and entrepreneurial mind set.

c. Gaps in fully operationalisation of credit information bureaus with MFI

Credit information bureaus promote financial stability and contribute to economic growth. They house pertinent information for financial institutions to follow responsible lending practices and for borrowers to refrain from overburdening themselves with lines of credit beyond their capacity. A credit information bureau was introduced in Ethiopia in 2004 in which only banks were involved. The credit information was upgraded with a state of the art platform in 2011. According to directive number CRB/02/2019, all financial institutions (banks, capital goods finance companies and MFIs) are required to be registered with credit reference system and no financial institution shall extend a loan unless it is registered on the system.

So far, the MFIs have not benefited from the system as they have not been a part of the credit information bureau. In the period of data collection for this thesis, the microfinance institutions have been in the process of becoming a part of the platform that addresses multiple borrowing (credit shopping), over indebtedness and mitigates a deterrence effect on the repayment of loans. Integrating MFIs into the credit information bureau is expected to contribute to reducing the credit risk of the MFIs by introducing credit discipline, particularly for the youth, to address multiple borrowing.

d. Inadequate database about unemployed youth and the gap in credit appraisal

One of the major factors that have hindered the promotion of youth inclusive microfinance is a lack of comprehensive data on youth unemployment as a database with comprehensive information about unemployed youth has not been set up. Selected statements from participants include the following:

> *"The problem starts with KYC assessment that there has not been database that helps to realistically identify the jobless. If we had the database, the fund would have been better managed which helps to realistically identify the jobless."* (KII, NBE, 2020)

Though there are digital tools that facilitate the loan application, appraisal and approval process, MFIs under consideration depend on traditional loan appraisal policies, procedures and tools. As a result, MFIs have not been in a position to conduct these processes efficiently or to introduce more flexible products including collateral free loans based on clients' history. The MFIs have also not been in a position to fully embrace digital financing (including mobilising savings and collecting loan repayments online) due to the lack of a core banking system. Selected statements from KII about the challenge of MFIs with regard to core banking system are as follows:

> *"We are not yet fully embracing the digital financing due to lack of core banking system. We have started taking saving with mobile banking. We have 5,300 clients. But we have not started loan repayment through mobile banking."* (KII, MFI, 2020)

> *"Lack of core banking has been the biggest challenge in providing digital service to the public including the youth"* (KII, Business Development Manager of MFI, 2020)

"We have not fully rolled out core banking system that has been undermining our operational performance including reaching out to the youth." (KII, Director, MFI, 2020)

e. Shortage of funding

The microfinance institutions have been promoting access to financial services that has been critical in enhancing their livelihood. The sources of funding for MFIs include capital contributions by shareholders, savings, loan from programmes, such as RUFIP programme, and donations by socially motivated investors. Despite the encouraging progress, the gap in meeting the demand and reaching out to as many youths as possible still remains a challenge.

As in most African countries, COVID-19 has disproportionately affected MSMEs including those which are run by the youth. The negative effect of COVID-19 on the performance of MSEs has a spill-over effect on MFIs contributing to low loan portfolio quality and a weak funding position. The NBE allocated funds in support of MFIs in meeting their liquidity needs due to the COVID-19 crisis. However, there has not been a major action taken by the government in terms of assessing such spill-over effects and strengthening the capital position of the MFIs as main providers of financial services to MSEs. Strengthening the capital and liquidity position of the MFIs boosts the soundness of the MFIs to continue provision of financial services to vulnerable segments of the population, as a statement from KII affirms:

"There is huge gap between the supply and demand. We have a growing youthful population that has not been reached out with the limited resources". (KII, Head of Job Creation and Enterprise Development, 2021)

5.4.8 The state of implementation of the revolving fund

The youth revolving fund (Birr 10 billion) was established by the Federal Government with proclamation number 997/2017 that was issued to provide guidance on the objectives and management of the fund. The youth revolving fund has been established to provide financial and technical support to the youth engaged in income generating activities to realise their production potential and actively engage in the economic development of the country.

The fund is set up to be utilised by the beneficiaries in the form of loans through MFIs. The revolving fund was allocated based on the size of the region/city administration. As indicated in Table 5.7, the highest (34.4%) share of the fund (Birr 3.4 billion) was allocated to Oromia region followed by Amhara region (2.7 billion [26.8%]), SNNPRs (Birr 1.9 billion [18.8%]) and the rest, 20% was allocated to eight other region/city administrations.

Table 5.7: List of participating microfinance institutions, respective regions and allocated revolving fund amount

No	Name of the MFI	Region/City Administration	Maximum Allotted Fund (In Millions)
1	Oromiya Credit and Saving Institution	Oromiya	3,439
2	Amhara Credit and Saving Institution	Amhara	2,679
3	Omo Microfinance Institution	SNNPRS	1,882
4	Somali Microfinance Institution	Somali	603
5	Dedebit Microfinance Institution	Tigray	527
6	Addis Credit and Saving Institution	Addis Ababa	419
7	Afar Microfinance Institution	Afar	206
8	Benishangul Gumuz Microfinance Institution	Benishangul Gumuz	113
9	Dire Microfinance Institution	Dire Dawa	55
10	Gambella Microfinance Institution	Gambella	50
11	Harar Microfinance Institution	Harari	27
Total			10 Billion

Source: Ministry of Youth & Sport

The introduction of the youth revolving fund has been welcomed by the public, development actors and government agencies as one of the schemes to serve the youth with tailor-made credit services that recognise the risk profile and needs of the youth. The revolving fund schemes have flexible requirements related to collateral, mandatory saving, loan repayment period, appraisal process and loan size.

The outcome of the key informant interviews and focus group discussions indicated that the youth revolving fund scheme is tailor-made to meet the specific characteristics and needs of the youth. However, the implementation of the fund has been far below the expectation hampered by a number of challenges which undermined the overall performance and sustainability of the fund. The youth revolving fund scheme was introduced in a rush. Overall, the performance of the fund has been unsatisfactory due to a number of factors including that the implementation of the scheme deviated from the original guidelines, a lack of detailed guidelines for the implementation of the scheme, gaps in capacity building, frequent changes made in the guidelines (Addis Ababa revolving fund scheme), inadequate training, weak loan appraisals, coordination and harmonisation follow up and monitoring mechanisms.

In line with the original design and the youth revolving fund establishment proclamation number 995/2017, key government agencies that have roles and responsibilities in the implementation of the fund include the Ministry of Finance and Economic Development, the Commercial Bank of Ethiopia, MFIs, Ministry of Youth and Sport and other authorities in charge of youth affairs. The role and responsibilities of the relevant government agencies is summarised in Figure 5.12 below.

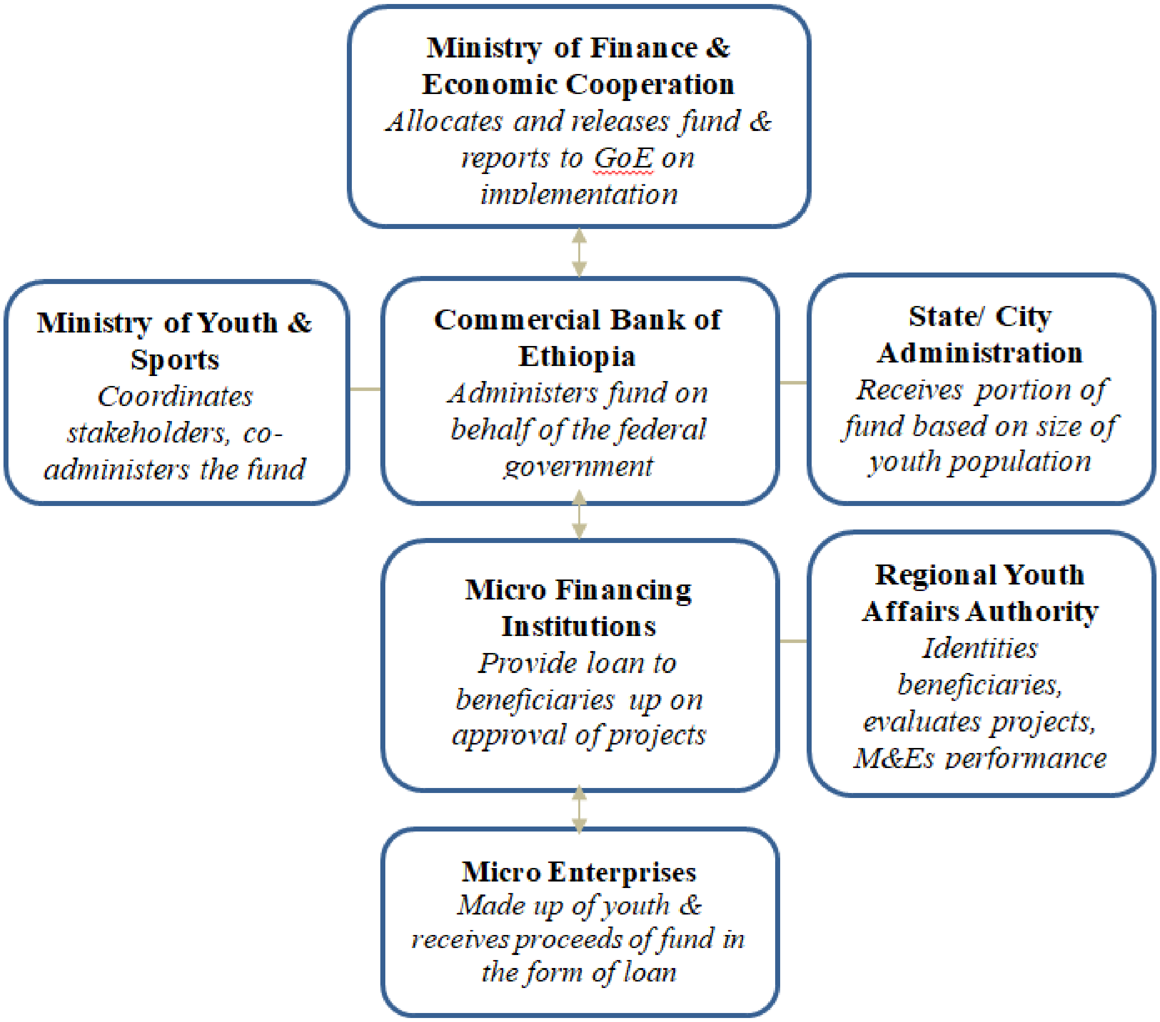


Figure 5.12: Structure of the Birr 10 billion youth revolving fund

Source: Ministry of Youth & Sport and Youth Revolving Fund Proclamation No: 997/2017

Based on the result of thematic analysis of the feedback gathered from the KII, the key challenges faced during the implementation of the revolving fund are summarised in Table 5.8 below.

Table 5.8: Summary of key challenges faced during the implementation of the revolving fund

Issues	Description
a. Diversion from the original design	The implementation of the revolving fund deviated from guidelines stipulated in Youth Revolving Fund Establishment Proclamation Number 995/2017. The proclamation provides guidance on the objectives of the fund, sources and amount of fund, administration of the fund, utilisation of the fund, duties and responsibilities of Ministry of Finance, duties and responsibilities of relevant government agencies. Though the Commercial Bank of Ethiopia (CBE) was assigned to administer the fund on behalf of the government, it has not been involved in managing the fund. As opposed to the original design, funds were disbursed by the Ministry of Finance through the regional finance bureaus. This has created a significant gap in following acceptable standards and procedures. CBE has so far not been involved in following up repayments of the fund as the fund has not been disbursed through the bank. Participants of the key informant interviews believe that the National Bank of Ethiopia (NBE), as a regulatory body, should have intervened and provided guidance when the youth revolving fund was found to be deviating from the original intention.
b. Lack of comprehensive youth revolving fund policy guidelines and procedures	Feedback gathered from key informant interviews and FGDs indicates that the youth revolving fund guidelines issued and shared with implementing agencies have not been supported by detailed policies and procedures that provide proper guidance for operationalisation, implementation and management of the fund. Among others, the revolving fund scheme does not elaborate on the specific target group from the youth that will be served with the scheme, types of capacity building that the youth require to be a part of the scheme, detailed rules and procedures that should be followed during selection, credit appraisal, monitoring and reporting. In addition, the youth revolving fund establishment proclamation as well as the guidelines do not provide guidance on how the sustainability of the fund can be maintained.

c. Inadequate awareness and the use of the youth revolving fund as a political tool	The revolving fund scheme was introduced in a situation where there was political instability in the country. One of the critical challenges faced in the implementation of the youth revolving fund is a lack of adequate awareness that was not conducted before the implementation of the scheme. The outcome of the key informant interviews revealed that the media campaign which was made by politicians and senior government officials about the fund contributed to creating a wrong impression and a negative attitude by the public towards the fund. Most of the citizens had a wrong perception that money to be accessed from the fund was allocated by the government as a grant and citizen's right to support economic development.
d. Inadequate capacity building and weak coordination during implementation of the fund	The outcome of the key informant interviews and focus group discussions revealed a number of gaps in the capacity building programmes. The gaps, among others, are a lack of adequate guidelines and programme of action that provide information on capacity development needs of the youth, types of capacity building to be facilitated, duration of the capacity building and who is involved in the facilitation of the capacity building. The quality of training is one of the factors that created gaps in transferring skills to the youth that helps them to start and run businesses successfully. The training institutions (TVETS, poly-technique, etc.) have capacity and infrastructural gaps. One-stop shop centres that are expected to facilitate the provision of one stop shop services to the youth are not operating at full capacity.
e. Gaps in Selection and Project Appraisal	The outcome of the key informant interviews and FGDs indicates that the problem with implementation of the revolving fund starts with Know Your Customer (KYC) assessment due to the lack of an adequate database to identify the youth who are jobless. The lack of an adequate database on youth unemployment and specific target groups has also not been identified to achieve maximum results from the intervention. There were also instances where youth who do not have the right identification (with proper address) have been able to access credit from the fund and which contributed to disbursement of multiple loans to a single person at different Woredas which is the lowest administrative organ next to Kebele.
f. Lack of the right	Moreover, other government agencies, such as MSEs and development and promotion agencies, do

skills	not have the right skill sets and experience in conducting the credit appraisal were involved in identification of the youth who qualify to access the services, evaluation of proposals submitted by the youth and in communicating the result to the MFI for funding. MFIs have not been directly involved during screening and appraisal of the credit applications by the youth.
g. Poor performance and sustainability of the fund	The overall performance of the fund has been unsatisfactory due to the key challenges encountered and discussed in this thesis. The progress of the loan repayment has been low and the loan portfolio quality of the revolving fund has been declining and is by far below the standard. From the outset, a sustainability plan of the fund has not been considered either in the Youth Revolving Fund Establishment Proclamation Number 995/2017 or other guidelines that have been issued. This implies that the sustainability of the youth revolving fund is under question.
h. Financial market distortion and negative effects on the credit culture	Among the negative effects of the unsuccessful implementation of the fund are the following: • Migration of some of the regular clients of the MFIs to access credit from revolving fund that allows access to credit with flexible requirements including low interest rates. • Spill-over effects on the performance of the regular loan that contributed to an increase of the overall portfolio at risk and NPL of the MFIs. • Negative perception and image of the youth due to the failure of repayment (partially or fully) of the loan accessed from the revolving fund.

5.4.9 Impact of COVID-19

COVID-19, coupled with internal conflict and political instability, has been a challenge which contributed to a slowdown of businesses, in particular, and the economy, in general. The survey result revealed that the enterprises that are negatively affected include hotels, accommodation, restaurants, tourism, game and pool houses, barber shops, beauty salons and related enterprises whereas business that deal with products, such as food and other related basic consumption items, have not been affected as much.

The lockdown for 15 days and the state of emergency in the country due to internal political conflict has had a negative effective on the performance of different enterprises. Feedback has been gathered to understand the extent to which COVID-19 has affected MSMEs owned by the youth. The survey result, as summarised in Figure 5.13, revealed that most (43%) businesses were moderately affected with some slowdowns, 35.5% were strongly affected with major slowdowns, 19% were lightly affected and 2.5% were neutral. This is consistent with the outcome of the key informant interviews and FGDs that revealed similar experiences.

Though the impact of COVID-19 cannot be underestimated, the overall negative impact on MSMEs has not been as drastic as other countries that were affected. The factors that contributed to reducing the severe negative impact of COVID-19 include the closure of the market for short durations and religious orientation and culture in managing the pandemic. However, the hotel and tourism sector were more affected on a larger scale like other African countries as the number of tourists visiting the country reduced significantly due to COVID-19 related travel restrictions. Overall, the impact was more visible at the initial stage and, at the time of data collection for this thesis, MSMEs were coming back on track due to a gradual normalisation of the situation.

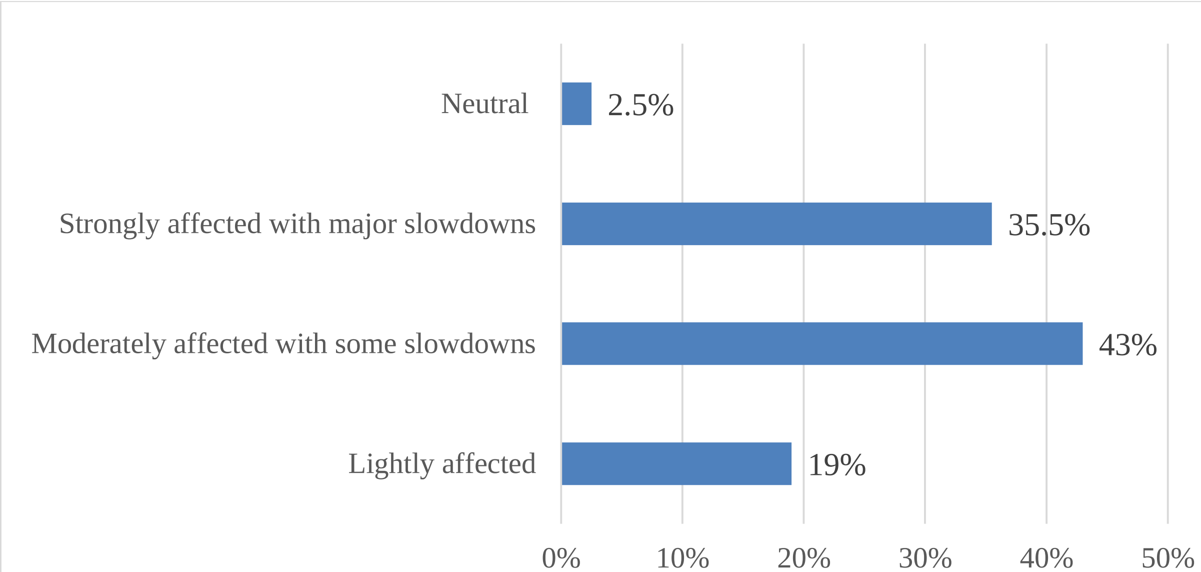


Figure 5.13: Effect of COVID-19 on youth led businesses

Source: Primary data

COVID-19 has affected MSMEs led by the youth in many ways. They include (according to order in which COVID-19 has affected the business run by the youth) are the low supply of raw materials, low market demand, and high price of products and services. The survey result showed that COVID-19 has had a less severe impact in terms of closure of markets and restriction of movements of staff as reflected in Table 5.9 below. The three main challenges of MSMEs led by the youth include low market demand (45.3%) followed by high prices of raw materials (27.5%) and delayed/failed recovery of payments (18.2%). Among the most significant financial problems faced by youth led MSMEs are repayment of loans (62.5%) followed by covering cost of raw materials (61.75%), rent (40%), payment of invoices (2.3%) and other (2.3%). The survey result revealed that 57.3% of the MSMEs somewhat experienced a decline in revenue followed by significantly declined (29.5%), not experienced any change (9.5%), increased somewhat (8%) and increased significantly (7%). On the other hand, COVID-19 created business opportunities for some enterprises. They include business enterprises engaged in the production and supply of basic necessities such as the manufacture of masks, sanitisers, soap and detergents, food oil, and related products.

Youth led MSMEs have taken various actions in responding to the negative effects of COVID-19. As shown in Table 5.9, among the responses taken are: reducing the production of goods and services (56.3%), negotiating payment terms with banks and suppliers (17%), diversifying products to respond to new demands (20.5%), applying for government support packages (13.8%), diversifying sales channels (online) (10.25%), increasing production to meet demand (6.5%), customising/introducing new products (4.5%) and other (6%).

Table 5.9: Factors that affected youth business in COVID-19 crisis and response to the crisis

Variable	Response Options	Frequency and percentage (%)
Top three factors affecting youth businesses in the COVID-19 context	Low market demand of products/services	181 (45.3%)
	High prices of raw materials	110 (27.5%)
	Delayed/failed recovery of payments	73 (18.2%)
	Other	36 (9%)
Most significant financial problems for businesses during COVID-19	Repayment of loans	250 (62.5%)
	Covering costs of raw materials	247 (61.75%)
	Rent	192 (48%)
	Payment of invoices	11 (2.75%)
	No specific problem	9 (2.25%)
	Other	3 (0.75%)
Has the revenue of your business changed as a result of the Corona virus epidemic?	Yes-increased significantly	7 (1.75%)
	Yes-increased somewhat	8 (2%)
	No change	38 (9.5%)
	Yes-decreased somewhat	229 (57.25%)
	Yes-decreased significantly	118 (29.5%)
Actions taken to respond to the crisis	Reducing production of goods and services	225(56.25%)
	Negotiating payment terms with banks and suppliers	68 (17%)
	Diversifying products to respond to new demands	82 (20.5%)
	Applying for government support packages	55 (13.75%)
	Diversifying sales channels (online)	41 (10.25%)
	Increasing production to increase in demand	26 (6.5%)
	Customising/introducing new products	18 (4.5%)
	Other	24 (6%)
Effectiveness of government /financial institutions/landlords support	Yes	308 (77%)
	No	90 (22.5%)
	I do not know	2 (0.5%)

Source: Primary data

The decline in the performance of the MSMEs had a spill-over effect on the performance of the MFIs. Generally, there has been business slowdown due to the negative effects of COVID-19 that contributed to low loan repayment performance of the MFIs. Though there has not been a formal study made to assess the effect of the decline in performance of the MSMEs on liquidity and portfolio quality of the MFIs, the result of the key informant interviews revealed that MFIs, such as ADCSI that operate mainly in the capital city, are more affected than the other MFIs, such as ACSI that has more presence, and that most of the loan portfolio is in the rural area which minimised the impact. During the initial phases of COVID-19, there were instances where clients started aggressively withdrawing their savings which affected the liquidity position of the MFIs. The following are statements from key informant interview participants about the negative effects of COVID-19:

> *"The negative effect of COVID-19 on enterprises had a spill-over effect on Addis MFI. As the enterprises has been struggling to pay the loan, the quality of the loan portfolio of the MFI has been declining from time to time. In addition, there was a period that the enterprises were aggressively withdrawing their saving which affected the liquidity position of the MFI. This trend is not coming back to track after July."* (KII, MFI, 2020)

> *"The portfolio quality of Addis Credit and Saving institution has been declining from time to time. There are cases where our clients started withdrawing their saving which affected our liquidity position. Though we applied to access Birr 100 million allocated by National Bank of Ethiopia (NBE) through DBE to help in mitigating the liquidity*

problem, the fund has not been released so far." (KII, MFI, 2020)

5.5 The role of microfinance in improving livelihood-descriptive statistics

The third objective was to assess how microfinance services play a role in fostering sustainable livelihood opportunities for urban youth. As discussed in the previous section of this research report, a conceptual faramework was developed to examine the role of microfinance in improving income which allows individuals or firms to have opportunities to save which, in turn, contributes to building assets which also opens opportunities for improvement in education, access to quality health services and improves food security.

Improvement in the livelihood of the urban youth is meausred by assessing how microfinance (credit, saving and capacity building) is helping the urban youth to increase their income, savings and assets and facilitating access to education and health services. Accordingly, the independent variables are saving performance (access to saving, use of saving), credit performance (access to credit, use of credit) and youth capacity building (youth business training, youth skill development) that influence the youth livelihood which is a dependent variable that is measured in terms of change in income, savings, assets, access to education, health and food security. The result of the survey to understand the effect of microfinance on urban youth livelihood, including the summary of descriptive statistics and the result of the correlation and multiple linear regression analysis is presented below.

5.5.1 Youth saving performance

Saving performance is assessed in terms of both access and use of savings. One of the factors that motivate the youth to save is the MFI's location and branch opening times which are convenient to their businesses. As shown in Table 5.10, 55% of the youth are happy with the MFI's office location and branch opening times. This is a reflection of the decentralised branch infrastructure MFIs have which allows them to provide better services compared to commercial banks.

Table 5.10: Response by the youth on access to saving

Level of agreement or disagreement on access to saving parameters	Response Options, Frequencies and Percentages (%)					Measures of Central Tendency		
	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**SD**
The MFI office location and branch timing convenient to my business	4(1)	56 (14)	120 (30)	157 (39.2)	63 (15.8)	3.55	4.00	0.951
I am motivated to save more because of quick access to savings	60 (15)	157 (39.3)	101 (25.3)	78 (19.5)	4 (1)	2.53	2.00	0.999
I have generated enough interest income on my savings account	56 (14)	173 (43.3)	98 (24.5)	71 (17.8)	2(0.5)	2.48	2.00	0.957
I personally like saving to finance my own needs	10 (2.5)	25 (6.3)	104 (26)	180 (45)	81 (20.3)	3.74	4.00	0.935

Source: Primary data

The other factor considered in assessing access to saving is to get feedback about the level of satisfaction of the youth with regard to quick access to savings. As reflected in Table 5.10, a majority (54.3%) of the youth are not happy about the time it takes to access their savings during times of financial need. Only 20.5% of the youth believe that they can get access quickly to their savings in case of financial need and the other 25.3% took a neutral position that means they are not fully appreciative of quickly accessing their savings. The result of the survey also shows that 65.3% of the youth personally like saving to finance their own needs followed by 26% who were neutral and 8.8% who disagreed. This implies that, if MFIs improve the way they provide saving services, they can incentivise the youth to save and attract a source of funding to expand their operations.

Appropriate incentives motivate the youth to save and hence the other factor considered in assessing access to savings is to get feedback on the interest rates that youth are offered for their savings which can help them to generate adequate interest income. Only 24.5% of the youth feel that the MFIs offer attractive interest rates whereas the majority (57.3%) feel that the interest rates offered by the MFIs are not attractive and have not generated adequate income on their savings. Only 18.3% are satisfied with the existing interest rates offered by the MFIs for savings. The rest, 24.5%, are not fully confident to testify that the interest rate offered by the MFIs is indeed attractive. Offering attractive interest rates which can promote savings by the youth has been one of the challenges faced by MFIs in delivering tailor-made financial services to the youth. Setting appropriate interest rates for savings mobilised by the youth requires a delicate balance of offering the right incentives to the youth and maintaining the sustainability of the MFIs.

The summary of the survey finding with regard to the use of savings is summarised in Table 5.11 below. Twenty-three point five percent, 28%, 19% and 27.1% of the youth saved enough for investment to improve business operations, business expansion and growth, education and health, respectively. Twenty-five point eight percent, 18.3%, 45.8% and 36.3% of the youth were not able to save enough for investment, business expansion and growth, education and health, respectively. Fifty point eight percent and 53.8% of the youth are not fully confident that their savings met their investment to improve business operations, business growth and expansion, respectively. Overall, the result reflects that the proportion of the youth that were able to save enough to meet their needs is not satisfactory and requires improvement. Those who were not able to save enough to meet their specified needs face challenges in expanding their operations and businesses to earn more income to improve their livelihoods. The result is consistent with the outcome of FGDs and key informant interviews.

Table 5.11: Response by the youth on use of savings

Variables	Response Options, Frequencies and Percentages (%)					Measures of Central Tendency		
Level of agreement or disagreement on key use of saving parameters	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**SD**
I regularly save enough for my investment to improve business operations	7 (1.8)	96 (24)	203 (50.8)	76 (19)	18 (4.5)	3.01	3.00	0.825
I often save enough for my business growth and expansion	5 (1.3)	68 (17)	215 (53.8)	88 (22)	24 (6)	3.13	3.00	0.815
My saving has always met my educational needs	50 (12.5)	133 (33.3)	141 (35.3)	60 (15)	16 (4)	2.65	3.00	1.010
I frequently save enough to meet my health service needs	27(6.8)	118 (29.5)	147 (36.7)	99 (24.8)	9 (2.3)	2.87	3.00	0.943

Source: Primary data

5.5.2 Youth credit performance

Access to credit is assessed from the perspective of selected variables including the complexity of the procedural requirements to access credit from the MFIs, the favourability of collateral requirements and the attractiveness of interest rates for credit to the youth. As shown in Table 5.12 below, 29.8% of the youth are happy in getting easy access to credit from MFIs, collateral requirement (11.8%) and interest rate (19.3%). Fifty-four point two percent, 79.3% and 55.2% of the youth are not happy about their access to credit, collateral requirement and favourability of the interest rate, respectively. The collateral requirement is the biggest challenge for the youth in accessing credit from MFIs. This is similar to the outcome of the feedback gathered during the focus group discussions and key informant interviews which amplified the critical challenges youth face in terms of following a complex procedural requirement to access credit, complying with stringent collateral requirement and unfavourable interest rates offered by the MFIs.

Table 5.12: Response by the youth on access to credit parameters

Level of agreement or disagreement on access to credit parameters	Response Options, Frequencies and Percentages (%)							
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Median	SD
I can always get credit easily from the MFI when needed	79 (19.7)	138 (34.5)	64 (16)	91(22.8)	28 (7)	2.62	2.00	1.224
The collateral requirement is favourable	148 (37)	169 (42.3)	36 (9)	47 (11.8)	0(0)	1.96	2.00	0.965
I get attractive interest rate on my loan compared to what is offered by other FIs	53 (13.2)	168 (42)	102 (25.5)	77 (19.3)	0(0)	2.51	2.00	0.948

Source: Primary data

With regard to the use of credit, the first variable considered was how credit is creating employment opportunities. As shown in Table 5.13, most (83.6%) of the youth appreciated that the microfinance service has indeed helped them in creating employment opportunities. This is a testimony from the youth that the use of credit in productive income generating activities can address youth unemployment. The survey result has also revealed that those who got employment opportunities from microfinance services also created job opportunities for other unemployed youth. Sixty-eight point two percent of the youth who accessed credit from MFIs and who were running income generating businesses were able to create employment opportunities for at least one other unemployed youth.

Similarly, 54.2% and 50.1% of the youth agreed that access to credit helped them in business expansion and growth, and facilitated the acquisition of assets, respectively. The more the youth are in apposition to expand their businesses and acquire assets, the better their livelihoods will be. This outcome is not consistent with research conducted in neighbouring country, Kenya, where the overall result did not show a significant relationship between microfinance, savings and investment among the youth in Migori County.

The proportion of the youth that was able to generate consistent income to meet education and access to health services was low at 25.5% and 33.6% respectively. In addition, 38.5%, 46%, 31.5% and 34.3% of the youth are not fully confident that the credit accessed from the MFIs helped them to generate consistent income for business expansion and growth, meet overall investment needs, education and access to health services, respectively. In line with the outcome of the focus group discussions, one of the reasons that the youth do not fully appreciate the importance of credit on the specified areas could be the size of the loan which, in most cases, is too small to meet their needs to conduct viable businesses.

Table 5.13: Response by the youth on the use of credit

Level of agreement or disagreement on use of credit parameters	Response Options, Frequencies and Percentages (%)					Measures of Central Tendency		
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Median	SD
Access to credit has enabled me to get employment opportunities	0(0)	0(0)	66(16.5)	227 (56.8)	107 (26.8)	4.10	4.00	0.651
Access to loan has supported me in my business expansion/growth	0(0)	29 (7.3)	154 (38.5)	171 (42.7)	46 (11.5)	3.58	4.00	0.785
Access to credit has facilitated me to acquire assets	53 (13.3)	62(15.3)	85 (21.3)	164 (41.1)	36 (9)	3.17	3.50	1.19
Access to credit has inspired me to save in order to meet investment needs	5 (1.3)	60 (15)	184 (46)	124 (31)	27 (6.80	3.27	3.00	0.842
Access to credit has facilitated me to earn consistent income to meet education needs	57 (14.3)	115 (28.8)	126 (31.5)	98 (24.5)	4(1)	2.70	3.00	1.03
Access to credit has supported me to generate more income and savings to meet health service needs	24 (6)	105 (26.3)	137 (34.3)	123 (30.8)	11 (2.8)	2.98	3.00	0.960

Source: Primary data

5.5.3 Youth capacity building

The microfinance institutions follow the microfinance plus approach with the belief that the microfinance services, coupled with non-financial services, such as capacity building, bring tangible results in improving the youth livelihoods. Among the capacity building services provided by MFIs to the youth, in collaboration with relevant government agencies, are business and technical training.

The business training offered to the youth includes entrepreneurship, basic bookkeeping, business plan preparation and leadership training. Fifty-five-point nine percent, 62.8%, 53.6% and 57.5% of the youth feel that the training on entrepreneurship, basic bookkeeping, business plan preparation and leadership training, respectively, were helpful for them in running their businesses. While this is encouraging, 44.3%, 37.3%, 49.3% and 45.4% of the youth either disagreed or were not fully confident that training on entrepreneurship, basic bookkeeping, business plan preparation and leadership was useful to them in successfully running their businesses. This is reflective of budgetary constraints and the gaps in the capacity of one stop centres, TVETs, MSEs and development and promotion agencies.

Table 5.14: Response of the youth on the relevance of business training

Variable	Response Options, Frequency and Percentage (%) N=400					Measures of Central Tendency		
Level of agreement or disagreement on key capacity building parameters	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**SD**
Entrepreneurship training		89 (22.3)	88(22)	188(47)	35 (8.9)	3.42	4.00	0.931
Basic bookkeeping		78 (19.5)	71 (17.8)	213 (53.3)	38(9.5)	3.53	4.00	0.912
Business plan preparation	1 (3)	60(15)	125 (31.3)	183 (45.8)	31(7.8)	3.46	4.00	0.849
Leadership training	1 (3)	30 (7.5)	139 (34.9)	194 (48.5)	36(9)	3.59	4.00	0.769

Technical training and support are offered to the youth by MSEs promotion and development, TVETs and universities. For youth who are interested in engaging in sectors such as manufacturing, the government has introduced a certification programme. The youth were asked to provide feedback on the usefulness of the technical training in successfully running their businesses which improves their livelihoods. Forty-three-point eight percent of the youth agreed that the technical training has helped them to improve their technical skills. Seventeen-point-eight percent and 39.3% of the youth disagreed and did not fully realise the relevance of the technical training, respectively.

In line with the findings during FGDs and key informant interviews of key officials of relevant organisations, among the factors that contributed to the dissatisfaction of the youth on the technical training are the quality and relevance of the training, limited opportunities and inadequate refresher training to update the youth on new technologies and limited follow up on the practical application of the training. Policy makers and development actors should improve the quality of the technical training which is a critical factor for successful microfinance programme that contributes to improving youth livelihoods.

Variable	**Response Options, Frequency and Percentage (%) N=400**					**Measures of Central Tendency**		
Level of agreement or disagreement on key capacity building parameters	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**SD**
Technical	1 (3)	67 (16.8)	157 (39.3)	150 (37.5)	25 (6.3)	3.33	3.00	0.835

training								

Table 5.15: Response of the youth on the relevance of the technical training

Source-Primary data (2020)

5.5.4 Youth livelihoods

The role of microfinance in urban youth livelihoods is assessed in terms of increase in income, enhanced savings, acquisition of assets, enhanced food security and improved access to education and health services. The summary of the result of the survey from 400 youth participants is presented in Table 5.16 below.

Table 5.16: Descriptive statics: Improvement in youth livelihoods due to access to microfinance

Variable	**Response options, frequency and percentage (%) N=400**					**Measures of Central Tendency**		
Improvement in livelihood due to access to microfinance	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Median	SD
My income increased due to access Microfinance service	0(0)	9 (2.3)	175(43.8)	175(43.8)	41(10.3)	3.62	4.00	0.697
My saving increased due to access to Microfinance	0(0)	25 (6.3)	174(43.8)	174(43.8)	24(6.1)	3.50	4.00	0.702
I acquired assets due to access to microfinance	57 (14.4)	61(15.4)	79(19.9)	167(42.1)	33(8.3)	3.16	4.00	1.21
My access to education improved due to access to microfinance service	55(13.8)	115(28.8)	128(32)	98(24.5)	4(1)	2.70	3.00	1.17
My level of food security improved due to access to microfinance	2(0.5)	24(6)	159(39.8)	191(47.8)	24(6)	3.53	4.00	0.715
I have better access to health services due to access to microfinance	22(5.5)	106(26.5)	142(35.5)	119(29.8)	11(2.8)	2.98	3.00	0.950

5.5.4.1 The role of microfinance in enhancing income and savings

The youth used the microfinance services, more specifically, the credit for starting new businesses or activities or expanding their existing businesses with the objective of increasing their income. As reflected on Table 5.16, most (54.1%) of the youth reported increased income due to microfinance services while 43.8% are not sure whether their income has increased or not due to microfinance services. In addition, 49.9% of the youth feel that access to microfinance services has helped them to enhance their savings. The source income for the youth is from engagement in activities in the manufacturing sector (41.5%), trade (30.3%), services (18.3%), urban agriculture (4.5%) and other (5.5%).

This indicates the high potential of microfinance to engage the youth in income generating activities. The fact that the youth are able to generate income from their businesses is a key milestone that leads to savings, better food security, expanding their businesses with additional investment, access to education and health services.

On the other hand, 43.8% of the youth have not tangibly realised increased income and savings from the microfinance programme. This is a reflection of challenges related to microfinance policy strategies, gaps in building the entrepreneurial skills of the youth and designing and implementing youth inclusive financial products and services. The microfinance services coupled with non-financial services can produce better results if these gaps are resolved.

5.5.4.2 The role of microfinance in the acquisition of assets

This is one of the indicators that the youth have used access to credit services and income generated from businesses to acquire assets. When the youth acquire assets, it indicates capital formation and improvement in their standard of living. As indicated in Table 5.16, 50.4% of the youth feel that access to credit has facilitated the acquisition of assets followed by 19.9% (neutral) and 29.8% who disagreed. The result of the survey indicates that among the type of assets acquired by the youth included machines to run their businesses, houses, motor bikes, cars, land and other assets. A large proportion (40.6%) of the youth acquired machines to run their businesses followed by houses (13.3%), motor bikes (11.3%), cars (10.3) and other assets (7%). The fact that most of the youth have acquired machines shows that the manufacturing sector is a key business venture of the youth. Those who are engaged in the service sector, including restaurant businesses, acquired assets such as coffee machines. Overall, the result of the survey signifies that the availability of credit played a critical role for the youth in the acquisition of assets.

5.5.4.3 The role of microfinance in food security

Access to financial services could help the youth to engage in income generating activities which in turn contribute to improved food security. As indicated in Table 5.16, 53.8% of the youth believe that they have experienced improvement in food security that has a positive effect on health and improves their overall livelihoods. Thirty nine point eight percent of the youth reported a neutral position and 6.5% disagreed that they have not experienced improvement in food security due to microfinance. This implies there are still areas of improvement to place the youth in a position to generate adequate income to fully meet food security needs that affects their livelihoods. The results from key informant interviews highlighted that the policy makers, development actors, MFIs and other key stakeholders must fully realise the developmental benefits of microfinance interventions.

5.5.4.4 The role of microfinance in education

The youth were asked to provide feedback on whether microfinance helped them to improve their education. As indicated in Table 5.16, 25.5% of the youth believe that increase in income from access to microfinance has helped them to get access to improved and better education whereas 32% reported neutral position meaning they did not fully appreciate that microfinance has helped them in improving their education. The rest, 42.3%, have not generated an adequate income that helps them to gain access to better education. The MFIs have not yet put in place financial products, including credit, which helps the youth to pursue further education.

5.5.4.5 The role of microfinance in health

Access to health services is critical for the youth to be productive. Thirty two point six percent of the youth reported that they have better access to health services, followed by 35.5% who were neutral and 32% who disagreed. This implies three contexts: first, there are youth who were able to generate adequate income from business to cover health related expenses; second, there are those who were not able to generate adequate income from the business to fully cover health related expenses but have the potential to do so; and third, there are youth who were not totally able to generate adequate income to cover health related expenses. The first and second categories represent the major portion (68.1%) which shows the potential of microfinance to improve access to health services for the youth.

Overall, the result shows the untapped potential of microfinance to contribute towards achieving the global sustainable development goals and, more specifically, addressing SDG1 (No poverty), SDG 2 (Zero hunger), promoting good health (SDG 3) and education (SDG4), creating decent work (SDG 8) for the youth, promoting industrialisation and innovation (SDG 9) and reduced inequality (SDG 10). This is aligned to the Addis Ababa Action Agenda (AAAA), the financing framework for SDGs that recognises financial services as an enabler to accelerate the achievement of SDGs. However, releasing the full potential of microfinance requires multifaceted actions in the areas of policy and strategy and by introducing tailor-made products that meet the need of the youth and give adequate support to MFIs.

5.6 The role of microfinance in improving livelihood-correlation and regression result

This section deals with analysis, interpretation and discussion of the findings related to correlation and regression. The results are presented to answer the research questions.

5.6.1 Correlation results

As presented in Table 5.17, the overall result shows a positive relationship between the independent variables of: saving performance and its constructs; credit performance and its constructs; youth capacity building and its constructs with youth livelihood measured by income, savings, assets, food security, access to education and access to health. The results are similar to those of research conducted on the economic empowerment of the youth in Kenya by Omunjalu and Fondo (2014) and research conducted in Mali (Megan G (2014) that found that microfinance contributed to business expansion, building assets and fostered improved livelihoods.

5.6.1.1 The relationship between savings performance and youth livelihoods

As reflected in Table 5.17, the result of the correlation revealed that there is a positive and significant relationship between savings performance and youth livelihood ($r=0.722^{**}$, $P \leq .01$). This shows that positive change in saving performance is associated with an improvement in youth livelihoods. The findings further show that savings performance has a positive and significant relationship with all components of youth livelihood. This implies that any positive changes in savings performance have a positive and significant relationship with all components of youth livelihoods.

5.6.1.2 The relationship between credit performance and youth livelihood

The result indicated there is a positive and significant relationship between credit performance and youth livelihood ($r=0.825^{**}$, $P \leq .01$). This implies that any positive change in credit performance is associated with an improvement in the youth livelihoods. Similar to the savings performance discussed above, credit performance was found to have a positive and significant relationship with all components of youth livelihoods including an increase in income and assets, and improved education, nutrition and health. This indicates that positive changes in savings performance have a positive and significant relationship with credit performance and with all components of youth livelihoods.

5.6.1.3 The relationship between non-financial services (youth capacity building) and youth livelihoods

The result indicated there is a positive and significant relationship between youth capacity building and youth livelihoods ($r=0.108^{*}$, $P \leq .01$). This implies that any positive change in youth capacity building is associated with improvement in the youth livelihoods. The findings demonstrate that all elements of youth technical training have a positive and significant relationship with youth livelihoods including an increase in income, improved education and improved health.

Table 5.17: Correlation analysis

Varriables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
SAVINGS PERFORMANCE (1)	1															
ACCESS SAVINGS (2)	.815**	1														
USE SAVINGS (3)	.837**	.365**	1													
CREDIT PERFORMANCE (4)	.806**	.531**	.794**	1												
ACCESS CREDIT (5)	.626**	.537**	.498**	.848**	1											
USE CREDIT (6)	.748**	.372**	.851**	.859**	.457**	1										
YOUTH CAPACITY BUILDING (7)	.150**	0.084	.163**	.136**	0.095	.137**	1									
BUSINESS TRAINING (8)	0.007	0.006	0.007	-0.018	0.003	-0.033	.887**	1								
TECHNICAL TRAINING (9)	.279**	.153**	.303**	.283**	.178**	.303**	.824**	.471**	1							
INCREASED INCOME (10)	.617**	.288**	.720**	.703**	.393**	.801**	.107*	-0.034	.247**	1						
ENHANCED SAVINGS (11)	.604**	.314**	.673**	.675**	.358**	.789**	0.050	-0.090	.209**	.863**	1					
ASSET ACQUISITION (12)	.475**	.201**	.575**	.623**	.280**	.775**	0.030	-0.090	.167**	.594**	.599**	1				
IMPROVED EDUCATION (13)	.655**	.323**	.747**	.720**	.382**	.841**	0.088	-0.025	.200**	.628**	.627**	.566**	1			
IMPROVED NUTRITION (14)	.577**	.338**	.607**	.630**	.369**	.701**	.115*	-0.021	.247**	.695**	.708**	.479**	.521**	1		
IMPROVED HEALTH (15)	.688**	.351**	.774**	.742**	.423**	.837**	.155**	0.007	.288**	.637**	.624**	.480**	.806**	.614**	1	
YOUTH LIVELIHOOD (16)	.722**	.357**	.824**	.825**	.439**	.962**	.108*	-0.051	.270**	.861**	.861**	.782**	.850**	.776**	.840**	1

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed)
Source: Primary data, 2020

5.6.2 Regression analysis: Result of multiple linear regression model

A multiple linear regression was used to further explain the extent to which the independent variables, including saving performance, credit performance and youth capacity building, influence youth livelihoods. Control variables (age, gender and loan size) were also entered in the model in order to determine the predictive potential of each of the independent variables. The regression model results are presented in Table 5.18.

Table 5.18: Result of regression model

Varriables	B	Std. Error	β	Sig.	VIF
(Constant)	-0.113	0.201		0.574	
LN_age	0.051	0.055	0.026	0.354	1.018
LN_loan_size	0.021	0.007	0.101**	0.002	1.394
Gender	0.046	0.013	0.095**	0.001	1.002
LNSAVINGS_PERFORMANCE	0.164	0.048	0.157**	0.001	2.758
LNCREDIT_PERFORMANCE	0.665	0.050	0.645**	0.000	3.008
LNYOUTH_CAPACITY_BUILDING	-0.068	0.046	-0.042	0.142	1.070

Model Summary	
Varriables	**Result**
R	0.835
R Square	0.698
Adjusted R Square	0.693
R Square Change	0.696
F Change	149.437
Sig. F Change	0.000
Annova Sig.	0.000

- Dependent variable: Youth livelihood; N=400;

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The model results show that savings performance, credit performance and youth capacity building explain 69.3% (adjusted R Square=0.693) of the variation in youth livelihoods. This suggests that the other variables not considered in the model accounted for 30.7%. The Anova test results result with F value (149.437, P=0.000) further confirm that the specified model is a good fit for the data.

In terms of gender, the result reflected in Table 5.18 indicates that being a male was found to be associated with improved livelihood compared to the female counterparts and this was statistically significant at 1 percent level (β=0.095, P$\leq$ 0.01) which requires the attention of microfinance institutions, policy makers and development actors. Microfinance is more skewed to men than women implying that more men are benefiting from the microfinance programme. While the most of the clients of traditional MFIs are women, this does not work for the youth. In case of the youth, more men were benefiting from microfinance services than women.

Regarding the loan size, the results in Table 5.18 show that loan size had a positive and significant influence on youth livelihood at 1% level (β=0.101, P$\leq$ 0.01). The result suggests that the higher the loan size, the better the youth livelihood, which requires the attention of microfinance institutions, policy makers and development actors. As evidenced from the qualitative analysis, the size of the loan offered by the MFIs to most of the youth is too small and does not take into account the current inflationary situation. In such circumstances, the youth may not be in a position to run viable businesses and the microfinance services may not have a significant role in improving the livelihoods of the youth.

The model result also revealed credit performance as the most important variable with a significant effect on youth livelihoods. The result shows that credit performance has a positive and significant influence on youth livelihood at 1 percent (β=0.645, P$\leq$ 0.01) followed by savings performance (β=0.157, P$\leq$ 0.01). This suggests that a 1 percent change in the credit performance variable, including access and use of credit, results in improved youth livelihoods by 0.645 percent holding other factors constant.

The results in Table 5.18 also show savings performance as the second most important variable with a significant effect on youth livelihoods. The result shows that savings performance has a positive and significant influence on youth livelihoods at 1 percent level (β=0.157, P$\leq$ 0.01). The findings imply that a 1 percent change in savings performance variables, including access and use of savings, results in improved youth livelihoods by 0.158 percent holding other factors constant. This suggests that there is an opportunity to improve the performance of the businesses of the youth to generate adequate income and enhance savings to improve their livelihoods and live a decent life. The results of this study are consistent with a study conducted by Omunjalu and Fondo (2014) in which the authors concluded that microfinance was elective in migrating the youth to higher living standard.

With regards to youth capacity building, though its correlation was positive in relation to youth livelihoods, the model result showed insignificant influence on youth livelihoods. The result of the qualitative analysis showed similar results that there are significant gaps which need to be addressed. This has implications for policy makers as access to microfinance services can deliver meaningful results when it is complemented with the requisite skills to conduct business and manage financial resources effectively.

5.7 Conclusion

This chapter presents the results and findings of the study. The objectives of the study were to evaluate the extent to which the existing microfinance policies, strategies, regulations and support provide access to finance for the youth; analyse whether the current microfinance services are tailor-made to the needs of the urban youth; assess how the microfinance services improve the livelihoods of the urban youth and presents recommendations to improve youth access to microfinance services.

To start with, the socio-economic characteristics of the respondents were discussed with descriptive statistics. The gender composition of the respondents indicates that 39.5% are women and 60.5% men. Sixty-one percent (61.8%) of the respondents are married. With regard to educational attainment, 30% have diplomas or degrees, 8.5% have preparatory school qualifications, 19.3% have high school qualifications and the rest are below high school. The majority (66.25%) of the respondents are ages 31-35, 28% are ages 25-29 and 5.75% are ages 18-24. A high percentage (41.5%) of the youth is engaged in the manufacturing sector, 30.25% in trade, 18.25% in services, 5.5% in construction and 4.5% in urban agriculture. The fact that 41.5% of the youth are engaged in manufacturing is aligned to the government strategy that prioritises the manufacturing sector and, if the youth are adequately supported, they can grow to be medium and small enterprises.

The smallest capital starts from Birr 5,000 and the largest Birr 500,000. Thirty point six percent (30.6%) have capital between Birr 100,000 and Birr 500,000. The sources of the capital of the majority (90.3%) are MFIs followed by friends (30.5%), partnerships (22.3%) and banks (2%).

The outcome of the qualitative study identified the key youth inclusive finance policies, strategies and regulations that are facilitating and fostering youth inclusive finance. These, among others, include: the MSE development policy and strategy which are key instruments of job creation in urban centres; the introduction and progressive improvement of microfinance business proclamations; the introduction of the capital goods leasing business proclamation; and the rapid expansion and outreach of microfinance institutions. There are innovative policy and regulatory interventions introduced by the government that are promoting youth inclusive microfinance which include: using movable assets as a collateral; development and implementation of innovative MSME market share enhancement models; provision of mobile and internet banking; the regulation that requires banks to dedicate 5% of annual lending to SMEs, cooperatives, agriculture and related sectors by reaching clients directly or through MFIs that promote linkage with banks; integrating MFIs and capital goods companies into credit information bureau; the introduction of one stop centers; and the role of TVETs (involved in training and certification programmes).

However, there are gaps in the youth inclusive microfinance policies and strategies including implementing challenges. These, among others, include: gaps in capacity building and mentoring of the youth; lack of timely amendment of policies and strategies; gaps in approach (supply driven and limitation in actively engaging the private sector) to microfinance and risk of mission drift of MFIs; a lack of regional focus and gender lens in most of the policies, particularly microfinance regulation and financial inclusion strategy; weak monitoring, evaluation and learning mechanisms; and constraints in the harmonisation of policies and coordination frameworks.

Saving performance and credit performance were the key parameters used in assessing the role of microfinance in urban youth livelihoods. The survey results indicated that 93.3% of the youth have saving accounts, 17% have current accounts and 2.3% have fixed time deposit accounts. Most of the youth (59.3%) save as they get money, 27.5% on a monthly basis and 13.5% on a weekly basis. This implies a low saving culture among the youth which affects future investments and the growth of businesses and livelihoods. Most of the youth (94.5%) use their savings for future investment, to buy assets (53.5%), cover expenses related to health (19.5%), improve education (15.8%) and 7.5% to cover social needs. Seventy-two percent (72.8%) of the youth do not have access to any form of insurance other than credit life insurance offered by microfinance institutions. Most of the youth (96.5%) use cash as a mode of payment followed by 31.8% who use bank transfers and 3.5% who use online banking. This implies that most of the youth use a traditional payment system which is not an innovative way of conducting successful business particularly in times of crisis such as COVID-19.

The other aspect considered in this study was to analyse whether microfinance services are tailor-made to the needs of the youth. In this regard, the study identified that microfinance institutions in Ethiopia followed a one-size-fits-all approach which favoured adults and created challenges for the youth to access microfinance products and services. Among the key challenges faced by the youth in accessing microfinance services are: stringent collateral requirements; complex procedural requirements; small size of loans; long gestation period to access loans; a lack of financial incentives for the youth to access credit; a lack of incentives for the youth to save at MFIs; limited knowledge about insurance; and low levels of financial literacy and education. Moreover, the MFIs faced a number of challenges in promoting youth inclusive microfinance that include: a lack of tailor-made financial products; gaps in loan appraisal practices; the lack of a core banking system; a shortage of funding; and the slow progress of integrating microfinance institutions into the credit information bureau. The proposed youth inclusive microfinance framework recommends actions that address the key constraints of the MFIs.

Among the key challenges faced by the youth in accessing microfinance services are: stringent collateral requirements; complex procedural requirements; small size of loans; and long gestation periods to access loans. The findings from the FGDs also indicate that the youth are not satisfied with the existing requirements and are frustrated with the long gestation period which is between three and eight weeks from application to disbursement of the loan; a lack of financial incentives for the youth to access credit and to save at MFIs; limited knowledge about insurance and low levels of financial literacy and education.

The other objective of this study was to assess how access to microfinance services helped the urban youth to improve their livelihoods. The result of the descriptive statistics shows progress made on youth savings performance and credit performance and its role on youth livelihoods. One of the factors that motivated the youth to save is the MFIs' location and branch timing which is convenient for their businesses. However, a majority (54.3%) of the youth were not happy in quickly accessing their savings during times of financial need. In addition, an appropriate incentive system, which motivates the youth to save in microfinance institutions, was not introduced. As a result, the youth were not able to save enough to meet their specific needs, expand their operations and businesses, and improve their livelihoods. The result is consistent with the outcome of FGDs and key informant interviews. This implies that, if MFIs improve the way they provide savings services, this is an opportunity to serve the youth and attract a source of funding to expand their operations.

With regard to credit performance, 68.2% of the youth who accessed credit from MFIs and were running income generating businesses were able to create employment opportunities for at least one other unemployed youth. Similarly, 54.2% and 50.1% of the youth agreed that access to credit helped them with business expansion and growth and facilitated the acquisition of assets, respectively. The more the youth expand their businesses and acquire assets, the better their livelihoods will be. This outcome is consistent with research conducted by Omunjalu and Fondo (2014) in Mombasa county of neighbouring Kenya where the overall result showed a significant relationship between microfinance and improvement in standard of living of the youth.

The business training offered to the youth includes entrepreneurship, basic bookkeeping, business plan preparation and leadership training. Fifty-five point nine percent (55.9%), 62.8%, 53.6% and 57.5% of the youth feel that the training on entrepreneurship, basic bookkeeping, business plan preparation and leadership training, respectively, was helpful for them in running their businesses. This is reflective of budgetary constraints and the gaps in the capacity of one stop centers, TVETs, MSEs and development and promotion agencies.

Correlation and multiple linear regression analysis were also deployed to assess the relationship between the independent and dependent variables. The overall result of correlation analysis indicates a positive relationship between the independent variables of saving performance, credit performance and youth capacity building with youth livelihood measured by indicators of income, savings, assets, food security, access to education and health services. The result revealed a positive and significant relationship between savings performance and youth livelihoods ($r=0.722^{**}$, $P \leq .01$); between credit performance and youth livelihoods ($r=0.825^{**}$, $P \leq .01$); and between youth capacity building and youth livelihoods ($r=0.108^*$, $P \leq .05$). This shows that any positive change in savings performance, credit performance and capacity building is associated with an improvement in youth livelihoods.

The overall multiple linear regression analysis shows that savings performance, credit performance and youth capacity building explain 69.3% (adjusted R Square=0.693) of the variations in youth livelihoods. This suggests that the other variables not considered in the model accounted for about 30.7%. The Anova test result with an F value (149.437, P=0.000) further confirms that the specified model is a good fit for the data.

In terms of gender, the findings indicate that being a male was found to be associated with improved livelihood compared to the female counterparts and this was statistically significant at 1 percent level ($\beta=0.095$, $P\leq 0.01$). Regarding the loan size, the results indicate that loan size had a positive and significant influence on youth livelihoods at 1% level ($\beta=0.101$, $P\leq 0.01$). The result shows that credit performance has a positive and significant influence on youth livelihoods at 1 percent ($\beta=0.645$, $P\leq 0.01$) followed by savings performance ($\beta=0.157$, $P\leq 0.01$). With regard to youth capacity building, though its correlation was positive in relation to youth livelihoods, the model result showed insignificant influence on youth livelihoods. This is consistent with result of the qualitative analysis that showed similar findings that there are significant gaps in the area of capacity building which need to be addressed.

CHAPTER 6: SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents the summary, conclusion and recommendations drawn from the study. A mixed research methodology (both quantitative and qualitative methods) with cross sectional data was used to achieve the objective of this study which had a multi-disciplinary nature. Statistical data were collected through a survey (400 participants) and the views and opinions of the youth, microfinance institutions, central bankers and other key stakeholders were gathered through focus group discussions (15 focus groups with seven members each), key informant interviews (43 participants) to answer the research questions, explain the phenomena and contribute to body of knowledge in inclusive microfinance. Thematic analysis was used to analyse the qualitative data. Descriptive statistics, correlation and a multiple linear regression analysis were used to analyse the quantitative data to answer the research questions.

6.2 Summary

The vulnerable section of the population, including the youth, in Ethiopia depends on microfinance institutions to access different types of financial services (including credit, savings, insurance, mobile banking and related services) and use them as custodians of their financial assets which makes the MFIs critically important institutions for promoting inclusive finance and contribute to sustainable development.

The role of microfinance in improving youth livelihoods that represent a major segment of the population has not been systematically evaluated. Assessing the role of microfinance in youth livelihoods has significance for policy makers, development actors and microfinance institutions to understand how the limited resources invested to promote youth inclusive microfinance are helping the youth in improving their livelihoods. Such an undertaking shows the progress made in terms of: introducing youth inclusive microfinance policies, strategies and regulations; how products and services are helping the youth in enhancing their livelihoods; identifying gaps and proposing what can be done by the regulators, development actors and the financial service providers to further foster sustainable livelihood opportunities for the youth. Accordingly, this study assessed the role of microfinance in urban youth livelihoods from various dimensions. More specifically, the research provided answers to the following research questions:

1. Evaluate the extent to which the existing microfinance policies, strategies, regulations, context and structures t promote access to finance for the youth;

2. Analyse whether the current microfinance services (including types of products) are tailor made to meet the specific needs of the youth;

3. Assess how access to microfinance services helps to improve the livelihoods of urban youth.

4. Develop recommendations (including a framework or model) of what can be done by the regulators, the financial service providers and related stakeholders to improve the youth's access to microfinance services to create sustainable livelihood opportunities.

One of the growing development challenges facing the world in general and Africa, including Ethiopia, in particular has been youth unemployment and the lack of livelihoods to help themselves. The size of the youthful population in Africa including that of Ethiopia has been increasing. Ethiopia is the second largest country on the African continent in terms of youthful population and labour workforce which continues to grow. The youth under 30 years of age account for 71% of the population and the economy has been under pressure to create jobs for more than two million youth which enter the labour market every year. Increasing rural-urban migration, mainly driven by the youth, is one of the major factors which contributes to population growth in urban areas. As a result, the urban unemployment increased from 16.5% in 2013 to 19.1% in 2018. The unemployment was higher in the youth and women which stood at 25.3% and 27% in 2018, respectively. The youthful population in the country is expected to grow exponentially and so will need to create employment opportunities for them. The COVID-19 pandemic has further worsened and complicated the youth unemployment situation as a result of hard hit sectors such as tourism, hotels and related sectors.

The literature review suggests that access to finance is one of the interventions which has global recognition in addressing youth unemployment and creating conditions to produce jobs for the youth. The problem of unemployment can be addressed by creating access to financial services and successful transitions to jobs and businesses that allow young people to generate income through creating business opportunities, build financial and other assets, improve food security and enhance access to education and health services.

In recognition of this fact, increasing access to financial services and youth employment has been central to the national development plan of the Government of the Federal Democratic Republic of Ethiopia. The Government of Ethiopia, through its first and second Growth and Transformation Plans (GTP), has identified employment creation as a priority and aims to create millions of jobs. Youth and women are considered as strategic pillars in the Growth and Transformation Plan.

Overall, there has been an encouraging progress made in terms of improving policy, strategy and regulations related to youth inclusive microfinance. Relevant government actors and the National Bank of Ethiopia, as a regulator, have made multifaceted efforts to strengthen youth inclusive microfinance.

The microfinance sector in Ethiopia has been demonstrating impressive growth from year to year. As of June 30, 2020, the number of branches of MFIs and number of clients served by them reached 2,007 and 5.3 million, respectively. The total deposit, total loan, total capital and total assets reached Birr 44.7 billion, 64.9 billion, 19.4 billion and 92.2.5 billion, respectively for the same period under consideration.

In formulating the theoretical aspect of this research, the sustainable livelihood framework was taken in to consideration. Sustainable livelihood has been a key agenda for development and is expected to provide long-term and sustainable improvement in the fight against poverty. Though there are limited theories from the litrature which deal with the role of microfinance services on urban youth livelihood development, the study adopted the sustainable livelihood approach based on the conceptual framework drawn from previous studies on the role of microfinance in improving livelihood of the community conducted in sub-Saharan Africa, Asia and Latin America.

Both primary and secondary data sources were used in conducting this study. The primary sources included a survey, structured and semi-structured key informant interviews and focus group discussions. A total of 400 youth were drawn using a mixed method of cluster systematic and random sampling procedures from the four purposefully selected towns (Addis Ababa, Bahirdar, Hawassa and Adama). The 5 scale Likert based questionnaire survey was used in order to information related to understand the status of of the youth (who benefited from microfinance) in terms of generating additional income, building assets, expanding their businesses, , financial products used, challenges faced in accessing financial services and recommendations for improvement.

In addition, group-level data (6-12 members) were gathered from 15 focus groups organised from the selected towns identified for this study to understand the types of income generating activities, types of financial products, challenges faced by the youth in accessing financial services and how financial services have contributed to fostering sustainable livelihood opportunities. Moreover, relevant data were collected from a purposefully selected 43 key informant group participants with wide range of people who have first-hand information and specialised knowledge on youth inclusive microfinance policies, strategies and regulations that are designed to contribute to improving the livelihoods of the youth. Thematic analysis, SPSS, Atlas ti.9 were used.

Proceeding to answering the research questions, the first objective of the study was to understand the existing microfinance policies and regulations, context and structure in Ethiopia that promote financial inclusion and to identify constraints in terms of addressing the needs of the youth. Among the key youth inclusive finance policies, strategies and regulations put in place by the government are the MSE development policy and strategy, financial inclusion strategy, microfinance business proclamation, youth revolving fund, the movable asset registration proclamation and capital goods leasing business proclamation.

The study findings revealed that the MSE development policy holds a strategic place as key instrument of job creation in urban centres and has been conducive to the promotion of MSMEs which contribute to job creation and livelihood opportunities for the youth. Among key strengths of the MSE development policy and strategy are the identification of specific target sectors that promote inclusive development and address youth unemployment with tailor-made interventions and coverage of strategic issues including human development and technology growth, MSE financing sources and financing methods, MSE market development, industrial extension services and creating a favourable business environment.

The National Bank of Ethiopia (NBE), in collaboration with relevant government offices and stakeholders, has gradually improved the policy and regulatory framework for MFIs. The study finding indicates that, overall, the microfinance regulation is conducive and has brought many benefits to the sector including the creation of an enabling environment for the establishment of formal financial institutions, promoted standardisation and transparency in the sector and provided wider space for MFIs to conduct businesses, such as digital financial services, agent banking services and the provision of interest-free microfinance services in addition to the traditional microfinance business.

The innovations introduced that have a critical role in promoting inclusive microfinance include: using movable assets as collateral (that helps the low income segment of the population like the youth to use movable assets, such as crops, livestock and intellectual property, to access credit); development and implementation of innovative MSMEs; market share enhancement models (including subcontracting, outsourcing and preferential procurement schemes); introduction and expansion of digital financial services; and agent banking that promotes access to credit and savings through innovative delivery channels; the requirement by the NBE to dedicate 5% of annual lending by banks to SMEs, cooperatives, agriculture and related sectors (that helps to reach clients directly or through MFIs that bring linkages), integrating microfinance institutions and capital goods finance companies into the credit information bureau and the introduction and operationalisation of one stop shop centres.

However, the findings of this study revealed a number of gaps and key challenges faced during implementation of the youth inclusive microfinance related policies, strategies and regulations. Among the key gaps that were identified in the MSE development policy and strategy are: inadequate awareness creation; a lack of timely amendment of policies and strategies; a lack of regulation for implementation of the MSE policy and strategy; gaps in the approach (supply driven approach driven by government owned MFIs) to youth inclusive microfinance and the risk of mission drift; constraints related to structure, harmonisation of policies and coordination framework; gaps in capacity building, coaching and mentoring of the youth; weak monitoring and evaluation mechanisms; and practicing evidence based policy making.

Though the financial inclusion strategy of Ethiopia identifies key challenges of financial inclusion and key strategies to be followed to fix the gaps, youth financial inclusion has not been integrated into the national financial inclusion strategy and lacks regional focus. The microfinance regulation also does not confront specific regulatory interventions that promote the provision of financial services to the youth and women. The implementation of the capital goods leasing business proclamation in terms of contributing to the expansion of financial services to the low income section of the population, including the youth, has not been progressing as expected as it is constrained by a number of factors including: a lack of awareness about the services provided by capital goods leasing companies; a shortage of funding; and a lack of national standards and specifications for machinery and equipment bought from domestic and international sources. While the movable asset registration proclamation is expected to help individuals and entities to address the lack of traditional collateral by the low-income segment of the population to access credit, it requires the creation of adequate awareness and the introduction of appropriate infrastructure to successfully implement the proclamation. Moreover, the National Credit Guarantee Scheme has not yet been introduced in Ethiopia. As a result, MFIs complain about the lack of risk sharing mechanisms for availing microfinance services to the youth.

The second objective of the study was to assess whether the current microfinance products and services meet the needs of the youth in creating sustainable livelihood opportunities.

Access to microfinance services in Ethiopia has been growing. A survey was conducted to understand the progress of youth inclusive microfinance (youth account ownership, progress of access to credit, savings, insurance and digital financial services), and to identify key challenges faced by the youth in accessing microfinance services, ascertain the constraints faced by MFIs to avail tailor-made financial services to the youth and propose recommendations to address the gaps.

In line with the findings of the survey, the source of capital for 90.2% of the youth is from MFIs followed by loans/gifts from friends and family, 22.2% from partnerships and 3% from other sources. This implies that the key sources of capital for the youth to undertake any sort of activity are MFIs. The youth, in general, do not fulfil the stringent requirements (including collateral requirements) to access credit from banks.

The result of the survey revealed that most (93.3%) of the youth, who have been accessing credit services, have savings accounts followed by current accounts (17%) and fixed time deposit accounts (2.2%). This implies that few of the youth use checking and fixed time deposit accounts. The source of savings for most (98.8%) of the youth is income from business. The savings mobilised by the youth are utilised for different purposes including for future investment, to buy assets and to cover expenses related to health, education and other related expenses. Using savings for investment is the major purpose of savings. This shows a desire of the youth to grow and expand their businesses.

Among the reasons that the youth do not have checking accounts are cumbersome procedures (57.5%), lack of income generating from the account (43.8%) and limited availability of cash to put in the current account (32.5%). As traditionally most of business transactions are made using checking accounts, the low access of the youth to checking accounts may negatively affect the performance of their businesses.

The percentage of the youth who have accessed insurance services other than the credit life insurance is low (27.2%). In addition, despite the potential for online means to do business, the mode of payment used by most (73%) of the youth is cash followed by bank transfer (24%) and online banking (2.7%). This implies that most (72.8%) of the youth do not have access to any form of insurance other than credit life insurance and most of the youth have not started using digital payment mechanisms for doing business. The level of electronic payment and mobile banking payments by the youth has not been as expected.

The reasons that the youth have not used electronic payment/mobile money as expected include:

limited use of the services by suppliers and custmers (49.3%); limited know how (25%); high fees to access the services (13%); it is not easy to use (5.5%); and other (4.5%). Despite the potential to use online means to do business, the mode of payment used by most (73%) of the youth was cash followed by bank transfer (24%) and online banking (2.7%). This implies that most of the youth have not started using online means to do business. The use of electronic payments and mobile banking payments by the youth was not as high as expected.

The fact that most of the youth do not use digital financial services has negative implications for running successful businesses and benefiting from innovative business initiatives that are being introduced at regional and global levels. If the current trend of doing business does not change, the youth will not be in a position to integrate themselves with the changing technology-led regional initiatives, such as the Africa Free Trade Area (AfCFTA), which is one of the flagship projects of the Africa Union that is expected to enhance intra-African trade, the Pan-Africa Payment and Settlement System (PAPSS) and the Mansa Platform (a customer due diligence platform) facilitated and created by Africa Export-Import Bank (Afrexim Bank) and other electronic world trade platforms (eWTP).

Among the key challenges faced by the youth in accessing microfinance services are: limitations in accessing credit services; small sizes of loans (which does not consider the increasing inflation and cost of living); long gestation period to access loans; a lack of financial incentives for the youth to access credit; stringent collateral requirements which restricted to access bigger loan size; a lack of incentives for the youth to save at MFIs; limited knowledge about insurance; and low levels of financial literacy and education. The financial inclusion is very low for lower age category

(20-24) and start-up enterprises have limited opportunities to access loans.

There are a number of challenges that constrain MFIs in promoting youth inclusive microfinance. They include: a lack of tailor-made financial products for the youth; gaps in the entrepreneurship and technical skills of the youth that constrained them from productively using loans accessed from the MFIs; gaps in loan appraisal, which are mainly manual based with tiresome documentation requirements, loan application, review and approval processes; a lack of core banking system; a shortage of funding; and weak coordination and harmonisation activities by relevant government actors.

Though the youth revolving fund was introduced by the Federal Government of the Republic of Ethiopia to complement the specific characteristics and needs of the youth, the overall result of the implementation of the fund was far below the expectation as it was hampered by a number of challenges which undermined the overall performance and sustainability of the fund. The unsuccessful implementation the fund has created a number of challenges including: migration of some of the regular clients of the MFIs to access credit from revolving fund that affected the performance of regular loan of MFIs; and negative perceptions towards the youth due to their failure to repay (partially or fully) the loan accessed from the revolving fund.

The third objective was to assess how microfinance services play a role in fostering sustainable livelihood opportunities for urban youth. In line with the MSEs' development policy and strategy, one of the critical objectives of the microfinance programme in Ethiopia is to build the livelihoods of the youth in terms of business skills and to create employment opportunities, increase incomes, acquire assets, increase access to education and health care, and enhance food security. The positive progress in the specified dimensions will also contribute to fast tracking the achievement of the sustainable development goals and African agenda 2063.

The conceptual framework was developed to examine the role of microfinance (including credit, savings and capacity building) on improving income which allows individuals or firms to have opportunities to save which, in turn, contributes to building assets which open opportunities for improving food security and education, and access to quality health services. Accordingely, the independent variables are saving performance (access to savings, use of savings), credit performance (access to credit, use of credit) and youth capacity building (youth training, youth skill development) that influence the youth livelihoods which is a dependent variable which is measured in terms of change in income, savings, assets, and creating better access to education, health and an improvement in food security.

The result of the descriptive statistics shows progress made on youth savings performance and credit performance and its role on youth livelihoods. One of the factors that motivated the youth to save is the MFIs location and branch timing which is convenient for their businesses. However, a majority (54.3%) of the youth were not happy in quickly accessing their savings during times of financial need. In addition, an appropriate incentive system was not introduced which motivates the youth to save in microfinance institutions. As a result, the youth was not able to save enough to meet their specific needs, expand their operations and businesses and improve their livelihoods. The result is consistent with the outcome of FGDs and key informant interviews. This implies that, if MFIs improve the way they provide savings services, this is an opportunity to serve the youth and attract a source of funding to expand their operations.

With regard to credit performance, 68.2% of the youth who accessed credit from MFIs and were running income generating businesses were able to create employment opportunities for at least one other unemployed youth. Similarly, 54.2% and 50.1% of the youth agreed that access to credit helped them with business expansion and growth and facilitated the acquisition of assets, respectively. The more the youth expand their businesses and acquire assets, the better their livelihoods will be. This outcome is consistent with research conducted by Omunjalu and Fondo (2014) in Mombasa county of neighbouring Kenya where the overall result showed a significant relationship between microfinance and improvement in standard of living of the youth.

However, the youth still face a number of challenges in accessing credit including complex procedural requirements, complying with collateral requirements and unfavourable interest rates which are the biggest challenge for the youth in accessing credit from MFIs. This shows that there is still a long way to go in promoting inclusive youth microfinance.

The Correlation result also shows a positive relationship between the independent variables of saving performance, credit performance and youth capacity building with youth livelihood measured by indicators of income, savings, assets, food security, access to education and health services. The result revealed a positive and significant relationship between savings performance and youth livelihoods ($r=0.722^{**}, P \leq .01$); between credit performance and youth livelihoods ($r=0.825^{**}, P \leq .01$); and between youth capacity building and youth livelihoods ($r=0.108^{*}$ $P \leq .05$). This shows that any positive change in savings performance, credit performance and capacity building is associated with an improvement in youth livelihoods.

In terms of gender, the findings indicate that being a male was found to be associated with improved youth livelihood compared to the female counterparts and this was statistically significant at 1 percent level (β=0.095, P$\leq$ 0.01) which requires the attention of microfinance institutions, policy makers and development actors. Regarding the loan size, the results indicate that loan size had a positive and significant influence on youth livelihoods at 1% level (β=0.101, P$\leq$ 0.01). The result suggests that the higher the loan size, the better the youth livelihood, which requires the attention of microfinance institutions, policy makers and development actors.

The model result also revealed credit performance as the most important variable with a significant effect on youth livelihoods. The result shows that credit performance has a positive and significant influence on youth livelihoods at 1 percent (β=0.645, P$\leq$ 0.01) followed by savings performance (β=0.157, P$\leq$ 0.01). With regard to youth capacity building, though its correlation was positive in relation to youth livelihoods, the model result showed insignificant influence on youth livelihoods. This is consistent with result of the qualitative analysis that showed similar findings that there are significant gaps in the area of capacity building which need to be addressed.

6.3 Conclusion

The study concludes that Ethiopia has made encouraging progress in terms of advancing microfinance to the youth who are one of the low-income segments of the population. The overall result shows a positive relationship between microfinance and sustainable youth livelihoods. The result also shows a positive relationship between the independent variables of saving performance and its constructs, credit performance and its constructs, youth capacity building and its constructs with selected youth livelihood indictors including income, savings, assets, food security, access to education and access to health. Microfinance had a significant role in improving youth livelihoods shown by increased income and savings, acquisition of assets, improved access to education, health and food security. Among the key factors that contributed to the encouraging progress include conducive inclusive finance polices, strategies and regulations, the productive use of credit by the youth, access and use of savings.

Access to financial services delivers meaningful results when the youth are well equipped with the requisite skills to conduct business and manage financial resources effectively. Access to only financial services may not guarantee the youth to start and lead income generating activities that helps them in successfully building their livelihoods.

Most of the youth who accessed microfinance services were students, the unemployed or those who depended on family which implies that the microfinance programme in Ethiopia indeed targeted unemployed youth to improve their livelihoods. Most of the youth testified and appreciated that microfinance service had helped them to improve business skills and create employment opportunities for them which is a testimony from the youth that microfinance can play an important role in addressing youth unemployment. Those who accessed microfinance services also created job opportunities for other unemployed youth.

The youth have been able to increase their income due to microfinance services. The source of income for the youth is from their engagement in activities in manufacturing, trade, services and urban agriculture. This indicates the potential of microfinance to engage youth in income generating activities. The fact that the youth are able to generate income from businesses has enabled them to save money and improve their livelihoods including expanding their businesses with additional investments, access to education, health services and improved food security. The youth have also acquired different types of assets including machines to run their businesses, houses, motor bikes, cars, land and other assets. Overall, this signifies that the availability of credit played a critical role in the acquisition of assets.

Among the key youth inclusive finance policies, strategies and regulations that foster youth inclusive finance are: the MSE development policy and strategy which are key instruments of job creation in urban centres; the introduction and progressive improvement of microfinance business proclamations; the introduction of the capital goods leasing business proclamation; and the rapid expansion and outreach of microfinance institutions. The greatest strength of the microfinance institutions considered for this thesis is that the source of funding for provision of such services comes from the government and not donors. The MFIs have a very wide branch network that can help them to provide decentralised services in the areas where they operate. Privately owned MFIs have also joined the market and that helps to diversify the sources of financial services for the youth.

Despite the encouraging progress, the state of financial services to the youth is still one of the lowest that contributes to the exclusion of the youthful population that represents the majority of the population in the country. As one of the youngest countries in Africa, Ethiopia has not yet well tapped into this resource that has the potential to transform the country. Ethiopia has a long way to go in terms of increasing access to financial services which contribute to creating employment opportunities and improving the livelihoods of the youth. Among the key factors that contributed to slow progress in meeting the demand for microfinance services for the youth are: gaps in overall approach followed in inclusive finance and provision of business development services which is based on a government supply driven approach; a lack of financial products that meet the unique characteristics and needs of the youth; a lack of diversification of innovative financing mechanisms (including venture capital, Engel investment, equity funds, crowd funding, alternative credit scoring mechanisms, introduction of country wide credit guarantee system and practical ways of promoting and usage of intangible collateral); a very low penetration of digital financial services and insurance services to the youth; a low capacity of MFIs in designing and implementing financial products that meet the needs of the youth; constraints related to structure, harmonisation of policies and coordination framework; gaps in capacity building, coaching and mentoring of the youth; weak monitoring and evaluation mechanisms; and practicing evidence based policy making.

Youth financial inclusion has not been adequately integrated into the financial inclusion strategy, microfinance business proclamation and day-to-day operations of MFIs which hampered the introduction of specific financial inclusion strategies and regulatory interventions that promote youth inclusive finance. The progress made in the provision of access to insurance and digital financial services has been very minimal which requires attention of the policy makers.

A further delay in advancing the pace of implementation of digital financial inclusion and transforming the operation and management information system of MFIs will have severe consequences as it will be difficult to align the business the youth do with fast changing business and technology practices at regional and global levels.

6.4 Recommendations

Based on the findings of this study, observations from the survey, focus group discussions and key informant interviews, the following are recommended to enhance the role of microfinance on youth livelihoods. The recommendations are structured and systematically drawn from the findings of the study aligned to answering the key research questions.

The recommendations are synthesised in thematic areas at policy and strategy level; addressing key challenges faced by youth in accessing microfinance and MFIs to provide tailor made financial services to the youth and exploiting opportunities for the youth from SDG investment projects and AfCFTA. Finally, the recommendation proposed include the youth inclusive microfinance framework.

The recommendations are synthesised in a workable recommendation under relevant thematic areas aligned to the findings of this study:

1. Improve/enhance youth inclusive microfinance related policies, strategies and regulatory framework

1.1 It is proposed that the National Bank of Ethiopia introduces a financial sector strategy that articulates the road map and vision for the future of the financial sector including the microfinance sector. The strategy is proposed to consider addressing the financial services for the missing middle between microfinance and the banking sector.

1.2 Take concrete measures in terms of redefining the overall supply driven approach towards youth inclusive microfinance. Review the MSEs' development policy and strategy to: promote active involvement of the private sector to provide youth inclusive microfinance; introduce various kinds of incentives that motivate the private sector financial and business development service providers; use outsourcing, private-public partnership models as necessary; and bring a new paradigm shift in youth inclusive microfinance services. Such measures contribute to meeting the huge demand of microfinance services for the youth.

1.3 Update the MSEs' development policy and strategy incorporating best practices, emerging issues and introduce specific legislation and a binding legal framework that promotes the implementation of MSEs' strategy. These, among others, include: access to improved information support services to MSMEs; harmonisation of relevant policies and practices; policy measures to deepen and broaden financial markets and the introduction of innovative financial instruments; effective coordination and use of youth development funds managed by different agencies; the use of e-commerce and integration into the global value chain; accelerating technology and innovation through strengthening MSMEs' technology, upgrading and incubation programmes.

1.4 Revisit policies and strategies and introduce a proper implementation framework for construction and management of business premises and working sheds to manage the intervention in a more organised and productive way that catalyses access to microfinance services and improves the performance of businesses owned by the youth.

1.5 Introduce a credit guarantee scheme at national and regional levels and diversify a broad range of funding and lending instruments that include: the introduction of a country-wide credit guarantee scheme; factoring finance; venture capital; Engel investment; equity funds; and crowd funding that promotes access to financial services for the youth through de-risking microfinance institutions.

In relation to factoring finance, it is possible to get support from Afreximbank (a continental Development Finance Institution with a vision “Trade Finance Bank for Africa”), which among others supports national governments in Africa to make factoring as viable alternative source of finance for Africa.

1.6 For the Development Bank of Ethiopia (DBE) to be effective on delivering its core mandate of the provision of long-term financing for priority sectors, it is proposed not to engage on retail lease financing for SMEs. It is proposed that the DBE provides wholesale lending to capital goods financing companies and that their core mandate is to provide lease financing to SMEs.

1.7 Further strengthen and scale up the development of comprehensive guidelines and the implementation of innovative MSME market share enhancement models including subcontracting, outsourcing and preferential procurement schemes for the youth at federal and regional level.

2. Mainstream youth inclusive finance in the financial inclusion strategy and microfinance regulation

2.1 Address gaps in the financial inclusion strategy and regulation of microfinance by integrating the constraints and needs of the youth. The financial inclusion strategy and microfinance regulation should incorporate specific targets on financial literacy and education for the youth (in issues including insurance and saving), e-money, mobile financial services, and the use of risk based tiered KYC. It is proposed to establish a department at NBE that works in the area of financial literacy, education and consumer protection and a financial inclusion strategy council at regional level.

2.2 Introduce risk management tools and additional regulatory requirements to keep the focus of the MFIs (in which regional governments have a major stake), which are being transformed to become banks, to remain focused on serving the low income segment of the population, including the youth.

2.3 Fast track the implementation of the national ID system. The full rollout of the national identification system aligned with other civic registration practices will have a role in accelerating the digital financial services, digital economy, fighting money laundering and financial terrorism.

3. Harmonise interventions and coordination of activities by various government institutions:

3.1 In order to address overlapping roles and responsibilities, introduce a key stakeholder engagement policy framework with well-defined roles and responsibilities, and a harmonisation and coordination framework for harmonious involvement of all relevant ministries, departments and agencies at woreda, zonal, regional and national levels.

3.2 Consider the establishment of a dedicated ministry that promotes and strengthens MSMEs. This will bring a number of players and scattered resources together with better coordination and implementation of key policy actions, interventions and effective use of resources.

3.3 Formulate and introduce a national system of programme evaluation to assess the effectiveness of policies, strategies, programmes and access to disaggregated data in supporting youth empowerment and to make continuous improvements on the youth inclusive finance policies and strategies.

4. Strengthen the provision of capacity building, mentoring and coaching services to the youth

4.1 Strengthen and transform the capacity (software and hardware) of MSEs, promotion bureaus, TVETs, poly technique institutes, one stop centers and business development service providers to produce youth entrepreneurs with the right entrepreneurial mind-sets and work ethic including financial discipline, technical and entrepreneurship skills.

4.2 Introduce policies and strategies that promote the adoption of e-commerce, financial and business management technology (including digital bookkeeping) solutions that enhance business performance by managing businesses professionally, exposing the youth to domestic and international markets and giving them access to finance. This will integrate the youth with the changing technology-led regional initiatives such as AfCFTA, which is one of the flagship projects of the African Union that is expected to enhance intra-African trade, the Pan African Payment and Settlement System and the Mansa Platform (a customer due diligence platform and other electronic world trade platforms such as eWTP).

5. Improving the financial services provided by MFIs and addressing the key challenges of the youth in accessing microfinance services

5.1 Introduce tailor made financial services that meet the specific needs of the youth. In this regard, engage the youth starting from product design to understand their needs.

5.2 Introduce and scale up alternative lending mechanisms including cash flow lending, automation credit appraisal mechanisms by MFIs; the adoption of credit scoring mechanisms; usage of intangible collateral; and the involvement of family to make financial contributions and support the youth to lead successful enterprises.

5.3 Promote digital transformation of the MFIs including introducing state-of-the-art Management Information Systems (MISs) and a core banking system that can radically transform business models, operational performance and service delivery of the MFIs.

5.4 Strengthen the capacity of the MFIs and provide various types of incentives to design and offer appropriate financial products (savings, credit, insurance and related) and non-financial support that meets the needs of the youth.

5.5 Fast track the full operationalisation and inclusion of MFIs in the credit information system.

5.6 Introduce policies and strategies that support MFIs and capital goods leasing companies to work independently, free from undue political influence.

5.7 Create more awareness about insurance services and introduce innovative savings products that meet the needs of the youth with an appropriate incentive system to change the low savings culture among the youth.

5.8 Learning from the experience of African countries like Zambia and Rwanda, facilitate introduction of flexible requirements that help youth owned MSMEs to open alternative window from the Ethiopian Stock Exchange under establishment.

6. Follow prudent practices in the implementation of the youth revolving fund

6.1 Introduce a dramatic shift in designing and implementing the youth revolving fund and refrain from using schemes for the purposes of meeting undesirable short term political agendas. Introduce comprehensive youth revolving policies, strategies and guidelines that strictly follow prudent practice during implementation.

6.2 Conduct a comprehensive diagnostic study (including inventory of enterprises that benefited from the scheme) in all regions and develop recommendations that reduce the negative impact of distorting the credit culture.

7. Increase support for MFIs from government, regulators and donors

7.1 COVID-19 has disproportionately affected MSMEs and MFIs. Therefore, provide liquidity support to boost sector resilience and avoid liquidity and capital constraints that would limit MFIs' continued provision of the services to the youth.

The youth inclusive microfinance framework is proposed based on the finding of this study. The step-by-step approach followed and the contents of the framework are presented below. The framework is prepared based on the findings of the study in Ethiopia; it can be a useful reference for other African countries.

The proposed youth inclusive microfinance framework

Youth inclusive microfinance is not an end in itself but it is an enabler that has a positive role in enhancing youth livelihoods and contributes to the achievement of agenda 2063 and SDGs. Realising the maximum potential of microfinance requires setting up appropriate policy and strategy, regulation and directives, tailor-made products and services through strong institutions. A step-by-step approach was followed to develop the youth inclusive microfinance framework based on the finding of this study. This included: identifying innovative practices and constraints related to youth inclusive microfinance policy and strategy, regulation and directives; having a comprehensive understanding of the factors that contribute to developing tailor-made microfinance products and services and considering how microfinance plays a role in improving youth livelihoods. The framework provides recommendations for policy makers, regulators, banks, microfinance institutions and development actors to advance youth inclusive microfinance.

Inclusive youth microfinance policy and regulatory barriers have negative effects on promoting access to microfinance services to vulnerable segments of the community, including the youth. For example, based on the findings of this study, among the key gaps observed in the policy and strategy framework are a lack of adequate awareness, weak harmonisation of policy and coordination framework and the absence of strong monitoring and evaluation mechanisms for practicing evidence-based policy making. In addition, youth financial inclusion was not adequately integrated into the financial inclusion strategy, microfinance business proclamation and day-to-day operations of MFIs which hampered the introduction of specific financial inclusion strategies and regulatory interventions that promote youth inclusive finance. Such constraints in microfinance policy and regulatory framework favour adults and exposed the youth to a very difficult position to access microfinance services and products. Based on the findings of this study, the proposed youth inclusive microfinance regulatory framework recommends ways to address the key gaps including the introduction of tier/risk based e-KYC and national ID system, the introduction of credit guarantee system, fast tracking implementation of movable asset registration proclamation, capital goods lease finance and introduction of small industrial banks to address the missing middle.

The study revealed that microfinance institutions in Ethiopia followed a one-size-fits-all approach which favoured adults and created challenges for the youth to access microfinance products and services. Among the key challenges faced by the youth in accessing microfinance services are stringent collateral requirements, complex procedural requirements, small size of loans, long gestation period to access loans, a lack of financial incentives for the youth to access credit, a lack of incentives for the youth to save at MFIs, limited knowledge about insurance and low levels of financial literacy and education. Moreover, the MFIs faced a number of challenges in promoting youth inclusive microfinance that include: a lack of tailor-made financial products; gaps in loan appraisal practices; the lack of a core banking system; a shortage of funding; and the slow progress of integrating microfinance institutions into the credit information bureau. The proposed youth inclusive microfinance framework recommends actions that address the key constraints of the MFIs.

Overall, the proposed framework captures fundamental issues that should be considered to promote microfinance that contributes to improving youth livelihoods and fast-tracking the achievement of SDGs. As indicated in the framework, a successful youth inclusive microfinance system also requires a well thought out implementation plan, institutional capacity building and the gathering of disaggregated data by gender, age and sector, and a stakeholders' framework with clear roles and responsibilities. The framework is developed to be used as a reference for running a successful youth inclusive microfinance system in Ethiopia, in particular, and in Africa, in general.

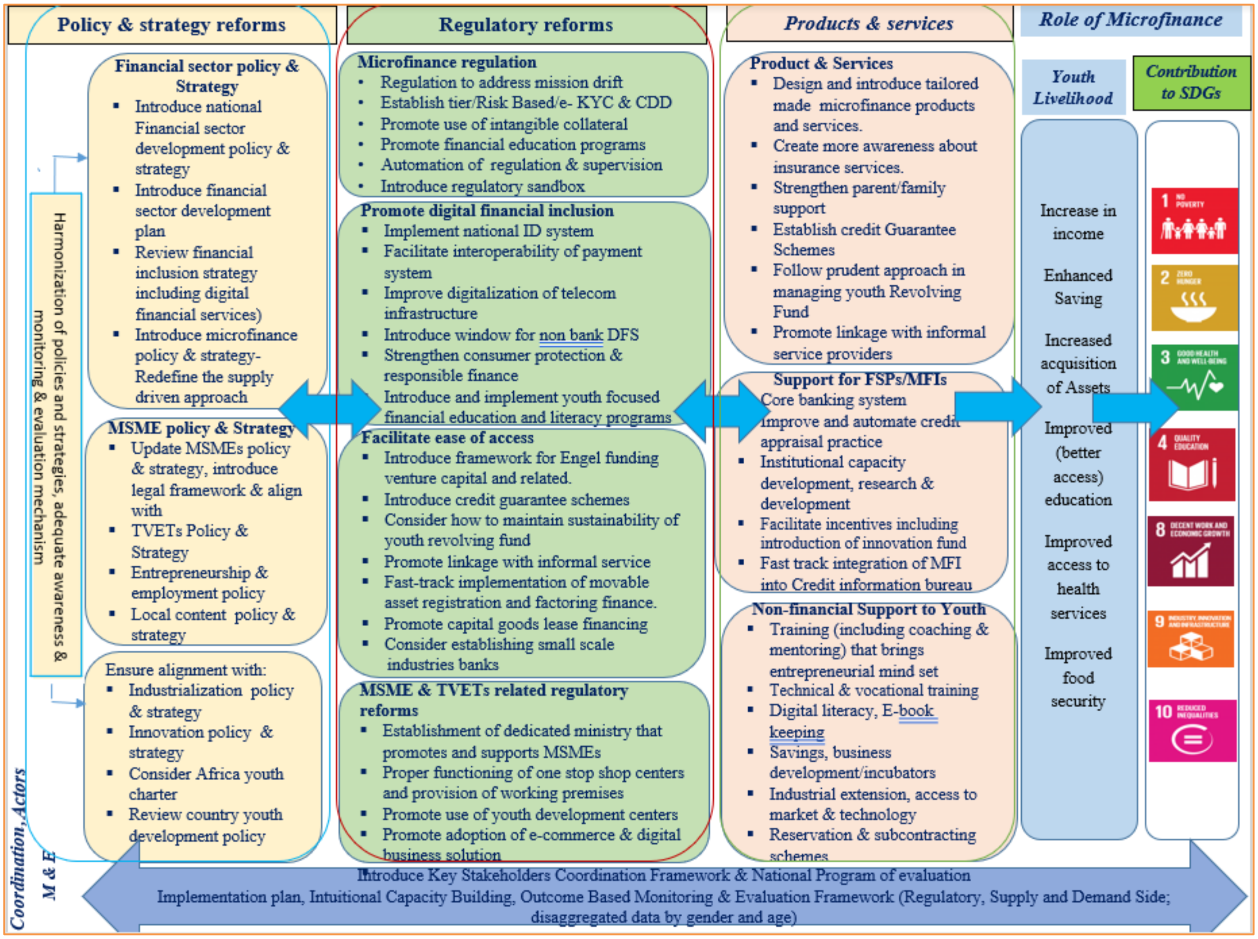


Figure 6.1: Proposed youth inclusive microfinance framework

6.5 Areas of further research

The study followed a multimodal approach and mixed research methodology, including primary data, to assess the role of microfinance in youth livelihoods. However, the researcher acknowledges the following as limitations which call for further study:

- Mekele town (Tigray region) was dropped from the sample for primary data collection and replaced by Adama in consideration of the existing internal conflict. This may have effect to generalise the study at country level.

- The study focused on the youth between the ages of 18 and 35 in line with the definition of the Youth Charter by the African Union. This creates gaps that generalise the outcome of the study for the whole youth including the youth below the age of 18 which are not covered in this study and may require a different study.
- Youth who were a part of the government microfinance programme but dropped out as they were not able to succeed in their businesses have not been considered in the study that constrains to identify all the challenges faced by the youth.

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Appendix I: Survey Questionnaire

Title: The Role of Microfinance in Urban Youth Livelihoods in Ethiopia

Survey Questionnaire-To be completed by Urban Youth Loan Beneficiaries from Government Program

You are being invited to participate in a research that is intended to study and analyse the role of microfinance in urban youth livelihood. Completing the survey questionnaire will need not more than 30 minutes of your time. Kindly complete the survey questionnaire by filling tick (✓) as appropriate and filling the blank spaces.

I- Information about the Respondent

Name of the enterprise:_____________________________ Phone no:.________________

Number of owners:Male__________________Female:_______________Total:_____________

Region:____________City:_______________________,K/Ketema:__________Woreday:_________________Kebele:________

Age: -------------------

Gender [1] Male [2] Female

Marital Status

[1]	Married	**[2]**	Single
[3]	Divorced	**[4]**	Widow

Education [1] Illiterate [2] Elementary school (1-8) [3] High school (9-10) [4] Preparatory (11-12) [5] 10+1 [6] 10+2 [7] Vocational Training [7] Diploma [8]Degree [9] Other, Please specify______________________________

Type of Family [1] Joint [4] Nuclear

Number of Family __________________

Occupation: ……………………………………………………………………

II-Background on Type Business of the Urban Youth

1. **Employment**

1.1 What was your status before getting organized in to the current business?

[1] Unemployed [2]Employed in Private Company [3] Employed in Government Institution [4]Other private business [5] Student [6] Dependent on my family [6]Other (please specify)____________________________

2. **Business Sector**

2.1 What is your line of business/industry sector you operate in?:

[1] Manufacturing sector [2] Trade sector [3] Services Sector

[4] Urban Agriculture [5] Other, please specify________________________________

2.2 Please specify the **sub sector** your business ____

3. **Year of establishment , legal status, capital of the enterprise & number of employees**

3.1 Year of establishment of your company?_____________

3.2 What is the current legal status of the business?
[1] Share Company [2] Sole proprietorship [3]Partnership
[4] Private limited Company (PLC) [5]Cooperative [6]Other (Please specify)_________________________________

3.3 For how long have you been in business?________________________Years.

3.4 What is the current stage of your business in terms of graduation?
[1] Startup stage [2] Growth stage [3] Maturity stage
[4] Other (please specify)___________________________

3.5 What is the current size of growth of your enterprise?
[1] Micro [2] Small [3] Medium [4] I do not know

3.6 Have you employed people so far for running your business? [1] Yes [2] No

3.7 If yes, how many people have you employed now? Male____________Female_______________Total_____________

3.8 What was the size of the initial capital invested to start the business? _____________________Birr.

3.9 What is the current capital of the business ____________________Birr.

3.10 What is the source of capital when you started the business?
[1] Loan from banks [2] Loan from MFIs [3] Loan/gift from friends and relatives
[4] Partnership 5] Other (please specify)____________________________

4. **Business turnover, trend of business, key challenges**

4.1 Do you have a business plan? [1] Yes [2]No

4.2 If no, why you do not have business plan?
[1] Inadequate training [2] Inadequate technical support [3]I do not need business plan at this stage [4]Other (please specify)______________________________

4.3 What was your business turnover in the fiscal year 2019?
[1] 5,000-10,000 birr [2] 10,000-30,0000 birr [3] 30,0000-50,0000 birr [4] 50,000-100,000 birr
[5] 100,000-200,000 birr [6]200,000-500,000 birr [7] Over 500,000 birr

4.4 Do you keep a record on your account of the business? [1] Yes [2]No
If yes, how do you keep your business record?
[1] Manually [2] use computer application [3] Other, please specify--------------------------------

4.5 What are the key general challenges you faced in running your business?
[1] Access to finance [2] Access to land [3] Business license and permits [4] Business premises [5]Lack of raw material [6]Corruption [7] Custom and trade regulation [8]Electricity [9] Water [10] Political instability [11] Tax rate [12]Market linkage [13] Skill gap
[14]Other, please specify ______________________________________

4.6 Please rank the top five from your answer to question number 4.5 from most challenging to the least?
1.____________________________ 2. _____________________3. _________________________
4_____________________________ 5._____________________

5. **Financial Services**

5.1 Which financial institution do you use to get financial services?
[1] Bank [2] Microfinance [3] Insurance company [4] Saving and credit cooperative
[5] Other (please specify)_____________________________

5.2 Why do you prefer this financial institution?______________________________

5.3 Which of the following are the financial services you got from the MFI?
[1]Savings -Individual[2] Saving-Group [3] Loan-Group lending facility [4] Loan-individual lending facility
[5] Money transfer [6]Remittances [7] Insurance
[8] Other (please specify)_____________________________

5.4 How long have you been using the financial services from this MFI?

------------------------------- Years

5.5 What are the key challenges to access to finance from the MFI, rank from most challenging (1st) to the least (5th)?

Description	Rank		Rank
Collateral		Affordability	
Lack of information		Discrimination	
		Other (Specify)	

III. Training and Government Support

6. Did you get training and government support during establishing and running your business? [1] Yes [2]No

7. If yes, what was the type of support you got from the government?

Type of training/support	Yes	No	Least Helpful	Moderately helpful	Neutral	Helpful	Very Helpful
Entrepreneurship Training							
Basic Book Keeping Training							
Business plan preparation training							
Leadership training							
Technical training							

IV. Saving

8. **Saving Account**

8.1 Do you have a saving account other than mandatory saving? [1] Yes [2]No

8.2 If no, why you don't have a saving account?
[1] Application procedures are too complex [2] Fees are too expensive [3] Distrust of the MFI
[4] Don't need it [5] I usually don't have excess cash to save
[6] Other-please specify ______________________

8.3 If yes, what types of saving account do you have?
[1] Current Account [2] Voluntary saving account [3] Fixed time deposit account
[4] Other-please specify ______________________

8.4 How regularly do you save?
[1] Weakly [2]Bi-weekly [3] Monthly [4]I save as I get money
[5] Other (please specify)_____________________________

8.5 How much do you save as per your selection in number 8.4?_________________Birr per____________________

8.6 What is the source of your saving?

[1] Income from business [2] Gift from family [3] Income from employment in other institution.
[4] Other (please specify)______________________________

9. Why do you save?

[1] For future investment and expansion of business [2] To cover expenses related to education.
[3] To cover expense related to health [4] To buy assets (house, car etc.)
[5] To cover expenses related to social commitments (e.g Wedding etc.)
[6] Other (Please specify)_________________________

10. **Interest on Saving**

10.1 What is the interest rate that you earn from your saving? ____________________

10.2 How do you rate the interest rate offered by the MFI for saving?

[1] Very high [2]High [3] low [4] very Low [5] Don't know

11. **Equib**

11.1 Do you have any saving in the form of Equib? [1] Yes [2]No

11.2 If yes, how do you regularly save in Equib?

[1] Weakly [2] Fortnightly [3] Bi-weekly
[4] Monthly [5] [5]Other (please specify)_____________________________

11.3 How much do you save in Equip?____________ Birr Per ____________

12. Checking Account

12.1 Do you have a checking account? [1] Yes [2] No

12.2 If your answer is no what do you think is the primary obstacle to have checking account?

[1] Lack of cash [2] Lack of institutions to save [3] cumbersome procedural requirements
[4] It does not bear interest [5] Other (please specify)_______________________

13. What is your rating about your progress on saving and its purpose based on the following parameters? (Rate 1 to 5 , with 1 being Strongly Disagree (SDA) to 5 Strongly Agree (SA))	SDA	DA	N	A	SA
The MFI office location and branch timing convenient to my business					
I am motivated to save more because of quick access to saving					
I have generated enough interest income on my saving account					
I personally like saving to finance my own needs					
I regularly save enough for my investment					
I often save enough for my business growth and expansion					
My saving has always met my educational needs					
I frequently save enough to meet my health service needs					

V. Loan

14. **Criteria for borrowing**

14.1 .How long does it take to access loan from the MFI?

[1] Less than a week [2] 1-2 weeks [3] 2-3 weeks [4] 3-4 weeks
[5] 4-8 weeks [6] Moe than 8 weeks

14.2. Answer the extent of the difficulty related to criteria for borrowing and rank according to difficulty

Description	Is it a challenge?		Rank from most difficult (1) to the least (4)
	Yes	No	
Collateral (House, land etc.)			
Initial saving balance			
Preparing Business Plan			
Constant source of income			
Experience in Business			
Attend introductory training			
Other (please specify)			

14.3 .Have you been requested to provide collateral to access loan? [1] Yes No [2]

14.4. If yes, what kind of collateral is requested by the MFI to access loan?

[1] Land [2] house [3] car [4] Group collateral [5] Personal Guarantee
[6] Other (please specify)______________________________

14.5 .To what extent it is difficult to fulfill the collateral requirement

[1] Very difficult [2] Difficult [3] Neutral [4]] Somewhat difficult [5] Not difficult

15. Amount borrowed, use of the loan and interest rate

15.1Was there a situation where you had applied for a loan and your application was rejected? [1] Yes [2] No

15.2 If your answer is Yes, what was the most common reason for rejecting the loan?
[1]lack of collateral or co-signers unacceptable [2] Incomplete Loan Application [3] Insufficient Profitability
[4]Size of loan requested was big [5] Insufficient Experience in Business
[6] lack of regular source of income [7] Other (please specify)______________________________

15.3 How much loan did you borrow from the MFI recently?______________________________
15.4 What was the interest rate?_________________
15.5 How many times have you received loan?_____________________________________

15.6 If more than one, please specify the amount of loan of 1st round____________________2nd round_________________

3rd round___________________4th round__________________

15.7 What was the purpose of the Loan?

[1] Starting a business [2] Expansion of business [3] Working capital
[4] Consumption[5 [5] Other (Please specify)_____________________

15.8 How do you rate the loan size disbursed by the MFIs?

[1] Quiet enough [2]Fairly enough [3] Quiet small [4] Don't know

15.9 How do you rate the interest rate charged by the MFI?

[1] Very high [2]High [3] low [4] very Low [5] Don't know

16. Other types of loan

16.1Have you felt the need to access a loan for other purpose than the business? [1] Yes [2]No

16.2 If yes, for what other purpose do you need a loan a part from the business?

[1] Education [2] Health services [3]Counseling [4] Consumption [5] Emergencies
[6] Other (please specify)______________________________

16.3 Have you faced difficulty to repay your current loan? [1] Yes [2]No

16.4 If yes, how many installments are past due?______________ Amount in Arrears Birr __________________

17. In your own opinion, how important are the following factors in accessing loan? Rate 1 to 5 , with 1 being least important (LIM) and 5 very important (VIM)	LIM	MIM	N	IM	VIM
Accessing the right size of the loan					
Absence of requirement for immovable property as a collateral					
Convenient Location of Financial Institution					
Quick disbursement of loan					
Quality of service of financial Institution					
Low interest Rate/Cost of Borrowing					
Convenient Repayment Period					
18. How satisfied are you with access to credit provided by the MFI? with 1 being very dissatisfied and 5 very satisfied in terms of the following: (Rate 1 to 5 , with 1 being Very Dissatisfied (VD) to 5 Very Satisfied (VS))	**SDA**	**DA**	**N**	**A**	**SA**
I can always get credit from the MFI					
The collateral requirement is favorable					
I get attractive interest rate for credit from the MFIs					
18. What has been the role of credit in enhancing your livelihood in terms of the following factors? (Rate 1 to 5 , with 1 being Strongly Disagree (SDA) to 5 Strongly Agree (SA))	**SDA**	**DA**	**N**	**A**	**SA**
Access to credit has enabled me to get employment opportunities					
Access to loan has supported in my business expansion/growth					
Access to credit has facilitated me to acquire assets					
Access to credit has inspired me to save in order to meet investment needs					
Access to credit has facilitated to earn consistent income to meet education needs					
Access to credit has supported me to generate more income and saving to meet health service needs					

19. Insurance **VI. Insurance**

19.1 Did you ever have insurance? [1] Yes [2] No

19.2 If Yes, what type of insurance do you have

[1] Business Insurance [2]Credit life [3] Health Insurance
[4] Other (please specify)______________________________

19.3 If No, why you don't have any insurance?

[1] I don't know about insurance [2] too expensive [3] do not trust insurance companies

[4] Other (please specify)____

19.4 Do have knowledge about insurance? [1] Yes [2] No

19.5 If no, why you don't have knowledge about insurance?_____________________________________

[1] Lack of awareness[2] Lack of training [3] Inadequate exposure

[4]   Other (please specify)______________________________________

VII. Doing Business Digitally, Electronic Payment and Mobile Services

20. What do you think is the need and opportunity to do your business by adopting new working methods (technology) like provision virtual or online services to continue operation and sustain your business during this difficult time of COVID_19 epidemic?
[1] Very high   [2]High   [3] low   [4]   very Low   [5] Don't know

21. Have you attempted to provide services using the virtual on-line means so far? [1]   Yes   [2] No

22. If yes how have you been using the virtual or online means to provide the services?
1] Using Facebook for advertisement   [2] Using WhatsApp for Advertisement   [3] receiving payment from clients using digital means   [4]   Other (please specify)______________________________________

23. Which form of payment do you use more frequently?
[1] Cash   [2] Bank transfer   [3] on-line banking   [4] Debit card   [5] Credit card
[6]   Other (please specify)______________________________________

24. Have you used electronic payment and mobile services for doing financial transactions such as deposit of payments or for saving to your account?   [1]   Yes   [2] No

25. If Yes for what type of payment do you use electronic payment/mobile banking services?
[1]Pay employees   [2]Pay suppliers   [3] Pay utility bills   [4] Receive payment from customers
[5]   Other (please specify)_____________________________

26. If yes what has been the main reason for using electronic payment and mobile banking services?
[1] Reduces cost of financial transactions   [2] Reduces the time spent for financial transactions
[3] Reduces the risk of financial transactions   [4] to satisfy supplier/customer request
[5]   Other (please specify)_____________________________

27. If your answer is no to question no 24, why have you not so far used electronic payment/mobile money services?
[1] Don't know enough about electronic payment and mobile banking services   [2] requirement high [3]Fee is too high
[4] It is not easy to use [5]   Suppliers and customers don't use mobile services   [6]   I don't trust this type of service
[7]   Other (please specify)_____________________________

VIII. Services of MFI

28. How satisfied are you with the services of the MFI? with 1 being very dissatisfied and 5 very satisfied in terms of the following: (Rate 1 to 5 , with 1 being Very Dissatisfied (VD) to 5 Very Satisfied (VS))	VD	D	N	S	VS
The MFI office location & branch timing convenient to my business					
I have got adequate training from the MFI before accessing the loan					
I am satisfied with the size of the loan offered by the MFI to my business					
I am fully aware and satisfied with the insurance service provided by the MFI					
The MFI's employees attitude and behavior satisfactory					
Overall satisfaction					

29. Would you recommend others to use the financial services of the MFI?

[1]Yes [2]No [3]Do not know

30. Would you apply again for loan from this MFI?

[1] Yes [2] No [3] Do not know

IX. Improvement on Urban Youth Livelihood

31. How do you rate the following: Improvement in livelihood (increase in income, saving, acquiring assets etc.) due to access to microfinance with 1 being Strongly Disagree (SDA) and 5 Strongly Agree (SA)	SDA	DA	N	A	SA
I have got better employment opportunity due to access to microfinance					
My income has increased due to access to microfinance					
My saving has increased due to access to microfinance					
I have acquired of Assets due to access to microfinance					
My educational status has improved (better access) due to microfinance					
My food security (nutrition) has improved due to microfinance					
My access to to Health Services has improved due to access to microfinance					
My business skills has improved due to access to microfinance					

32. Have the income you generated from your business helped you to acquire assets?

[1] Yes [2]No [3]Do not know

33. If Yes what are the types of assets that you have acquired

[1] Motor bike [2] Car [3] House [4] Land [5] Machine to run a business
[6 Other (Please specify)______________________________________

X- Impact of COVID-19

34. Have your business operations been affected by coronavirus (COVID-19) pandemic?

[1] Not affected [2]Lightly affected [3] Moderately affected with some slow downs
[4] strongly affected with major slowdowns [5] Other (Please specify)____________________

35. If your business is affected by Corona virus pandemic, how is your business affected? with 1 being Strongly Disagree (SDA) and 5 Strongly Agree (SA)	SDA	DA	N	A	SA
Low market demand of products/services					
High market demand of products/services					
Low supply of raw materials (inputs)					
Closure of market places					
High prices of products/services					
Low prices of products/services					

Low prices of raw materials						
High prices of raw materials						
Delayed/failed recovery of payments						
Restricted movement of workers						

36. From the list in no. ------rank the top three factors that affected your business the most?

1st________________________________ 2nd____________________ 3rd_________________________________

37. What are the most significant financial problems for your business during COVID-19?

[1] Rent [2] Repayment of loans 3] Payment of invoices [4] Covering cost of raw material
[5] No specific problem [6] other (specify)______________________

38. Has your revenue of your business changed as a result of the Corona virus epidemic?
[1] Yes, increased significantly [2] Yes, increased somewhat
[3] No change [4] Yes, decreased somewhat
[5] yes decreased significantly [6] Other (please specify)_________________________________

39. What actions have you been taking to respond to the crisis?
1] Reducing production of good and services [2] Increasing production due to increase in demand
[3] Diversify products to respond to new demands (producing masks, sanitizer etc.) [4] Diversifying sales channels (0n-line marketing, sales, delivery etc.) [5]Customized/Introduced new products [6] Diversify products to respond to new demands (producing masks, sanitizer etc.) [7] Applied for government support packages [8] Negotiating payment terms with banks and suppliers [9] Other (please specify)_________________________________

40. Effectiveness of government /financial institutions/land lords support

Effectiveness category	Are there such support?		Highly effective	Effective	Neutral	Less effective	Least effective
	Yes	No					
Provision of technical advice related to the crisis							
Freeze of loan repayment, extension of loan terms or partial debt relief							
Provision of access to affordable interest loans							
Reduction of interest rates							
Preferential tax policies							
Reduction of costs for electricity, gas etc.							
Additional severance pay to laid off staff							
Other please specify							

41. If COVID-19 continue to spread over the next six to twelve months. Which of the following could continue to be the challenges for your business (Rank 1 for the highest rank and 3 for the least rank)? with 1 being Strongly Disagree (SDA) and 5 Strongly Agree (SA)	SDA	DA	N	A	SA
Adequate source of financing					

Debt repayment						
Reduced product demand						
Reduced production or productivity						
Reduced supply of raw materials (inputs)						
Ability to pay costs (rent, wages etc.)						
Other (please specify)						

42. If COVID-19 continue to spread over the next six to twelve months. Which of the following could continue to be the challenges for your business (Rank 1 for the highest rank and 3 for the least rank)

Description	Rank
Adequate source of financing	
Debt repayment	
Reduced product demand	
Reduced production and productivity	
Reduced supply of raw materials (inputs)	
Ability to pay costs (rent, wages etc.)	
Other (please specify)	

43. How easy is it to access the COVID-19 related information and support from government?

[1] Very easy [2] Easy [3] Standard [4] Difficult [5] very difficult______________________________

44. How long do you think your business can survive if the COVID-19 is extended for some time?

[1] 1 month or less [2] 2- 3 months 3] 4-6 month [4] one year
[5] Do not foresee business closure [6] other (specify)________________________

45. Please select the top three additional government support measures that would be most helpful in coping up with the COVID-19 crisis?

Description	Rank (1st, 2nd the 3rd)
Access to low interest credit lines or credit guarantees	
Freeze of loan repayment, extension of loan terms	
Provision of additional capital through financial grants	
Reduction of bank interest rates	
Tax waivers or temporary tax waivers	
Covering, reduction or freezing operational costs	
Reduction of tariffs on imported inputs	
Rent subsidies	
Cash transfers	
Support to self employed	
Other services (please specify)	

Appendix II: FGD Questionnaire

Urban Youth Beneficiaries from Government Microfinance Program

List of Questions for Focus Group Discussions
1. **Types of Business:** What are the types of business that you run and the most common source of capital for your business?
2. **Services:** 2.1 What are the services you get from the MFI and do you think the services (including saving, the loan size, interest rate and repayment period, insurance etc.) offered by the MFI address the specific need of the Youth? What are the three most important challenges in accessing the services from the MFI? 2.2 **Technical support:** What type of training and technical support do you get from the MFI and other government offices before accessing the services and do you think the training was useful? 2.3 **Savings:** Can you share us your experience in saving regularity and the sources and reasons for saving? 2.4 **Criteria for lending:** What are the major criteria required to access credit from the MFI and what are the three most difficult criteria to comply by the Youth? 2.5 **Insurance services:** Can you share us your knowledge and experience in using insurance services? 2.6 **Digital services & electronic payment:** Have you been using digital platforms to conduct your business? What about using electronic payment and mobile services and what was the main reason why you used the electronic payment/mobile banking services? 2.7 **Repayment of Loan:** How does the loan repayment trend looks like and if there are gaps how do you think the gaps can be addressed
3 **Performance of business:** How is the performance of the business and annual turnover? Which is the three biggest obstacles faced by your business and how do you think they can be addressed?
4 **Role of microfinance:** What are the role of microfinance (training, credit, saving etc.) in enhancing your livelihood including getting employment opportunities, generate adequate income, acquire assets, meet your needs including investment, education and access to health services?
5 **Impact of COVID-19:** 5.1 What has been the impact of COVID-19 on your business? How have your business operations been affected by the coronavirus (COVID-19) pandemic? 5.2 What are the three most significant challenges and financial problems faced by your company during the pandemic? 5.3 Has the revenue of your business been affected due to impact of COVID-19 and what actions have you been taking to respond to the crisis? 5.4 What type of support have you got so far from the government and non-government organizations and how was the effectiveness of the support? 5.5 What are the major challenges continued to your business due to COVID-19 and what are the three top government support that would be most helpful in coping up with cOVID-19 crisis?

Appendix III: Key Informant Interview Questionnaire

Data Collection from Key Government Institutions & Associations

Job Creation Commission, Federal and Regional Urban Job Creation and Food Security Promotion Agency/Bureau, Federal and Regional Small and Medium Enterprise Promotion Agency/Bureau)

This study is intended to study and analyse the role of microfinance in urban youth livelihood in Ethiopia. The study will investigate and analyze the specific financial policies and regulation that are put place in Ethiopia to accelerate financial inclusion to the use; practices and structure of financial services sector; types of financial products/services provided by financial institutions to Youth in Ethiopia and contribute to limited body of knowledge.

Participation in the study involves a face-to-face interview, which will last for approximately half to one hour. The interview will be conducted by the researcher, audio-taped and later transcribed for the purpose of data analysis. Thank you for your support!

	List of Question for Key Informant Interview of Key Government Institutions and Associations
	I-General Information- Key approaches, policies, regulations and strategies of promoting Youth Livelihood through inclusive Finance
1.1	Can you share me brief background information about your organization, its evolution, its mandate and ole in promoting livelihood opportunities of the Youth? To whom the institution is reporting and accountable? What is your comment on the organizational structure inconsistencies of job creation and food security office at Federal and regional level?
1.2	Would you briefly discuss the evolution and key aspects of Youth policy, MSMEs promotion strategy of Ethiopia, progress made in implementation of the policy, strategy and key challenges faced?
1.3	How is the definition of MSMEs treated in those strategies and do we have a clear definition and understanding? Do you think the definition provided by the strategy still holds taking the current inflation? What about the definition of start-up, growth & matured enterprises?
1.4	How are you working with the financial sector regulatory bodies to create and promote conducive environment to access financial services by MSEs/Youth? What has been the progress made so far and what are the key challenges?
1.5	What are the specific supports provided to Youth and Women to be involved in promotion of MSMEs?
1.6	What do you think could be the key gaps in the current Youth policy & SME promotion strategy and how can the problems be resolved?
	II- Services offered so far to the Urban Youth
2.1	How many MSEs have been established and how many job employment opportunities have been created so far?
2.1	What kind of support do you provide to micro and small enterprises and what ha been the progress made so far? How do you see the performance of one stop shop centers and other key stakeholders involved in the implementation of MSE strategy? What about the performance in terms of training and providing working premises, creating market linkage?
2.2	Why does the Youth prefer to be organized individually than as share co? What is the implication of this in effectively implementing the MSE strategy?
2.3	What is your take on the following composition: 58.8% Start up; 10.2% Growth; 2.81% Matured & the rest 28.12% not s[ecified?
2.4	What does the credit performance of the enterprises looks like and which enterprises are registering successful performance?
2.5	What does the performance of enterprises owned by the Youth including Women looks like and what factors contributed to that?

2.6	Can you share us the progress made so far about graduation of enterprises from start up to growth to maturity? Do you think the progress has been satisfactory and why?
2.7	Why is the performance of job creation and number of enterprises created is so low in emerging regions like Afar, Gambela, Benshangul, Harer etc.?
2.8	What are the key challenges of the enterprises owned by the Youth? Is access to finance still a challenge and if yes how can it can be addressed?
	III-Youth Revolving Fund
3.1	What are the key features, modalities and eligible criteria to access loan from revolving fund?
3.2	How do you recruit the Youth who are expected to benefit from this scheme?
3.3	What is the minimum and maximum loan size, term, interest rate, repayment period of loan from Youth revolving fund?
3.4	How many Youth (Male & female) have benefited from the scheme? How much loan has been disbursed & collected so far compared to the plan? How many enterprises have been established (owned by Men & Women) compared to the plan?
3.5	What has been the contribution of the revolving fund in encouraging the culture of saving among the Youth?
3.6	What are the key challenges faced (reaching as many Youth as possible, collateral requirement, creating the required attitudinal change, working place, funding, policy & regulatory restrictions & others)? What are the major constraints to expanding access to credit to Women?
3.7	Has the revolving fund scheme affected the other loan schemes provided through the normal operation of the MFI because of low interest rate and other requirements which are different? What should be done to address the challenges?
3.8	How do you see the sustainability and future prospect of the fund?
	IV- The Role of Microfinance in Urban Youth Livelihood
1.1	What do you think could be the overall outcome (progress and key challenges) of the investment made and the role of microfinance institutions in terms of improving urban Youth livelihood (including increasing income, enhanced saving, business expansion, education, health, food security etc.. and contribution to GDP)?
1.2	What do you think is the effect of the Youth revolving fund and Women development fund in all operation of the microfinance institutions and improving the livelihood of the Youth?
1.3	What does the performance of the enterprise of the Youth looks like and which enterprises are performing well and which not and why?
1.4	Which enterprises have better impact on Youth livelihood taking in to consideration the Ethiopian urban context?
1.5	What additional intervention and activities should be done to further promote the livelihood of Urban Youth in Ethiopia?
1.6	Do you have additional ideas which will help to expand financial services to the Youth, address huge unemployment challenges in the country and contribute of promoting livelihood opportunities of the Youth?