Challenges and Opportunities Facing Youth Entrepreneurs in Ethiopia: A Review Paper

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Abstract

The objective of this article is to review the challenges and opportunities facing youth entrepreneurs in Ethiopia and make suggestions that will help in solving some of these problems and enhance the participation of youth women and men entrepreneurs within their own country and global marketplace as required. The paper also highlights opportunities for growth and profitability in the national as well as global marketplace for these entrepreneurs. Understanding the challenges and difficulties faced by entrepreneurs in Ethiopia will be important if Ethiopian government is to come up with policies which will stop their small businesses from being swept away by rapid changes taking place in today's global economy. The article concludes with recommendations for addressing these challenges and enhancing the competitive ability of youth Ethiopian entrepreneurs.

Keywords: competitive ability, profitability, youth entrepreneurs

1. Introduction

According to the International Labour Organization’s World Employment and Social Outlook: Trends (2016) report, creating jobs remains a central challenge for the region particularly in sub-Saharan Africa. Regional unemployment stands at 7.4 per cent, and the majority of workers are in formal or vulnerable forms of employment. For young people, the situation is even more concerning. The youth unemployment rate is 11.1 per cent, largely due to the limited formal job opportunities available. As Africa’s youth population is set to more than double by 2055, it is imperative for governments to identify and promote alternative pathways to sustainable livelihoods. To tackle such a problem entrepreneurship is a key solution to this most critical challenge facing young people in sub-Saharan Africa and to Ethiopia. The role of young entrepreneurs as agents of positive change and creators of jobs in their communities and countries, particularly in Africa, must be recognized and a need to support these entrepreneurs and to increase the opportunities open to them is mandatory (The Commonwealth, 2016).

Today’s young generation experiences widening social gaps and faces manifold challenges. In developing countries, rapid changes in the social conditions of young people as a result of changing socioeconomic and policy structures, and wider global change mean that they face a more precarious future than any preceding generation. African Economic Outlooks researched that African youth entrepreneurs are challenged by the following barriers such as lack of access to sufficient capital, lack of access to lucrative markets, poor marketing and branding, lack of access to suitable working space, lack of business management skills, inadequate and inaccurate financial records, lack of education and training, lack of non-going business support, work experience, government regulations and availability of infrastructure. Other researchers also, conducted in different countries and times, found the same result regarding to challenges of young entrepreneurs. These Researchers suggested that young entrepreneurs are challenged by various problems like lack of credit access, both local and foreign markets access, education and training, managerial skills, government regulations, business support, work experience and business information, infrastructure and not see it a secure means of labour market as Maia Sieverding (2012) in Egypt, Simon Amenyawada, (2010) in Kenya, Danso Ansong et al., (2012) in Ghana, Chibueze Jerry Nwigwe (2010) in Nigeria, and Yordanos Mekonnen (2006) and Gedif Tessema, (2015) in Ethiopia.

As has been increasingly recognized by development agencies the active participation of all segments of the society is an important element to bring about accelerated political, economic, social and cultural development in any country. Since the youth are not only receptive to new ideas but also have the potential for creativity and productivity, they can play a major role in all sectors of development. In order to translate their potential energies and capabilities into fruitful action, however, they need favorable environment. Ethiopia, the second most populous nation in sub-Saharan Africa, with a population approaching 100 million people, is on a unique path of growth as a result of successful state interventionist policies. A number of policies are copied and come in to existence and become fruitful. Even if it is so, it is recognized that the generative source of all economic value is the creative human mind that is uniquely capable of discovering new scientific principle leading to the application of technological advancements in modes of economic production. Every human being has the inherent potential to contribute to the future of civilization. Rather than seeing Africa with its bulging youth population as an opportunity for exploitation, as a source for labor intensive and low wage jobs in the globalized world economy, these youth should be trained as skilled workers, engineers, and scientist, to
maximize their contribution to society (CMPI media, 2016).

The Government of Ethiopia has shown considerable commitment to improving opportunities for young people. A National Youth Policy was approved in 2005 to promote young people’s participation in governance and economic, social and cultural activities. In 2006 a Rural and Urban Youth Package with a Multi-Sectoral Youth Development Strategy Plan (2006-2015) were designed. In 2013 an Adolescent Development and Participation Strategy was drafted focusing on the 10 to 19 age group to reinforce linkages between policies, strategies and programmes designed for children, adolescents and youth. The current Growth and Transformation Plan II has a section on Youth Development seeking to promote youth participation in democratic governance and economic and social initiatives, by mainstreaming youth issues within other development programmes, increasing the number of youth centers, strengthening youth associations, and encouraging youth entrepreneurship. Recently, Micro and Small Enterprises have been promoted on a large-scale, especially for urban youth Young Lives, 2014.

2. Youth entrepreneurship in Ethiopia

There is no agreement upon definition on the term youth across countries of the world. The UN (United Nations) defines youth as individual aged between 15 to 24 years old. The African Union defines youth as individual aged between 15 to 35 years old. For the sake of international agreement, this document employs the UN definition of youth. Experience of many African countries indicated that different ranges have been used in defining youth. Taking in to consideration the age ranges given from different countries and the objective conditions prevailing in our country, and in order to mobilize and utilize the potential capacities and competence of youth for building of a democratic system and development purpose, the youth policy define youth as who are between 15-29 years (Ministry of Youth, Sports & Culture of Ethiopia, 2005).

Almost 90 percent of the world’s youth are residents in countries where they can hardly access adequate education, capital, paid employments and health services. As the sizes of younger populations in Africa steadily swell to account the single largest category of age group, the likelihood of majority of these youth being absorbed within the formal economy is nearly nonexistent (DSW, 2011). Encouraging the integration of young people at work and improving their situation in the labor market are two of the main priorities of the Ethiopian government (Talent Youth Association (TaYa), 2014).

Performance of youth owned and operated economic enterprises in general are of great importance in achieving high gross domestic product (G.D.P) in many countries. Young people form the foundation of a society's future. They represent inevitable transition between the children and the old (Chigunta, 2002). Thus, many nations are recognizing the importance of the youth in their development hence formulation of policies and programmes to guide them. The European Union (EU), in recognition of the importance of the youth in growth and development of a region met, thus the Council Resolution of 27 November 2009 on a Renewed Framework for European Cooperation in the Youth Field (2010-2018).

In Sub-Saharan Africa, access to funds by the youth is not guaranteed and therefore there have been reports of most youth-based small businesses failing in their first year due to lack of finance to sustain their development (Biekpe, 2004). The evidence supporting the view of youth access to business funds in youth enterprises as the engine of growth is in fact not conclusive. Thus, governments in SSA have continued to focus on enhancing access to funds among the youths to drive the small scale business sector to promote economic growth (Malonza, 2007).

FDRE, Ministry of Sport, Youth and Culture (2004) has ratified national youth policy as a tool to realize a vision of creating an empowered young generations who are equipped with all pertinent knowledge and skill build up on ethical integrity. According to the policy (2004), any youth program directed towards youth development is expected to enable youths to be acquainted with new discoveries, inventions and innovations. Moreover, it asserts that any capacity building programs are intended to inculcate in the mind of youth of self-confidence, creativity and hard work (MSYC, 2004). Now days the current government of the land too has endorsed a five years long - term development plan which is currently on its stage II. One of the strategic pillar of the plan here too youth empowerment (MoFED, 2010). It asserts that youth program shall have strategic direction of producing innovative citizens who can contribute to the realization of the long term vision of making Ethiopia into a middle income economy (MoFED, 2010).

3. Challenges of youth entrepreneurs in Ethiopia

Despite recent years of strong economic growth in Ethiopia, the creation of decent employment opportunities for the growing numbers of young Africans remains an elusive development goal. Across the continent, most young people continue to eke out a living in the urban informal economy or in subsistence agriculture. The majority of these are working poor since they do not earn enough to lift themselves and their families out of poverty. Beyond this aggregate picture, young women in particular face some of the greatest barriers to finding decent employment in African countries including Ethiopia because they lack experience, the necessary skills and suffer
from discriminatory attitudes about their role in the workplace.

One area of youth employment interventions that has attracted considerable attention from governments and development partners in Ethiopia is promoting entrepreneurship among young people as a means of creating sustainable livelihoods. Young people, and as the report by youth employment opportunity in Africa putting Ethiopia as a case study (2009), young women in particular, need financial and technical support to overcome the barriers they face in becoming entrepreneurs, such as difficulties in getting start-up financing, inadequate business skills, burdensome administrative and regulatory frameworks, and poor access to premises and infrastructure. Furthermore, a major challenge for young people is the absence of a culture of entrepreneurship, which is reflected in the low value attached to learning entrepreneurship skills in formal education and following this career path once they have left school. The situation is more pronounced for young women who suffer from cultural and societal attitudes about the role of women in business, which subsequently hampers their aspirations to become entrepreneurs.

According to the same studies, the findings from a survey of young women entrepreneurs operating in the informal economy in Ethiopia illustrate the impact of these factors. Working conditions for these young women are poor, and failure to register as a formal business entity places them at a disadvantage, which often results in confrontation with law-enforcement bodies. These young women also endure lack of toilet facilities, harassment, and unsafe and non-secure work environments. Many of the respondents had sporadic training on different aspects of entrepreneurship that had been uncoordinated and could not benefit the trainees appropriately.

While youth face enormous challenges, particularly with regard to employment and livelihoods, they nevertheless represent the opportunity of today and tomorrow—as educators and innovators, entrepreneurs and investors, health professionals and scientists, politicians and peacemakers. This makes it doubly important to invest in them now—making it possible for future generations not only to survive but also thrive, and so that countries that invest in their youth can realize the vitally important 'demographic dividend' these youth represent (USAID policy youth, 2012).

The Population Council conducted a population-based survey of young people and women in order to shape policies and programs to improve their lives. One of the main findings in the survey showed that few young people, female or male, have received skills training and, among those who have, most have not been able to put the skills to use. Reasons for this outcome were mainly inability to find a job or lack of startup capital. 38% of males and 23% of females had ever worked for pay. The type of paid work in Ethiopia is highly sex-specific. Girls are mainly engaged in domestic work and the selling of small, inexpensive items; boys mainly work as farmers or in a wide variety of other jobs, such as herding and construction. Boys earn roughly 50% more than girls, in part because girls are engaged in low-paying jobs, such as domestic work.

According to the World Bank’s Enterprise Surveys, access to finance is perceived as the main business environment constraint by micro (41%), small (36%), and medium (29%) enterprises in Ethiopia, compared to a Sub-Saharan Africa average of 24%, 20%, and 16% respectively. Even if the country over the past decade, has achieved high economic growth, averaging 10.7% per year, establishing the country among the fastest growing economies in Africa and the developing world. However, Ethiopia is falling behind its peers in the area of credit to the private sector. This becomes one of the main challenges because addressing this financing gap and investing in women-owned enterprises/entrepreneurs is one of the highest-return opportunities available in emerging markets.

4. Opportunities of youth entrepreneurs in Ethiopia

Youth development is a holistic process of positive change where youths get ready to see bright future as per the norms and values of their community (Marilyn N. Norman and Joy C. Jordan, 2012). In the last twenty years youth development has been considered as indispensable program to produce competent youth who are capable of challenging daily hassles and effectively participate in their community. To realize the vision of Ethiopia’s Growth and Transformation Plan, and the role that a growing and dynamic private sector can play in its achievement, the Ministry of Urban Development and Construction and the Federal Micro and Small Enterprises Development Agency (FeMSEDA), in partnership with the United Nations Development Program (UNDP) Ethiopia, have launched an entrepreneurship and enterprise development program that fosters the emergence of a robust and competitive private sector. The program will establish a semi-autonomous organization which will spearhead the implementation of innovative entrepreneurship skills training and provision of customized business development services to new and existing MSEs in the country UNDP, (2012).

Over the last two decades the total labor force of the country has more than doubled, making a crucial challenge for employment creation in the country. Youth unemployment in Ethiopia (15-24 years) hovers around 24%. The main reasons for youth unemployment include limited expansion of formal employment opportunities, rapid population growth, rapid rural-urban migration, inadequate school curricula and low quality education, skills miss-match with the labor market, low level of entrepreneurship and empowerment for youth and women, and finally, lack of access to finance. Micro and small enterprises (MSE) have been identified by the Ethiopian
government as important sources of employment and job creation, therefore the project main goal is to assist the Government of Ethiopia in its efforts to create employment for women and youth through the promotion of investment in the productive sectors of the economy, entrepreneurship development and women’s economic empowerment.

As a strategy with financial support of the Government of Italy through its Development Cooperation, in partnership with Ethiopian counterpart institutions, namely, Ministry Of Women Children and Youth Affairs (MOWCYA), Ministry of Industry (MoI), Ministry of Urban Development and Constructions (MoUDC), the project is primarily intended to contribute to create job opportunities for youth and women by strengthening their economic empowerment, facilitating access to entrepreneurship training schemes as well as facilitating access to the financial schemes. The project’s approach is: 1) improvement of the regulatory framework for entrepreneurship development for youth and women; 2) strengthen institutional capacities in the area of enterprise creation, development and investment promotion; 3) facilitate access to finance to MSE with special regard to youth and women.

The intervention aims to achieve results by supporting financial and non-financial institutions to develop entrepreneurial and technical skills of the target group (women and youth). UNIDO methodologies and tools for sustainable and inclusive enterprise development, financial and economic appraisal, including COMFAR software, will be used as a basis to train the intermediary and final beneficiaries. These all activities will be implemented with the expectation in its contribution to the sustainable economic development in the country through the creation, development and growth of Ethiopian MSEs, support and strengthen youth and women-led enterprise creation and expansion in Ethiopia and therefore boost country’s youth employment through private sector development and facilitate access to entrepreneurship training as well as facilitate access to the financial schemes for youth and women. It is implemented in the priority industrial sectors in the country and in the economic corridors connected to the integrated agro-industrial parks to be developed different regions.

Another investment in youth development were the implementation of Youth Development Program by the Ethiopian government and UNICEF, MOWCYA, MOFED and other partners working with the government include community based organizations, other UN agencies, small business enterprises and some NGOs from 2007-2011 for five years. The focus of the programme design highlighted gender and girls’ empowerment. Young girls were prioritized in terms of provision of training and start-up capitals. Government-owned youth centers were chosen as the institutions through which services including training would be delivered by the programme would be accessed by adolescents and young people. The evaluation conducted by Ministry of Finance and Economic Development and UNICEF in Ethiopia (2012) to assess the impact of youth development programs in all regional states showed that 257,301 youth have taken capacity building program which includes life skill training in most region the great majority (ranging from 86% to 99% across training areas) of those who participated in the training had positive views on improving their skill in assertiveness, dialogue management, decision making, and empathy across all regions and gender during the five - year period.

Entrepreneurship Development Program was another programme that was launched in collaboration with UNDP in 2013 a three years flagship programme, to accelerate the country's growth and create job opportunities through tapping into the potential of existing aspiring Ethiopian entrepreneurs and growth - oriented Medium and Small Enterprises which is developed under the framework of Ethiopia’s Growth Transformation Plan (GTP) that emphasizes the development of growth - oriented micro and small enterprises (MSEs) as an effective private sector development strategy which can contribute to the country’s bottom - up economic growth. The programme seeks to increase the competitiveness and enhance the employment creating potential of micro and small enterprises (MSEs), particularly for youth and women. In 2015 alone the programme’s intervention led to creation of 18,259 new jobs. As the Prime Minister Hailemariam Desalegn noted in its inauguration time, one of the challenges we have in this country that stands in the way of ensuring rapid industrial growth is the acute lack of social capital and particularly that of entrepreneurship skills. Therefore, the program supports business start - ups to develop their own potential and find ways to generate income and employment by themselves putting Potential entrepreneurs, particularly women and youth, the unemployed and young graduates who are interested in self-employment rural small farmers as a target beneficiary. Regarding the objective Entrepreneurship Development Centers have been opened in Addis Ababa and four regional cities, over 10,000 entrepreneurs trained, 125 people certified trainers, 4,104 beneficiaries have accessed BDS services and Innovation Investment Facility office set up in Addis Ababa. The overall achievement in this case shows the presence of rooms for trained and new comers who engaged in business to better benefited from those certified trainer from the program or other way.

According to the Ministry of Youth and Sports (2016) it has prepared new youth development and growth package that enables to boost benefits of youth across the country. The minister noted that the new youth development and growth package is prepared taking experiences from the last shortcomings and strengths of the youth political and development participation packages in the country. The new packages targeted to increase participation of youth in the development endeavors of the country. The new package initiatives are inclusive of
the youth in rural, urban, pastoralist areas and people with special needs and it is expected to step up multi-dimensional benefits of the youth segment of the society. The Minister added, the new youth package is prepared to promote active participation of youth in the development and political activities of the country. The package has also a capacity to answer questions of development and participation raised by the youth. This could be a New Year gift and potential opportunities as it was implemented to the level it planned.

5. Recommendation and policy options

Build a youth-friendly job market. Government policies that support economic growth and job creation and foster savings and investment strategies in both urban and rural areas will attract foreign investment and create an economic environment that allows young people to contribute to a potential demographic dividend.

Strong economic policies stimulate job growth. To take advantage of a shift in the age structure, Ethiopia must make strategic investments and develop policies that create jobs, particularly for youth ages 15 to 29. Identifying sectors of the economy to expand and creating an entrepreneur friendly environment will provide opportunity for young people entering the workforce. Ensuring that job opportunities are available for both highly educated young people and unskilled laborers is vital to reducing both unemployment and underemployment. Youth unemployment in Ethiopia is a recognized problem, particularly in urban areas. Among urban youth, unemployment is 29 percent and higher for women compared to men.37 Key steps for job creation include strengthening government institutions and investing in labor-intensive sectors (particularly in urban areas).

Ethiopia’s Growth and Transformation Plan includes targets for expanding micro- and small-scale enterprises and providing credit to entrepreneurs—two crucial components of reducing high rates of underemployment and unemployment. Developing incentives for entrepreneurship, such as the government subsidizing entrepreneurs to search for profitable business opportunities, may be a viable avenue for increasing the number of micro- and small-scale enterprises in Ethiopia and also improving their profits.

Support village level association to strengthen. It has been clearly understood that involvement in village level saving and loan associations has a positive contribution for a person’s chance to engage in self-employment economic activity. This type of microcredit also has an advantage of financing the business without provision of collateral. This enhances a chance for a better development for entrepreneurial activity in the study area. Therefore, policies should be designed in a way that supports this institution to reach the unbanked society.

One of the main enabling factors for organizations to engage young people would be a commitment from the top. Having the mandate for youth involvement, whether through organizational policies or through programme emphasis, pushes organizations to engage young people. The understanding among staff, on the need and importance of meaningful youth involvement, also enables them to make the extra effort required to work with young people (rather than for them). As Theory of Change says, i.e. supportive environment is achieved more easily by making young people integral to the process, not just as clients or beneficiaries.

Removing gender-based barriers and promoting competition and entrepreneurial activities with a specific focus on women is essential for the creation of vibrant businesses and enterprises that could ultimately improve the plight of impoverished women in Ethiopia.

With the considerable help of donors with extensive experience in MSE development, the basic MSE support structure in Ethiopian exists, but it is relatively new, lacks capacity and needs time to better coordinate itself, especially in the areas of entrepreneurship training and BDS. Youths have to be more effectively brought into the support infrastructure to improve their access to the benefits of services. However, in order to make a significant impact on the upgrading of youth’s enterprise activity, an integrated approach must be formulated and adopted.

Overall, interventions for young entrepreneurs must take into account their specific needs in terms of life-cycle considerations and vulnerabilities. In particular, governments need to provide social protection that reduce the vulnerabilities and promote economic empowerment of these young entrepreneurs. And treatment should consider the reality of existing entrepreneurs experience and level or stage of business.

Develop training packages for product development and enable youth entrepreneurs to participate in integrated training programmes and encourage self-learning, and facilitate international trade fair participation, support websites and trade journals development and conducting market research as required for better competitiveness in the sectors they engaged.

Governments must ensure the unleashing of youth development potentials through creating greater economic opportunities, incentives, and rewarding youth innovation and creativity in the economic sector. The involvement of the private sector in youth entrepreneurial promotion is critical in this regard as the private sector has the resources, expertise, and capacity to generate wealth and the capacity needed to create employment opportunities. Governments also need to ensure the expansion of the social and economic infrastructure necessary for coping with the rise in youth population in the country.

Awareness-raising for young entrepreneurs on examining vulnerabilities from a holistic perspective is
crucial. And national movements are enquired to make our culture conducive for the development of entrepreneurship and emergence of innovative youth.

The same attention should also be provided to the provision of working premises to privately operating young entrepreneurs similar to the cooperatives in provision of working premises and other business infrastructures to be making them more competitive and contribute more in employment, creating market for local inputs, and skill transfer. 

Human capital is also considered as one of main factor for entrepreneurship development in different studies. Hence, the education system at lower level needs to incorporate entrepreneurship courses in the curricula.

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