

# Business Challenges and Opportunities for Youth, Micro, Small and Medium Scale Entrepreneurs in Ethiopia: An Article Review

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**Abstract** These days, academic institutions, students and the whole population outnumbered compared with the last 30 years in Ethiopia. As a result, the probability of getting jobs in the government organisation has been cumbersome. Due to these reasons, youths and students are forced to start businesses in the form of unions and small enterprises. There are two bog standard factors that can challenge entrepreneurs' in Ethiopia. These are, factors related to the entrepreneurs' personal qualities and external factors. To overcome those entrepreneurial challenges, the government should design entrepreneurship education and behavioral sciences as a compulsory subject for all students at all levels in addition to balancing the political, economical, social, and cultural factors. Also, it is expected from private and governmental organizations to attract business incubators, social entrepreneurs, and foreign investors' to promote entrepreneurship in the nation. Moreover, designing free interest loans and tax system for young entrepreneurs until they will be strong and competent in the market may help them to sustain in the competition.

**Keywords** Youth, Micro, and Small business, Unemployment, Ethiopia

## 1. Introduction

As claimed by the United Nations, youths are individuals who are found aged between 15-24 (Bennell, 2007). In the world, it is estimated that there is 18% (1.2 billion) youth. From these, more than three fourth of youths are found in lower-income countries and Africa merely consists of 200 million youths. More than half of the Ethiopian population aged under 25 and 20% are found between 15 and 24 and this makes the country become number one in youth population size from Sub-Saharan African countries (Nebil, Gezahegn, and Hayat, 2010). Around 35 million people of Ethiopia workforce characterized by low skill and educational attainment levels (Ethiopian ministry of education, 2008). Almost 75% of the labour force employed in low-skill employment sectors and less than 50% of the urban population worked as wage employees. More than 40% of the population is self-employed in the informal economy sector. Moreover, the agrarian economic system and low education quality in the country, other issues such as environmental, social, and political factors aggravate the youth's unemployability in the nation.

Based on the study of ILO in the world, nearly 40% or 88

million of youths are found under the problem of having jobs in both private and government organizations and this problem also assumed to be boost by 28% in Sub-Saharan African countries and in the next fifteen years, an additional of 30 million people joining to the team of job finders (Manpower Group, 2011). In Burundi, Ethiopia, Nigeria, and Uganda, youths poverty exceeds 80%, whereas it is much lower in Ghana (Gyimah-Brempong and Kimeny, 2013). In Ethiopia, the problem of youths unemployment particularly in urban areas has been a persistent concern of politicians and policymakers since the 1960s. During 2005, youths (15-24 years old) recorded a 7.8% unemployment rate, higher than any other age group (Nebil, Gezahegn, and Hayat, 2010). As mentioned by Serneels (2004), the average duration of the unemployment full stop in urban Ethiopia was found to be more than one year. Urban unemployment, particularly youths unemployment being growing areas of concern for the Government. Such problem happens because of limited expansions of formal employment opportunities, rapid population growth, fast rural-urban migration, lack of leadership and management skills, low education quality, skill miss-match with the labour market, low level of entrepreneurship and empowerment for youth and women, and lack of finance (Tripathi, 2004; Nyanga et-al., 2012 & Mkandawire, 1984).

Also, youth unemployment is a very critical, urgent, ironic, crisis and calls scientific entrepreneurial research because the country spends huge resources on youth and youths are

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Received: Sep. 30, 2020; Accepted: Nov. 9, 2020; Published: Nov. 28, 2020

Published online at <http://journal.sapub.org/economics>

resources, and failure to use those leads to a vicious circle of poverty (Shumete, 2011). Due to the absences of youth employability in both private and governmental organisation, young people are forced to start new business ventures as a solution in the form of micro, small, and medium scale enterprises.

In many developing countries like India, Pakistan, Sri Lanka, and Brazil, the micro, small and medium enterprises (MSMEs) constitute over 90% of total enterprises and credited with generating the highest rates of employment growth and account for a major share in industrial production and exports. As an example, in India, the strength of 26 million MSMEs play a significant role in the overall industrial economy of the country. On the testimony of Taka Munyanyiwa, Kenya, in Africa, economic powerhouses such as South Africa, Egypt, Nigeria, and Kenya, the SME sector is estimated to contribute over 70 percent in employment and 30-40 Percent contribution to GDP. As per available census statistics (Pralay, 2012) in India, this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, the MSME sector in India accounts for about 45% of the manufacturing output and around 40% of the total export of the country. The government of Ethiopia has given due attention and focus on entrepreneurship development in the country because of the existence of extremely large educated but unemployed manpower in the market. Because of this reason the government designs new policy and strategy in everyday life to challenge the unemployment problem by transforming youths into micro, small and medium entrepreneurs. Moreover, the government-connected with foreign social entrepreneurs, business development centers, and NGOs both abroad and countryside. Despite these, the problems still exist in the nation. Also, Ethiopia has a vision of becoming a middle-income country by 2025 and achieving the Millennium Development Goals (MDGs), job creation has been articulated as one of the eight pillar strategies of its' MDGs-based five Year Development Plan entitled plans for Accelerated and Sustained Development to end Poverty (PASDEP).

The availability of employment opportunities in Ethiopia constitutes an essential gearbox channel from growth to poverty reduction, share, and pro- poor growth, promoting the poor generate income and economic growth and its ultimate goal is job creation (National Employment policy and strategy, 2009). So that pushing youth into micro, small and medium business is a must rather than an option. Notwithstanding entrepreneurship has a positive impact on economic growth and development, entrepreneurs are challenged to run their businesses. In Africa, entrepreneurship scholars carried out their investigation in Egypt, Zimbabwe, Kenya, Ghana, and Nigeria on factors affecting youth, micro, small, and medium-sized entrepreneurs and they found that those entrepreneurs influenced by lack of credit accesses, loans, and necessary collaterals, limited access to both local and foreign markets, weak education systems and lack of training, managerial

skills in capabilities, rigid government regulations, limited business supports, lack of graft experiences and business information and infrastructures (Maia, 2012; Akupiwa, 2013; Nwigwe, 2010 & Gedif, 2015). Likewise, youths, micro, small and medium enterprises in Ethiopia also influenced by lack of sustainable practical training providers, unpredictable markets, lack of trust amongst group entrepreneurs, destructive competitions, political unrests, urgent inflation, unfair tax systems, gap in experience, in accessibilities of inputs/resources, lack of continuous supervision by government bodies, poor entrepreneurial mindsets, corruption, community attitude and lack of infrastructures like electric power, internet, water, road and other (Yordanos, 2006). A substantial amount of studies has been done in Ethiopia on micro, wee and medium enterprises business influencing factors. But it has given less attention to examining youth and survival entrepreneurs' opportunities and challenges and how youths are promoted into micro, small, and medium businesses were not targeted as a potential area for research. Therefore, this article review aimed to fill this gap.

Overall, the purpose of this study is to investigate how youths and survival entrepreneurs changed into enterprises and how challenges and opportunities for such entrepreneurs can be managed for sustainable enterprises' existence. Specifically, the study had three aims; 1) to map out how youths changed into enterprises; 2) to highlight the challenges and opportunities of Ethiopian young, micro, small, and medium business entrepreneurs faced; 3) to develop a holistic theoretical model that can show youths, micro, small and medium business entrepreneurs failure and success factors.

## 2. Literature Review

In the context of Ethiopia, the lion share for making a job is given to the government. However, through time, the number of job seekers more than the availabilities of jobs. This causes a problem in the country for losses of using the young population for innovation, creativity, productivity, and economic development. As a rule of thumb, one of the methods to solve the unemployment problem is promoting people to start their own business in the form of youth association, micro, small, and medium scale enterprises by using entrepreneurialism as an instrument. In many developed countries, the percentage of SMEs in the total number of enterprises is around 90%, whilst 60% of the available workforce is employed in those firms (Ivan et.al, 2011).

There are quite a number of challenges affecting the world of business. In the opinion of Gebremehdn & Raju (2016), entrepreneurs influenced by personal factors fancy self-efficacy, locus of control, risk-taking capacity, and need for achievement; environmental factors for instance; information, social network, physical and institutional infrastructure, culture and lastly be demographic variables fancy leg over, age, education status, and experience.

Similarly, other entrepreneurship scholars claim that family background, individual psychology, personal values, and social environments determine entrepreneurial success (Ana et al., 2017; Indarti & Rokhima, 2008; Krueger & Brazeal, 1994). Additionally, on the report of World Bank (World Bank, 2015), small firms face greater challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans and are less likely to have external financing due to a lack of collateral and credit history. In the same fashion, challenges include unfair competition in most industries; the market becoming a global village has posed its own challenges, as well as internal challenges within a firm. Most challenges are not predictable and may catch entrepreneurs unaware (Dea, 2013; Boeker & Wiltbank, 2005).

Microfinance institutions (MFIs) predominantly provide microcredit to micro-enterprises whilst banks service medium and large enterprises. Youths, small and medium-sized enterprises in Ethiopia are currently excluded from the banking sector credit due to their size (too small to be served by banks) and inability to meet excessive collateral requirements (>200% of the loan amount) (ADA, 2017). Arasti (2011) claimed that the cause of business failure was caused by low attention to female entrepreneurs and not evaluating projects accurately and also by the loss of motivation and frustration in the workplace.

In the same way, Temtime & Pasiri (2004) proposed the issues associated with marketing such as skint research in marketing, poor customer service, lack of proper staff training, ineffective demand forecasting, and analysis leads to the failure of new startup businesses. Research by Bowen, Morara & Mureithi (2009) opined that the main challenges that businesses face include; competition from samey firms, insecurity both from crime-related causes and a tense political atmosphere, debt collection, lack of working capital mostly because financial institutions are not very accommodating as well as interruptions of power supply. Similarly, small business enterprises and entrepreneurs in South Africa challenged by lack of managerial skills, financial shortages, lack of credit, limited access to markets, technology gap, low production, lack of interest by employees, and inadequate institutional support (Ahmed & Seet (2009); Dubihlela & P J, 2014). However, a study by Robb & Fairlie (2008) disagreed with most researchers that the lack of finance is the major cause of business failure. They explained that they need for personal development by owners of new SMEs especially in business management skills would lead to such failures. Like other developing countries (India, Egypt & Zimbabwe), Ethiopia also promoted the introduction of many enterprises by youth. The other factors that promoted the introduction of many business enterprises through various economic, indigenous laws and policies encourage youths to start their own businesses other than looking for government employment (Akupiwa, 2013).

### **Theoretical model development**

Based on the theoretical and empirical literature review, businesses in Ethiopia influenced by personal social, economical and political factors both positively and negatively.

#### **Personal factors:**

- Achievement needs, attitude, interest, ability, self-efficacy, internal locus of control, risk taking capacity, individual psychology, personal values, age, sex, experience and education level etc.

#### **Social and health factors:**

- √ Access to model, information, social network, physical and institutional infrastructure and culture, parent sex, age, educational background and occupation, religion, culture, belief, dogma, business media, business consultancy services, business people and academics and attending on courses, diseases (HIV/AIDS/, COVID pandemic, malaria, TBE etc.

#### **Economical, marketing and technological factors:**

- √ Inflation and devaluation, interest rate, loan, collateral, financial institution accessibility and affordability,
- √ Unfair competition
- √ Access to market
- √ Existence of new market demand
- √ Introducing new technology
- √ Infrastructure availability (Power, internet, fax, water, road etc)

#### **Political and environmental factors:**

- √ Political unrest, corruption and related issues
- √ Government rule and regulation (tax system, policies,)
- √ Flood, famine, earthquake,

**Source: (Theoretical model, 2020) compiled by the author.**

### **2.1. The Roles of MSMEs in Ethiopia**

Most developing countries have formulated and implemented a wide variety of MSME development strategies in order to support the growth of the sector, thereby transforming economies and generating substantial employment opportunities. Likewise, the Ethiopian government has historically supported MSMEs growth, especially growth-oriented businesses through various policy interventions. For instance, the government formulated a national Micro and Small Enterprises Development and Promotion Strategy in 1997 (revised in 2011) to create an enabling environment for the sector (ADA, 2017).

Additionally, MSMEs were placed at the heart of the first industrial policy strategy in 2002. Similarly, within the framework of the government's 5 years economic development plans, including PASDEP (Plan for Accelerated and Sustainable Development to End Poverty), GTP –I and –II (Growth and transformational plan-1 & 2) the expansion and development of MSMEs has systematically been a key strategic priority.

The Ethiopian government has a five year strategic plan that identified the need for the transformation of the economy towards industrialization (Ministry of Finance and Economic Development (MoFED), 2011-2015). Given that, the country's plan on economic development and job creation emphasizes the need to create a broad-based spring board for competitive domestic private sector development and to expand MSMEs for large scale employment creation and for strengthening the rural-urban economic linkages to reduce poverty.

The development of MSMEs is a key to the country's industrial development and for the transformation of the economy albeit entrepreneurial activities are very limited in the country, and in like manner developments of micro and small enterprises are found at an infant stage in the country. With the intention of entrepreneurship development in the country, the government of Ethiopia has done so many tasks. Among those tasks, Entrepreneurship development programme (EDP) is the one. The purpose of EDP is ensuring the development of private sector manufacturing and service industries across the country by improving the competitiveness of existing MSMEs and by supporting the growth of new enterprises (Entrepreneurship development center, 2017).

The programme provide entrepreneurship development training, provision of follow-up services and facilitating access to finance to potential, unemployed youth and women entrepreneurs primarily who are found in Amhara, Oromia, Tigray, Southern Nation Nationalities and Addis Ababa city. Coupled with this, the programme built the capacity of the government by establishing Entrepreneurship Center of Excellence in Public Universities that support enterprise development and facilitating policy dialog with stakeholders with the intention to create favorable private sector development environment in the country.

## **2.2. Opportunities for Entrepreneurship Development in Ethiopia**

### **i. Ethiopian-government partnership with United Nations Development program:**

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 & Joy, 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.

### **ii. Italian Government partnership with Ethiopian institutions**

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 MSME with special regard to youth and women (Sintayehu, 2017).

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 MSMEs, 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.

### **iii. Youth Development program by Ethiopian government and other partners:**

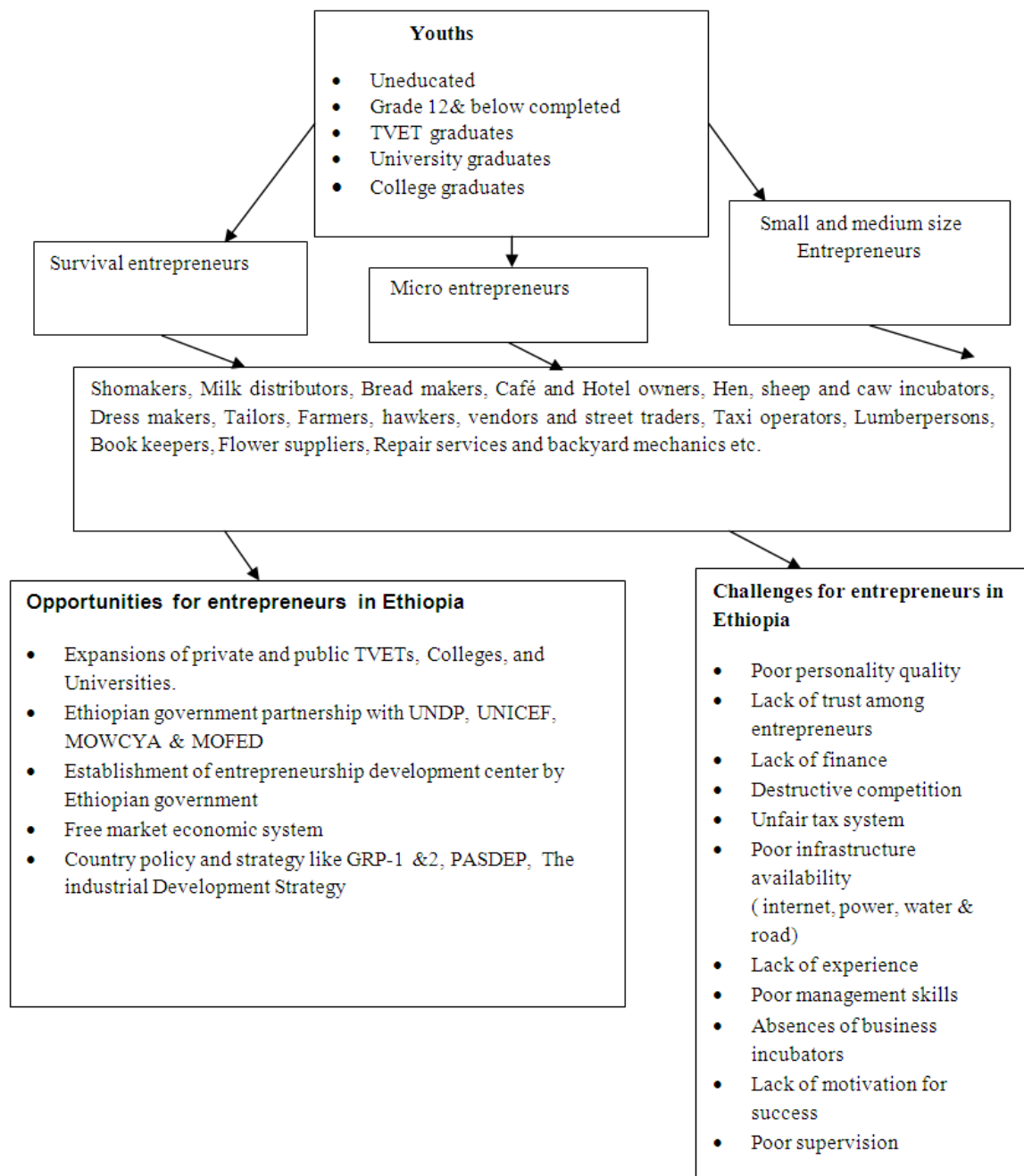
Another investment in youth development were the implementation of Youth Development Program by the Ethiopian government and UNICEF, MOWCYA, MOFED and other partners working with the government include community based organizations, other UN agencies, small business enterprises and some NGOs from 2007-2011 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 s in assertiveness, dialogue management, decision making, and empathy across all regions and gender during the five - year period.

#### iv. Entrepreneurship Development program:

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.



**Figure 1.1.** Business challenges and opportunities for youth, micro, small and medium business entrepreneurs' (Source: (Literature summary, 2020))

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. Regards to the objective of Entrepreneurship Development Centers that 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 showed 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.

As the figure above 1.1. Illustrates that youths included uneducated, grade 12 & below completed, TVET, University, and College graduates and those groups of people have the possibility to graft as a survival, micro, small, and medium-sized enterprises. Such potential entrepreneurs would be pushed by their interest or family or government pressure will join to graft as Shoemakers, Milk distributors, Bread makers, Café and Hotel owners, Hen, sheep and caw incubators, frock makers, Tailors, Farmers, Hawkers, Vendors and Street Traders, Taxi operators, Lumberpersons, Book keepers, Flower suppliers, Repair services and backyard mechanics. Those business workers influenced by poor personality quality, lack of trust amongst entrepreneurs, limited access to finance, destructive competition, unfair tax system, gap infrastructure availability (internet, power, water & road), lack of experience, poor management skills, absences of business incubators, lack of motivation for success and poor supervision. There is also positive reinforcement that helps youth entrepreneurs to do businesses such as the expansions of private and public TVETs, Colleges, and Universities, Ethiopian government partnership with UNDP, UNICEF, MOWCYA & MOFED, the establishment of entrepreneurship development centre by the Ethiopian government, free-market economic system and country policy and strategy like GRP-1 & 2, PASDEP, The industrial Development Strategy.

### 3. Methodology

This is an article review on both theoretical and empirical reviews about youths, micro and small business enterprises in Ethiopia. The review used a systematic approach because

the study has specific questions and it aimed to answer by following strict rules and standards (Liberati et al., 2009). The research design of this study was an exploratory approach. Because exploring published articles, journals, and company reports in developed and developing countries scholars' findings. Procedurally, the author selected the Google scholar database and downloads articles, journals, and reports and developed an extensive literature review for 45 days to identify challenges and opportunities of youth, micro, small and medium entrepreneurs.

The study used review terms namely; business challenges, wee business enterprises, opportunities for micro-enterprises, entrepreneurship, and wee business enterprises were used as search tools. All articles from the year 2000 onward were taken for review and analysis. After that, more than 35 English language articles were collected and reviewed from the journal of; International journal of scientific and technology research, Scientific research an academic publisher, African journal of business management, Journal of technical education and training, Journal of organizational sciences, International Journal of Humanities and social science, Journal of Technology Transfer, International journal of applied research, Journal of Management, Journal of business venture, septic tank journal of applied science, Journal of entrepreneurship theory and practice, Ethiopian Journal of Development Research, Journal of population economics and International Journal of Scientific and Engineering research. Lastly, the analysis and writing part of the review process was started.

### 4. Analysis and Results

Countries all over the world challenged youth unemployment and failures of micro, small, and medium business entrepreneurs. In most countries including Ethiopia, those entrepreneurs influenced positively and negatively by different factors when they inclined to their businesses. Largely, those factors divided into internal and external factors. Issues like personal traits and capacities considered internal factors. Whereas, factors that are found out of the control of the entrepreneurs taken as external factors such as economic, social, environmental, cultural, political, and others.

Whatever the factors are there, succeeding in the business world, needs personal commitment and dedication. Meaning primarily, it needs strong locus of control, motivation, flexibility, self-confidence, graft habit, social capital and network, human capital (Skill and knowledge), risk-taking capacity, persistence and patience, and foresighted capability. Parallel with this, having better sources of finances and capitals, technological adaptability ability, collaterals, management skills, better education levels, and business experiences accelerated the success rate of the business. Moreover, support from the government, NGOs, social entrepreneurs, and communities by the different programs could also enhance the life of business owners in the market.

In addition to the challenges for those entrepreneurs, this study pointed out that they have opportunities to do their business in Ethiopia because of the expansions of private and public TVETs, Colleges, and Universities help them to get a business education, Ethiopian government partnership with UNDP, UNICEF, MOWCYA & MOFED, the establishment of entrepreneurship development centre by the Ethiopian government, free-market economic system, country policy and strategies fancy GTP-1 & 2, PASDEP, and the industrial development strategy.

## 5. Conclusions and Recommendations

Despite the government of Ethiopia strives to support by different mechanisms, the degree of unemployment of youth and failures of micro, wee and medium business entrepreneurs increased. To succeed and overcome youth unemployability and micro, small and medium entrepreneurs' failures, stakeholders' collaboration amongst governments, NGOs, social entrepreneurs, private investors, and the community of the nation at large at state, national, continental, and international levels are mandatory. In most developing countries including Ethiopia, the major job maker and source of finance for job seekers is the government. This is an old fashion in the 21st century because of the existence of a free-market economic system, globalization, scarce resource, large youth and educated population, and intense competition.

At the individual level, it is recommended that youths, micro, wee and medium entrepreneurs should take care of their health through a balanced diet, regular exercise, rest, and kip, and they should keep away themselves from bad habits like smoking and taking alcohol drinks, which may spoil their health and reputation. Similarly, in tough economic crisis (eg., financial, COVID- pandemic), youths and small entrepreneurs must completely understand the external context of business such as the economic, collecting and scanning information, socio-cultural, technological, political-legal aspects, the opportunities and threats of their businesses. At a country level, it had better to do to enhance business incubators fancy public, Private and NGOs have been considered as a remedy for youths, micro, wee, and new firms' challenges. Business incubators provide business services, in fostering technological innovation, entrepreneurship, commercialization, and industrial renewal. For these reasons, most countries have increasingly been engaged in establishing incubators. Business incubators do not replace entrepreneurial initiatives; rather they create better conditions for entrepreneurship. However, in Ethiopia, there are no private incubators and the existing public government incubators and NGOs support youth through little finances and training. Additionally, working on the development of human (knowledge and skills) and social capital( relationship amongst families, mates, communities, agencies, media, and others to get information related with that of job availability, market skills need to enhance

employability) at the state, national, continental and global level would also mitigate the problem of youth and wee business owners. Also, governments, social entrepreneurs, Universities, Colleges, Banks, microfinance and credit giving institutions, and NGOs should provide business training, mentoring, peer networking (union and social capital building), and educational opportunities, consultancies' services, finance loans, with some or little affordable fees charges.

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