



Hunting Talents and Nurturing Entrepreneurship in Low-Income Countries: Quasi-Experimental Evidence from Business Plan Competitions in Ethiopia

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Motivations and major findings

There is a wide consensus that entrepreneurship plays a key role in economic growth and structural transformation of nations. Several policies and programs have been experimented by governments, NGOs, and other actors to foster entrepreneurship. Business plan competition is one of these policies that attracted the attention of donor and huge resource is channelled for its implementation in many countries around the world including Ethiopia. Business plan competitions commonly have dual purposes: selecting high-growth potential business (i.e. gazelles) through rigorous screening procedure and directly provide some supports (like training or grant) for part of the contenders. However, there is a dearth of studies regarding the effectiveness of business plan competitions in meeting their goals.

In a series of studies, this project examines both objectives of a business plan competition by pooling data from first cohorts of two business plan competitions conducted in Ethiopia, namely, Bruh and EDC startups incubation. Bruh entrepreneurship competition has been run by the former Jobs Creation Commission (JCC) (or the current Ministry of Labor and skills) in collaboration with Master Card Foundation; whereas EDC startups' incubation program was conducted by the Entrepreneurship Development Centre (EDC) (currently called Entrepreneurship Development Institute (EDI). To this end, we compiled administrative data from the competition records and conducted a follow-up survey on the universe of about 500 applicants to measure actual business outcomes a year after the application to the competitions. Self-reported outcomes were independently verified with administrative data whenever possible and qualitative data were also collected to substantiate the quantitative ones.

The first part of the study evaluates the short-term causal effect of the training intervention of the business plan competitions on business entry and expansion using a fuzzy regression discontinuity design by exploiting business plan scores given by judges during the screening of the contenders and exogenous cut-off points. The result revealed that, in any measure of business success, the business performance of the training beneficiaries of the program was not better than the rejected applicants. One possible reason for this is because about 75% of the rejected applicants were able to get similar trainings in other programs and thus they are contaminated controls. This result does not imply the program is ineffective, nor capacity constraint doesn't matter. Though the study is not



informative about the effectiveness of the program, the substantial take-up of the control group in substitute program documented in this study could be helpful to explain the modest or negligible impacts the entrepreneurship training programs reported in previous studies.

The second part of the study examines whether a business plan competition can be a successful policy option to identify high growth potential entrepreneurs (i.e. gazelles) through its rigorous screening procedure. In general, the results show that the business plan score is a significant predictor of entrepreneurial success. Judges were more effective in predicting enterprise growth at the bottom and top of the distribution, implying that the most promising projects and the non-serious ones are relatively easier to identify. However, we found heterogeneities in prediction success between the two competitions despite their implementation in the same setting (judges' prediction was more accurate in EDC than that of Bruh). This results helps us provide preliminary explanation for the mixed results of the previous literature and draw conditions under which the experts' prediction accuracy could be improved.

Overall, the study suggests that a properly designed and implemented business plan competition is helpful at least to differentiate firms based on their growth potential which is a key to tailored policy and proper targeting.

Policy Implications

The following policy implication can be drawn from the findings of this study which could be utilized by policy makers, program implementers, researchers, and other stakeholders.

- For policy makers, it is worth considering business plan competition as one of the innovative approaches to foster entrepreneurship. It helps at least to differentiate promising businesses from the mass and could facilitate financing by serving as a bridge between interested investors and constrained gazelles.
- Awarding winners go beyond the private return for the recipient firms and target businesses with growth potentials has huge social benefit including formation of sustainable businesses, productive employment, enhancing competitiveness and creativity, and improve resource allocations. As stated in Shane (2009) “getting economic growth and jobs creation from entrepreneurs is not a numbers game. It is about encouraging high quality, high growth companies to be founded.” However, in low income countries like Ethiopia, supporting survivalist enterprises could be totally unavoidable from poverty reduction or political perspectives, it is important for policy makers to have a clear understanding of the expected outcomes of such policies and make the right balance between policies favouring gazelles versus policies supporting the survivalists.
- For business plan competition organizers, the first source of success for startups' intervention stems from the ability to properly hunt talents. We witnessed considerable variations among applicants of the business plan competitions in communicating their ideas,

which could mask the real potential of applicants from being detected by the evaluators. Therefore, it is advisable to have a briefing session (virtual or face-to-face) on how to present business ideas just before or during the application period. It would be also important for the evaluators to focus on the potential of the business idea rather than the quality of its presentation. The other crucial task of the competition related to this is the proper scoring of the business plan. Having the right experts, enabling scoring environment that promotes objective evaluation, allowing sufficient time and minimizing burden of each member of the jury, and developing more disaggregated criteria to properly assess the various aspects of the business are among the steps one can take to improve the screening accuracy.

- Unlocking the potentials of startups through overcoming their skill constraints requires going beyond entrepreneurship training. Many applicants also look for hard skill and technical trainings whereas the trainings given through the process of the competitions are usually limited to business trainings and development of soft skills. Probably, organizing business plan competition by sectors or themes (like Energy, or IT) and including technical supports could be helpful. Bruh seems to recognize this as it organized Bruh ICT competition recently; and such practices should be further consolidated.
- To attract talented and high-growth potential applicants for the program to succeed, it is also essential to improve the program design in a way that creates incentive for competent applicants to enrol. With small grants, the program will end up attracting typical startups with low potential to growth. This study identified the existence of “pitchpreneurs” that merely hunt grants with little or no intention to implement their ideas. To control such malpractices, cash grants should be paid in staggered way or upon achievements of certain milestones provided that the total award is large enough.
- The main message of this study for researchers is associated with ensuring the validity of counterfactual while conducting impact studies. Our finding about substantial take-up of substitute treatments poses a serious question on many of previous impact studies. The cleanness of the control group for any design cannot be confirmed unless data prove that they stayed away from substitute programs. Therefore, it is important to consider it as an important task while designing follow-up surveys. Otherwise, insignificant estimates of program effects would be erroneously associated with program failure, which results in misleading policy implications.

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