



# Constraints of youth entrepreneurs in Ethiopia

Hamed M. S. Ahmed<sup>1</sup> · Yimer Ayalew Ahmed<sup>2</sup>

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## Abstract

The youth entrepreneurship has been regarded as a tool for employment creation in Ethiopia. However, the country faces the challenge of high youth unemployment rates. Even the country is considered as one of the lowest rates of youth entrepreneurial activity and business operating in the sub-Saharan African region. The aim of this research is to investigate the major potential constraints of youth entrepreneurs in the small and micro-enterprises. In order to fulfill the objectives of the study, this research employed a descriptive research design with a quantitative research approach. The target population of the study was 5000 youth entrepreneurs between aged 18 and 29 years at the time of the research. Out of the target population, the researchers selected 370 as a sample size by using a proportional stratified sampling technique. The valid responses for analysis were 350 respondents. The survey questionnaire was used as a tool for data collection. The study used descriptive statistics and factor analysis. The results of the study indicate that unfavorable government policy, limited access to finance, limited access to market, limited access to information and infrastructure, limited access to business assistance and support, limited access to entrepreneurship training and education, lack of social support, unfavorable administrative, and weak institutional linkage were the major potential constraints of youth entrepreneurs in the study area. The study draws implications for policymakers, the Ministry of Youth Development, Chamber of Commerce and Industry, and the government to adopt multi-faceted, multi-targeted, and multitier approaches in order to facilitate and encourage youth entrepreneurship.

**Keywords** Entrepreneurship · Ethiopia · Challenges · Micro and small enterprises · Youth

## Introduction

Ethiopia is experiencing the second-largest youth bulge in Africa today. Of the 102 million people in Ethiopia, an estimated 30 million are aged 15–29 (Zeru et al., 2018). Ethiopia is one of the fastest-growing countries in sub-Saharan Africa, with an average gross domestic product (GDP) rate of 8 to 9% per year over the past decade (National Bank of Ethiopia, 2015). Despite this impressive growth, the unemployment rate has remained high-particularly among youth-and inequality has risen sharply. Unemployment, estimated at 19%, is one

of the highest in the region (International Development Research Centre, 2017).

The Ethiopian government has focused nowadays on creating many job opportunities for several citizens thereby reducing youth mobility caused by poverty, through innovative policies that will create jobs and businesses for young people in micro and small enterprises. Hence, in Ethiopia, micro and small enterprises are the sources of job opportunities for millions of people and a key tool in the process of fighting poverty. These enterprises also play a significant role in GDP growth and provide critical input to medium and large enterprises. Thus, promoting and investing in the development of micro and small enterprises, particularly for the youth, are essential to ensure economic growth and transformation of the Ethiopian economy. Nowadays, the current government of Ethiopia is making it a priority to address this problem with its 5-year Growth and Transformation Plan (GTP). One of the strategic pillars of the plan is to address youth employment, entrepreneurship development, and gender equality (MoFED, 2010). The government will provide support to youth to start small businesses and to youth-led micro and small enterprises.

✉ Hamed M. S. Ahmed  
hamedshamsaan@gmail.com

Yimer Ayalew Ahmed  
yimerayalew37@gmail.com

<sup>1</sup> Department of Management, College of Business and Economics, Werabe University, P.O. Box: 46, Worabe, Ethiopia

<sup>2</sup> Department of Management, College of Business and Economics, Wollo University, P.O. Box No. 1145, Dessie, Ethiopia

Despite its rapidly growing economy, Ethiopia is still lagging behind in exploiting this huge potential to meet its development objectives. The country does not yet exploit these fertile inputs very well to contribute a lot to economic development. Since in Ethiopia, the youth employment accounts for about 59% of the total unemployed population (CSA, 2011). Similarly, the Ethiopian Ministry of Labor and Social Affairs (2014) and the International Labour Organization (ILO) (2015) also outlined that in Ethiopia 87% of all registered job seekers were between the age groups of 15–29 years. Furthermore, the study carried out by Broussard and Tekleselassie (2012) pointed out that the youth unemployment rate was higher than the national average unemployment.

Correspondingly, Ethiopia has one of the lowest rates of entrepreneurial activity in the sub-Saharan African region (GEM, 2012). The report also shows the different possible reasons why such poor performances happen in Ethiopia. According to the report, one possible reason is the overall low level of education which could imply that many Ethiopians are simply not well equipped to become entrepreneurs.

Indeed, only 15% of Ethiopian adults are engaged in early-stage entrepreneurship, which is the percentage of people either in the process of setting up a business or involved in running a new one. Furthermore, only 10% of Ethiopians are running established businesses. Zambia, the regional leader, for instance, registers 41% of early-stage entrepreneurship. Similarly, 38% of Ghanaians run established businesses. On the other hand, Nigeria and Angola registered 38% and 32% in early-stage entrepreneurship, respectively. These indicated that Ethiopia is below regional averages in which both early-stage entrepreneurship and running established businesses (GEM, 2012).

Reducing unemployment of youth has become one of the most difficult challenges in the world (Uddin et al., 2015). Moreover, the World Employment and Social Outlook report in 2016 shows that 71 million youth are unemployed in the world. Nearly 90% of youth live in underdeveloped countries. Even so, a majority of these countries are poor and they faced with a lack of quality education, and a high unemployment rate (Schoof & Semlali, 2008).

Although the government of Ethiopia has been very active in the implementation of the micro and small enterprise development plan to focus on youth employment, but still, it is very difficult to find a detailed independent research that assesses the challenges of youth entrepreneurship in the country. Comparably, an overview of past studies works in Ethiopia documented that micro and small enterprises (MSEs) have a vital role in the economy of a country. Accordingly, the overall performance of the MSEs is related to the economic performance of the country (Ageba & Amha, 2006). Other studies in Ethiopia also have been conducted on the major

bottlenecks of women entrepreneurs in MSEs without focusing on age differences among women business owners (Mulatu & Prasad, 2018; Singh & Belwal, 2008).

However, most of the studies have not been conducted on the relationship among the potential constraints of youth entrepreneurship with respect to the different factors. Despite the fact that they have ample studies on the constraints of youth entrepreneurship in various countries, there are very few studies in the same context that have been undertaken in Ethiopia. So, the issue requires further intervention. In this context, this study seeks to generate a deep understanding of barriers and challenges young Ethiopian men and women face in the labor market, particularly when it comes to gainful self-employment.

The promotion of youth entrepreneurship is one of the possible tools of poverty alleviation and economic development through job creation of young people. However, the existing body of knowledge was not sufficient in explaining the contribution of entrepreneurship from a young entrepreneurship perspective in Ethiopia. Furthermore, it is perceived that youth entrepreneurship is context-specific. It depends on the interactions of macro and micro variables. However, entrepreneurship-specific variables seem to have got less emphasis, despite the fact that there are ample studies on the constraints of youth entrepreneurship in various countries and only very few studies in the same context have been undertaken in Ethiopia. Business challenges and its relationship with the context of less developed countries are studied in a few types of research only. As indicated in the literature review, various challenges seem to influence the performance outcome of an entrepreneurial organization, but the challenges are mostly dealt with in an isolated way. Another notable issue is that the business exit is more common during the initial years indicating a logical unit of observation to be young entrepreneurs. However, the literature review revealed that very few variables had been considered in most studies, which does not provide a holistic view of the factors of youth entrepreneurship. Furthermore, these studies that have been conducted were focusing on limited access to finance, market access, government policies, infrastructures, and technology as mentioned in the study of Mehari and Belay (2017). For that reason, this study concentrates on different constraints' factors that previous studies did not mention such as limited social support, limited access to entrepreneurship training, and education which made this study unique and different from the previous studies. Consequently, this research attempts to bridge that gap.

## Objective of the study

The main objective of the study is to investigate the major potential constraints of youth entrepreneurs in the small and micro-enterprises in Ethiopia.

## Literature review

### Theoretical framework

The significance of theory in entrepreneurship cannot be overemphasized. Similarly, the absence of properly documented and applicable theory in entrepreneurship is not acceptable (Anderson & Starnawska, 2008). Many of the present entrepreneurship theories have no common consensus and definitive thought about the phenomenon and there is an ongoing debate about the theoretical foundation of entrepreneurship (Afrin et al., 2008; Kuzilwa, 2005).

Various theories have been put ahead by researchers to explain the discipline of entrepreneurship; for example, some researchers deal with entrepreneurship from the economic viewpoints, others deal with psychological viewpoints, some others also from the viewpoints of management, and other researchers also deal with the social viewpoints (Simpheh, 2011). These indicate that entrepreneurship concepts, theories, and definitions are derived from a variety of the arena, for example, psychology, management, economics, and sociology (Bula, 2012; Simpheh, 2011). Therefore, the concept of entrepreneurship is broadly defined by a wide range of meaning and still in dispute.

The economic theory of entrepreneurship assumption indicates that an entrepreneur is an agent that takes risks for the balance of supply and demand in the economy (Iversen et al., 2008).

Sociological theory is one of the most common theories in entrepreneurship and mainly focuses on the social context of the entrepreneurs. The individual gets conditioned due to the relationship between the social environment and the individual being reciprocal (Simpheh, 2011).

The anthropological theory mainly focuses on the ancestry, evolution, traditions, and beliefs of people. This paradigm shows that in order to initiate a successful business the entrepreneurs, social and cultural context should be considered (Simpheh, 2011).

In the entrepreneurship literature, the availability of resources is the major determinants of business success. The theory of resource-based entrepreneurship argues that new business growth is determined by access to unique and valuable resources of the entrepreneurs (Alvarez & Busenitz, 2001; Barney, 2001).

The factors of entrepreneurship are multidisciplinary in nature, for example, from the perspective of economic, social, cultural, and psychological viewpoints (Audretsch et al., 2002). This indicates that entrepreneurship research is interdisciplinary in nature and reflects phenomena across multiple units of observation, such as the individual, groups, and countries.

Therefore, to address the varied nature of entrepreneurship, scholars introduce the new paradigm of entrepreneurship,

which is an eclectic theory of entrepreneurship since it used a holistic approach. Audretsch et al. (2002) have presented more analytical and representative framework into which all the above theoretical as well as practical considerations can be grasped. It is called the eclectic framework which is the basic conceptual framework for the current study.

This eclectic theory provides an integrated framework or pattern of the literature into a unifying framework (Audretsch et al., 2002). Therefore, for this study, entrepreneurship can be analyzed according to various factors such as finance-related factors, market-related factors, infrastructure-related factors, and perceived institutional factors in the case of Ethiopia.

### Review of other countries studies

Fatoki and Chindoga (2011) conducted research on the barriers of “Youth entrepreneurship in South Africa” as a target of latent entrepreneurship. The study collected data from 600 samples through simple random sampling and descriptive statistics; the principal component analysis (PCA) was used for analysis. The study found that finance, skills, and absence of assistance were critical challenges. Affum et al. (2012) in Ghana carried out a study on the “challenges of young entrepreneurs.” The study unveiled that the lack of credit access, corruption, lack of market access, lack of education and training, government regulations, work experience and business information, infrastructure, and high interest rates are the major challenges of youth entrepreneurs. Consequently, Dzisi (2014) also conducted research on the “barriers to youth enterprise creation in Ghana” using 720 young entrepreneurs. Based on the study, the researcher found that inadequate access to finance, management experience, and socio-cultural attitude were the major constraints of youth entrepreneurs.

Jakubczak (2015) also conducted research on youth entrepreneurship barriers with reference to Poland respondents. The study found that charges of administrative procedures, finance, fear of failure, lack of knowledge, inadequate supportive, complex tax system, and laws and regulations were the main constraints of youth entrepreneurship. Another study was carried out by Muruganantham and Natarajan (2015) on the barriers of entrepreneurship by using 95 numbers of respondents in India. The findings of the study indicated that the lack of adequate capital, lack of skills, inadequate support, fear of failure, and the lack of awareness were the main constraints. On the other hand, Potabatti and Boob (2015) found that entrepreneurship education and training, prior work experience, business skills, social attitude, business connection, capital, and limited access to the market were the major challenges hindering youth entrepreneurship opportunities in India.

Okirigiti and Rafey (2015) conducted research in Kenya on the challenges facing youth entrepreneurs. The study used a

descriptive research design with 98 youth entrepreneurs who operate registered businesses as a sample. Based on the study, they found that limited capital, very high bank interest rate, and lack of work premises were major challenges facing youth entrepreneurs. Similarly, Nyanga (2013) conducted research on the challenges faced by young entrepreneurs in Zimbabwe by using 20 numbers of respondents through interview. The study found that poor leadership skills, limited working capital, inadequate infrastructure, legal constraints, and the economic crisis were the major challenges of young entrepreneurs.

Chiloane-Tsoka and Botha (2015) in their study titled “Factors influencing urban youth entrepreneurship in Sub-Saharan Africa” found that access to finance and role models were the most encountered constraints of youth entrepreneurs in the region. Similarly, Naudé et al. (2008) conducted research on the determining factor of entrepreneurial start-ups in the developing countries particularly Sub-Saharan Region data from the 2003 and 2004 Global Entrepreneurship Monitor (GEM, 2012) report. Accordingly, the study also was used as a Tobit model for measuring the potential start-up rate as dependent variables, and population density, profit, unemployment, education, and economic size are considered as independent variables. Based on the study, they found that the level of education, the rate of profit, economic size, and access to finance reflected as significant factors in the study areas.

Other scholars also carried out researches on factors influencing entrepreneurship and youth of entrepreneurship in particular. For instance, Krasniqi et al. (2008) conducted research in Kosova on the “The determinants of entrepreneurship and small business growth evidence from new and established firms.” The study found that business ownership, firm size, segregation of management and ownership, the age of the business operators, and team size have positive significant outcome on the business growth, and the previous unemployment experience of the entrepreneurs has the negative significant relationship with the current business growth.

Ahmed et al. (2018) carried out a research on “Critical factors of entrepreneurial competencies for successfully managing micro and small enterprise in Ethiopia.” Total sample size was 200 by using factor analysis. The study has identified 8 key factors: strategic competencies, conceptual competence, opportunity recognition competence, personal competence, organizing competence, relationship competencies, network competence, and commitment competence. The study found that the 8 key factors have a significant effect on successfully managing micro and small enterprise in Ethiopia.

The research has been conducted by Sayed and Slimane (2014) on “An appraisal of the determinants of entrepreneurship in developing countries, particularly; Middle East, North Africa and selected gulf cooperation Council Nation.” The

variables used in the study were GDP, population growth, the rate of employment, access to the internet per capita, secondary school enrollment, internal credit for private business, depth of credit information index, cost, capital, the total tax rate, and the strength of investor protection, while the data on corruption and political stability. Furthermore, the study used multiple linear regression models to analyze the dependent variable of new business entry density against the above independent variables. The result of the study shows that all listed independent variables have a significant relationship with new business entry density in the study areas.

### Challenges of youth entrepreneurs in Ethiopia

Despite of the 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 those who are working are still poor since they do not earn enough to lift themselves and their families out of poverty. Beyond this aggregate picture, young people in particular face some of the greatest barriers to find 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.

It is one area of youth employment interventions that has attracted considerable attention from governments and development partners in Ethiopia and is promoting entrepreneurship among young people as a means of creating sustainable livelihoods. The report about young people by youth employment opportunity in Africa putting Ethiopia as a case study (2009), young women, in particular, needs 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, 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. Singh and Belwal (2008) also found that social acceptability, gender biases, family responsibilities, political instability, poor infrastructure, high production costs, poor access to market information, limited access to technology and finances, and poor linkages with support services were the major constraints impending upon women entrepreneurs.

Kidane et al. (2015) carry out a research on the relationship between micro-enterprises and socio-economic development among youth group in Addis Ababa, with emphasis on micro-enterprises targeting youth to socio-economic development in terms of poverty reduction, and the result of the survey shows that it has a big role to reduce poverty. However, the available psychosocial constraints such as fear of failure and criticism, faulty socialization, low dignity of labor, and inadequate motivation are the most serious problems that young entrepreneurs are facing. Tessema (2012) also has undertaken a research on assessing the challenges of youth entrepreneurship in micro and small-scale enterprises in the case of the North Gondar zone, Ethiopia. The survey result confirmed that poor credit access, education and training, business support, market accessibility, government regulation, and infrastructure are critical challenges for youth entrepreneurs in the North Gondar Zone.

Woldehanna et al. (2008), in their study “Business Survival and the associated Factors: Empirical evidence from youth-owned micro and small enterprises in Ethiopia,” found that gender, age, previous labor market experience, motivation, entrepreneurial education and training, initial size, legal form, size of start-up capital, industry type, and formality are the most important predictors of the MSEs’ survival in Ethiopia. In the study of Amha (2015) “Growth of Youth-owned MSEs in Ethiopia with emphasis characteristics, determinants, and challenges,” it has found that education, the form of business organization, type of sectors, experience, and gender have positive and a significant influence on the growth of the youth operators. However, access to training before starting the business, social networking, and access to the loan are statistically significant variables that negatively affect the growth rate.

## Methodology

This study is based on a descriptive study research design. Collis and Hussey (2014) suggest that descriptive research design is appropriate in research because it provides an opportunity to the researcher to explore and describes the relationship between variables in their natural setting without manipulating them, since the descriptive study is the systematic collection of data in a standardized form the representative sample. In order to fulfill the objectives of the study, this research relies on quantitative types of the research approach. The quantitative type is used to explore the status of potential constraints of youth entrepreneurship.

Then, the study identified the key critical constraints to youth entrepreneurship through factor analysis. Furthermore, the researchers used cross-sectional data which studied the relationship between variables at a point in time.

The target population of the study was 5000 youth entrepreneurs between aged 18 and 29 years at the time of the research survey and they live in South Wollo Zone, particularly, Dessie, Kombolcha, and Haik Towns, and are currently engaged in various business activities on the micro and small enterprise. As per the South Wollo Zone micro and small enterprise office and pilot study, that youths owned micro and small enterprise of different districts of South Wollo zone are operating their business in the main towns, due to the high market potential and high population in that cities. Therefore, three cities have been selected as the target population, out of the target population; the researchers selected 370 as a sample size by using the Slovin’s sample size determination formula. Using a proportional stratified sampling technique to include enterprises’ representative in each city and Kebele (i.e., is the smallest administrative unit of Ethiopia) under each city, a total of 370 enterprises were taken under the study from the above-stated towns. It aimed to give every SME in the target population an equal chance of being selected. Furthermore, the Kaiser-Meyer-Olkin (KOM) test was used to measure sampling adequacy.

Primary data was collected from the youth entrepreneurs, who were involved in micro and small enterprise in Ethiopia, South Wollo Zone, particularly, Dessie, Haik, and Kombolcha cities. This was done through the use of a structured, self-administered questionnaire aimed at capturing the various variables under the study. The questionnaire was used because of its appropriateness to gather relevant information, opinions, and attitudes from many numbers of respondents within a less period of time. The researchers used five-point Likert scale to measure the items. The number 5 on the answer code represented as strongly agree; it is the highest degree of the scale. The number 4 of the answer code outlined agree. The number 3 of the answer code simplifies neutral. The number 2 of the answer code shows the disagree. The number 1 of the answer indicated strongly disagree, and it is the lowest degree of the scale.

Furthermore, it was tested in a pilot survey. The instrument was administered by the researchers and recruited 3 (three) local collectors (enumerators). The researchers imparted half-day training to the data collectors to provide a detailed explanation of the method of data collection and procedures. The enumerators collected the necessary data with strict follow-up by the scholar. The questionnaire was derived, with some modifications, to fit the situation of the study areas from Schoof (2006), Jahangir et al. (2014), Uddin et al. (2015), and Istanbuli (2016).

The study employed the PCA and it is a multivariate technique of analysis used to transform the original large set of explanatory factors (potential constraints) into a smaller set of constraints which helps for further analyses. The primary purpose of this study was to identify the potential constraints of youth entrepreneurship. The principal component factoring

with an eigenvalue refers to the variance explained or accounted for the given potential variables. When the eigenvalue is less than 1.0, this means that the factor explains less information than a single item would have explained. However, principal axis factoring with an eigenvalue greater than one means that the factor explains more information than a single item.

To test the reliability of the questionnaire of the study, Cronbach's alpha measure of internal consistency has been used to measure the degree of credibility of the study sample answers to the questionnaire items, and the researcher gives the questionnaire to some experts to check the validity of the questionnaire.

## Results and discussions

This section demonstrates the data analysis and interpretation of the study findings. The main purpose of this study was to examine the potential constraints of youth entrepreneurship. Specifically, the data analysis and interpretation were in line with the objectives where the data interpreted and implications are drawn on them (Tables 1 and 2).

### Factor analysis for the potential constraints to youth entrepreneurship

In this study, the Kaiser-Meyer-Olkin (KOM) measure of sampling adequacy was found 0.797, which is greater than the required 0.5 for satisfactory factor analysis to proceed. Furthermore, Bartlett's test of sphericity should be significant (that is, a significant value of less than 0.05); this means that the variables are correlated highly enough to provide a reasonable basis for factor analysis. So, based on this information, Bartlett's test of sphericity was found significant  $\chi^2$  (df, 561) = 8104.028,  $p < 0.05$ . Hence, the data set complies with the requirements of the factor analysis.

### Determining the number of potential factors

Based on their respective eigenvalues as indicated in this study, nine (9) factors are derived from 34 potential

**Table 1** KMO and Bartlett's test for potential constraints of youth entrepreneurship

Kaiser-Meyer-Olkin measure of sampling adequacy.		.797
Bartlett's test of sphericity	Approx. chi-square	8104.028
	Df	561
	Sig.	.000

Source: Survey result 2018

constraints. From this, it can easily be seen that only 9 factors have eigenvalue greater than 1.0, which is a common criterion for a factor to be useful. So, these 9 factors from 34 variables have been used for analysis. Hence, all the PC together accounted for 74.078% of the variation in the data.

According to this study, the initial eigenvalues indicated that 9 factors out of 34 explained that factor 1 accounts for a variance of 26.858% of the total variance. Factor 2 accounts for 11.193% of the total variance. Factor 3 accounts for 7.371% of the total variance. Factor 4 accounts for 6.261%. Thus, factor 5, factor 6, factor 7, factor 8, and factor 9 account 5.642%, 4.795%, 4.374%, 3.993, and 3.589%, respectively, of total variance. Furthermore, this study also discusses the component loadings for the rotated factors, which is the correlation between the original, and the new variables, also called factor loadings, give an indication of the extent to which the original variables are influential in forming new variables. Therefore, each principal component is based on the factor loadings of the variables. The higher the loadings of a variable, the more influence it has in the formation of a given PC and vice versa, and hence, the loadings were used to determine which variables are influential in the formation of a given PC and to assign meaning or label for the PC. This was done by rotating the components using the orthogonal-varimax rotation method. In the varimax rotation, the main objective is to have a factor structure in which each variable loads highly on one and only one factor.

The rotated factor matrix table, which contains factor loading, is key for understanding the results of the analysis and it displays the items and factor loadings for the rotated factors, with loadings less than 0.50 omitted to improve clarity since, usually, factor loadings lower than  $|.50|$  are considered low, which is suppressed loadings less than  $|.50|$  (Sharma, 1996).

With this framework, the researcher tried to categorize the variables into nine factors and then interpret the factors as it was indicated in the table below. For example, a high collateral requirement from banks and other lending institutions, lack of adequate loan amount, high interest rate charged by financial institutions, lack of awareness of financing possibilities, and lack of seed funding are the five items that are dealing with lack of access to financing. The factor 1 is labeled as "limited access to finance." Factor 2 was also defined as "limited access to marketing" as inadequate demand for the product/services, lack of adequate input supply, inadequate operation space and selling outlet, and lack of market information had relatively high loadings for this factor, and all elements fall in marketing matters. In a similar fashion, the rest PC are labeled or named as limited access to information and infrastructure; limited access to entrepreneurship training and education; unfavorable government policy; limited access to business assistance and support; limited social support; unfavorable administrative; and high competition.

**Table 2** Rotated component loading matrix of potential constraints of youth entrepreneurship

Factor	Name of newly extracted dimensions (factors)	Variables	Factor loading
Factor 1	Limited access to finance	High collateral requirement from banks and other lending institutions	.823
		Lack of adequate loan amount	.757
		High interest rate charged by financial institutions	.754
		Lack of awareness of financing possibilities	.733
		Lack of adequacy of micro lending or seed funding institutions	.652
Factor 2	Limited access to marketing	Inadequate demand for the product/services	.866
		Lack of adequate input supply	.811
		Inadequate operation space and selling outlet	.771
		Lack of market information	.690
Factor 3	Limited access to information and infrastructure	Lack of knowledge about available business support services	.786
		Inadequate of access to physical infrastructure	.774
		Lack of market information access	.690
Factor 4	Limited access to entrepreneurship training and education	Lack of good school environments to introduce youth to the concept of entrepreneurship	.872
		Lack of linkages between educational institutions and the business community	.846
		Lack of trained/educated teachers	.841
		Inadequate curricula and study programs	.767
Factor 5	Unfavorable government policy	Lack of training	.790
		Too many and complex rules and regulations	.745
		Complex borrowing procedures	.649
		Lack facility of business connections (business contact, suppliers and network)	.647
		Lack of business contacts (networks) with others	.583
Factor 6	Limited access to business assistance and support	Lack of tailor-made business skill training for young people	.864
		Lack of counselor and adequate support agencies.	.817
		Inadequate business support services for youth entrepreneurs	.672
		Lack of exchange of experiences, ideas, forums, and meeting between young entrepreneurs	.601
Factor 7	Limited social support	Youth entrepreneur’s product/service is not accepted by society	<b>.826</b>
		Gender inequalities	.791
		Age discrimination by suppliers or customers	.688
Factor 8	Unfavorable administrative	Excessive administrative and bureaucratic burdens	<b>.884</b>
		Inefficient and discretionary tax subsidies for youth entrepreneurs	.850
Factor 9	Weak institutional linkage	High Stiff competition	<b>.832</b>
		Weak linkage between MSE’s and Government institutions	.577
		Complexity in business registration and licensing	.501

Source: Survey result 2018

A coefficient with a large absolute value in factor loading indicates that the potential constraints of youth entrepreneurship factor were identified in the study. It is apparent from the table above that the statements unfavorable administrative constraints with factor loadings (0.884), limited access to entrepreneurship training and education with factor loading (0.872), limited access to marketing constraints with factor loadings (0.866), limited access to business assistance and support constraints with factor loading (0.864), weak

institutional linkage constraints with factor loading (0.832), limited social support constraints with factor loading (0.826), limited access to finance with factor loading(0.823), unfavorable government policy constraints with factor loading (0.790), and limited access to information and infrastructure constraints with factor loading (0.786) are the statements with highest factor loading under the dimensions, respectively. Hence, these are the identified dimensions (factor) of the potential constraints of youth entrepreneurs in the study area.

## The relative importance of the potential constraints of youth entrepreneurship

The following section presents the potential constraints of youth entrepreneurship in Ethiopia. The table below shows the degree of importance of each item of the potential constraints. To describe this degree, the mean score and standard deviation of each potential constraint were used.

As it is portrayed in Table 3, the analysis of the most serious potential constraints of youth entrepreneurship in Ethiopia is based on central tendency statistics of mean and standard deviation.

As we have seen the average value and standard deviation of the overall potential constraints of youth entrepreneurship, the researchers generalized that all the potential constraints of youth entrepreneurship in the study areas were the major potential constraints of youth entrepreneurship since the mean value is greater than of the scale mean. However, this study examined which potential constraints of youth entrepreneurship were the most difficult to compare with each other.

As per the table, comparing different potential constraints of youth entrepreneurship was based on the mean and standard deviation. The researchers ranked the most critical constraints of youth entrepreneurship by demonstrating their mean and standard deviation. Among the potential constraints of youth entrepreneurship, unfavorable government policy has got the highest mean score. This potential constraint, with a mean of 18.34 and a standard deviation of 4.750, was rated as the most important critical constraint of youth entrepreneurship in the context of Ethiopia. Furthermore, limited access to finance was the second most important critical constraint of youth entrepreneurship in the context of Ethiopia with a mean of 17.67 and a standard deviation of 5.294.

Accordingly, limited access to business assistance and support in the study also found the third most important critical constraints of youth entrepreneurship in the context of Ethiopia with a mean and standard deviation of 15.14 and 3.432, respectively. Next to limited access to business assistance and support, limited access to marketing have the most

elevated mean followed by limited access to entrepreneurship training and education, limited access to information and infrastructure, high competition, and limited social support which were the most important critical constraints of youth entrepreneurship in the context of Ethiopia, respectively. Furthermore, as the study result confirmed, an unfavorable administrative burden was identified as the least important critical constraint of youth entrepreneurship in Ethiopia.

## Conclusions and recommendation

The entrepreneurship issue in Ethiopia is important for the survival of its population. Ethiopia cannot survive indigenously without developing it in the true sense. The contribution of youth entrepreneurs is equally important in this drive and their marginalization could close the doors of development. The study aim is to identify the potential constraints that hinder young people from running a business in Ethiopia. The results of the study found that unfavorable government policy is the most important challenge in the study areas. Limited access to finance was the second most important critical constraint of youth entrepreneurship in the context of Ethiopia.

Furthermore, youth entrepreneurs who are engaged in the various sectors of micro and small enterprises face multifaceted problems of varying degrees of severity. As micro and small enterprises are heterogeneous in many respects, strategies that are appropriate to the challenges of each sector should be designed.

Giving considerable priority to the development and implementation of policies, along the lines advocated here, the government can have a major impact on engaging the youth for their own positive personal development as well as for the country as a whole.

Although youth are accepted to take on entrepreneurial activities, wholehearted support from family, society, and government is still necessary for many terms. Building an environment of work culture, awareness, and trust is necessary to make progress in this regard. Equally important is the

**Table 3** Average ratings of the potential constraints of youth entrepreneurship

Potential constraints	N	Mean	Std. deviation	Rank
Limited access to finance	350	17.67	5.294	2nd
Limited access to marketing	350	14.35	4.030	4th
Limited access to information and infrastructure	350	11.60	3.051	6th
Limited access to entrepreneurship training and education	350	14.05	4.426	5th
Unfavorable government policy	350	18.34	4.750	1st
Limited access to business assistance and support	350	15.14	3.432	3rd
Limited social support	350	10.45	2.861	8th
Unfavorable administrative burden	350	7.50	2.148	9th
High competition	350	11.33	2.730	7th

Source: Survey result 2018



coordination among the entrepreneurs and the assistance of supporters. In particular, 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 an opportunity for young people entering the workforce.

**Abbreviations** PCA, principal component analysis; GDP, gross domestic product; ILO, International Labour Organization; GEM, Global Entrepreneurship Monitor

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**Author contribution** The authors contribute their efforts for all research processes of the study.

**Availability of data and material** The datasets used and analyzed during the current study are available from the corresponding author and you can get any time on your request.

## Declarations

**Competing interests** The authors declare no competing interest.

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