The Role of Mentorship in Startup Incubation and Entrepreneurship Development in Ethiopia

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# Chapter 1: Introduction

## **Social Issue**

As part of its Growth and Transformation Plan, the government of Ethiopia has implemented a Micro and Small Enterprise (MSE) Development Strategy, which emphasizes expanding youth employment in urban areas. MSEs “create jobs at a low cost and assist society’s progress toward wealth and growth” (Ferejo et al., 2022, p. 1). To this end, the government has been providing support services to MSE operators in five major areas: (a) production and marketing space; (b) skill and business development services; (c) technology support; (d) market development and linkage; and (e) financial access. In a nation such as Ethiopia, with 80% of the country being rural and 70% of its population under the age of 30, the competition for employment forces individuals into self-employment to make a living, creating necessity-driven entrepreneurship (International Trade Administration, 2022). Therefore entrepreneurship knowledge, mentorship, and coaching are critical success factors for youth seeking to change their destiny through their business ideas and hard work.

There are several barriers to the success of young entrepreneurs in Ethiopia (Ahmed & Ahmed, 2021). Lack of financing, mentorship opportunities, a low understanding of service and product identification, and a shortage of seasoned advisors providing business counseling are a few barriers. Under such an environment, many young entrepreneurs spend much of their precious time and resources in the process of trial and error to develop their products. In many instances, these efforts end up in failure. These factors force many to seek a dangerous avenue for change, including illegally migrating out of the country and exposing their lives to unnecessary risks. The role of the Church is significant. Focusing on the Ethiopia church, there is no focus, knowledge, or will to provide young entrepreneurs with the necessary skills they need to embark on business. The result is that an impoverished church ends up serving an impoverished congregation, which is contrary to the will of God for His people. Creating communities that can sustain their youth with adequate job opportunities should be seen as a necessary mandate of the Church.

## **Background**

### ***How the Problem Arose***

Ethiopia has enjoyed a rich tradition of Christianity that dates back 2000 years to the Ethiopian Eunuch in Acts 8 (Esler, 2019). Ethiopia is also mentioned in Genesis and the Psalms and has been mentioned 37 times in the King James Version. Comparatively, the Evangelical Church Community is very young in its arrival in Ethiopia and, as a faith community, has had only relative freedom to expand and grow in the last 30 years. During the Communist regime that lasted from 1974 to 1991, the Evangelical Church Community experienced persecution and was an underground operation. Therefore the growth and development of the Evangelical Church have been influenced by a lack of centralization leading to restraining factors. Until a few decades, it was considered taboo to be a member of any Christian Organization other than the Ethiopian Orthodox Church. Under such circumstances, the Evangelical Church was focused on preaching the Gospel and getting people to Heaven but not on how to survive and thrive on Earth by living and doing business according to Kingdom Principles. The lack of entrepreneurial focus within the Evangelical Church can also be attributed to the lack of established business people that come to the Church. Also, currently 70% of the population of the country is under 30 years of age, and so lacks the expertise and vision to have a structure within the Church that can promote entrepreneurship training (Kidane et al., 2015).

### ***Contributing Factors***

# Since 1974, Ethiopia was involved in a protracted civil war between the government and rebel forces while governed by a regime that espoused communism as its guiding principle. Rural and urban land reforms and the nationalization of major industrial, commercial, banking, and plantation enterprises destroyed the feudal-based monarchy's social, economic and political structure (Abbink, 2015). Private ownership of land was abolished, and many business leaders who would have been the engine for sustained business development had their factories and properties confiscated. The next seventeen years in the nation's history were one of tragedy, with many young and educated persons being imprisoned, tortured, and killed for their political views. Concurrently, several ethnic-based political factions started armed liberation groups which demanded a response from the government. All available resources were mobilized into armed conflict on multiple fronts. This phase of Ethiopia's history concluded with the victory of rebel forces and the dismantling of the communist regime in 1991. After the war in 1991, the nation's political climate was not conducive to independent business growth as it was figuring out the political ideology it would follow and was recovering from the effects of a prolonged civil war. The county also had to adjust to the cessation of Eritrea, one of its regions and the only access to sea port, when Eritreans conducted a referendum and chose to become an independent nation. Such an environment created an atmosphere of uncertainty and virtually stalled the emergence of new businesses and entrepreneurial activities (Abbink 2015).

# The nation's population dynamics is another contributing factor to slow or delayed entrepreneurial development. The nation currently has 70% of its citizens under 30 years old, and this means there is a lack of business and life experience to encourage business development and entrepreneurship on a large scale. On the converse side, a nation with such a young population is the potential for accelerated growth if the right corrective governmental policies are refined and implemented. A monastic view of money is another contributing factor. Wealth acquisition and the pursuit of money were viewed by Orthodox Church and its followers as evil endeavors. Instead of viewing the love of money as the root of evil, money itself was considered as a root of evil.

# Thesis

# In less developed nations such as Ethiopia, many factors discourage young and aspiring entrepreneurs from attempting to change their dreams into reality.  The lack of resources and stiff competition create many barriers to young entrepreneurs' success (Amha, 2015).    Based on 15 years of field experience, this thesis argues that church leadership well-informed about the principles of entrepreneurship should be the first resource in developing the God-given dream of young entrepreneurs. By creating an institutional framework for matching these God-given dreams and visions with local problems, the Church will emerge as a beacon of hope and light in the world.  A young generation with skills in foundational business model development structures and a supportive institutional framework that acts as a bridge between available resources and business ideas is essential for solving the problems of under-development and poverty. Such an institutional framework needs to be based on Christian principles using Biblical mentorship examples and engaging church leaders as the first contact persons and resource for young entrepreneurs. If the Church wants social transformation and brings about sustainable change in the community holistically, the Church should be invested in supporting start-up entrepreneurs, in mentorship, provision of seed funding, accessing systems of the world, and implementing a sustainable church model (Okwueze & Ononogbu, 2010). This research outlines a model for combining Social Entrepreneurship with Leadership Excellence within a Christian context to bring about the much-needed Social Transformation that will solve the problem of a nation such as Ethiopia.

# Chapter 2: Literature Review

This literature review addresses the themes of barriers to young entrepreneurs, the role of culture on entrepreneurship, conflict and entrepreneurship, the role of mentorship in developing successful entrepreneurs, and funding and entrepreneurship. Sources were found using Google Scholar, Proquest, and local libraries.

### **Barriers to Young Entrepreneurs**

### Despite its rapidly growing economy, Ethiopia is still lagging behind in exploiting a vast potential to meet its development objectives. The country does not yet exploit these fertile inputs very well to contribute much to economic development. In Ethiopia, youth employment accounts for about 59% of the 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. A study 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 entrepreneurial activity rates in the sub-Saharan African region (GEM, 2012). One possible reason is the overall low level of education which could imply that many Ethiopians are not equipped to become entrepreneurs. Only 15% of Ethiopian adults are engaged in early-stage entrepreneurship, the percentage of people either setting up a business or running a new one.

Furthermore, only 10% of Ethiopians are running established businesses. For instance, Zambia, the regional leader, 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). Although there are ample studies on the constraints of youth entrepreneurship in various countries, very few studies in the same context have been undertaken in Ethiopia.

The most critical barrier to young entrepreneurs is access to finance. In a nation such as Ethiopia, where the ratio of those who earn an income to those who depend on others for sustenance is high, there is never enough free cash flow to encourage entrepreneurship. In 2020, Ethiopia's total dependency ratio (0-14 and 65+ per 15-64) was 76.8**.** The dependency ratio measures the number of dependents aged zero to 14 and over 65, compared with the total population aged 15 to 64 (Mehari & Belay, 2017). This demographic indicator gives insight into the number of people of non-working age compared to the number of working age. The majority of funds entrepreneurs receive inside the country come from bootstrapping first, then from startup business model competitions and friends and family. The public sector does not place entrepreneurship high on the agenda, as the government has shift its priorities to military consumption, fighting internal displacement, food shortage, and public wages.

The knowledge gap about what products and services would translate into a successful business venture is also a major barrier for young entrepreneurs. Developing an idea from the idea stage into a fully developed service requires in-depth training. In addition, the successful entrepreneur needs effective methods of branding, communication, marketing, sales, financial planning, and distribution channels. In an environment where few mentorship and training facilities are present, young entrepreneurs often start their venture without being equipped with the proper knowledge base and face failure and disappointment. A highly competitive and poor economy discourages knowledge and experience sharing as well.

In many developing nations, market access also poses a significant barrier. Most of these economies rely on imports for consumer goods, and only a few individuals have the connection and financial ability to import items from abroad (Amha, 2015). The lack of production plants and high taxation on raw materials discourage the replacement of imports with locally produced materials. This reliance on imports creates a roadblock to entrepreneurship because the production and sales of locally produced materials is an area in which many entrepreneurs would flourish if given a chance.

### **The Roles of Culture in Entrepreneurship**

Time has become one of the most valuable assets. With limited amounts available, the goal is to find effective ways to manage that time. Although good time management is essential for everyone, it is crucial for entrepreneurs. Entrepreneurs must prioritize time management, and that is because entrepreneurs have to own every part of their business. An entrepreneur must understand which tasks should come first, how much time to allocate to each task, and how and what to delegate to others in the business to move it forward efficiently. In developing nations, where high unemployment exists, young entrepreneurs do not have the opportunity to develop time management skills within an organizational framework. With poor time management, even the best ideas cannot be implemented and translated into successful ventures. The issue of poor time management, however, is not an issue from the side of young entrepreneurs but also governmental organizations and service providers. Several studies in different sectors in Ethiopia have shown that there was poor time management when translating project goals and objectives into action items and setting priorities and realistic action plans (Ahmed & Ahmed, 2012). The findings of these studies apply to the general population because the study participants are members of the larger society.

Political Culture is another factor affecting entrepreneurship. Many African nations have not had a stable political journey since the end of the colonial period. Tribal and ethnic allegiance makes the democratic process challenging and has led to a culture where political change is almost always attained through violence and armed struggle (Szeftel, 2019). Such a political culture makes it virtually impossible to have coherent and time-tested economic and business policies. When a change in leadership happens, there is a tendency to scrap all policies of the previous system and start from scratch. Such an approach reduces the availability of robust entrepreneurship policies and frameworks. Periods of political and governmental transition also create a business environment with little accountability. When forced to undergo regime change on a frequent basis, the legal and justice systems lose the ability to enforce accountability in the business community. Most governments in developing nations are dictatorial and repressive and rely on force to ensure their existence. The approval rating of such governments is very low, and businesses and governments work in an atmosphere of distrust. This culture leads to a taxation system that is overly complicated and operates under the assumption that all businesses are out to cheat the government of its fair share of taxes. Therefore an atmosphere of political distrust is a crucial cultural barrier to successful entrepreneurship.

### **Culture in Pursuing Vision and Dreams**

Entrepreneurship among youth is a direct result of youth being encouraged to pursue their vision and dreams. However, countries with low unemployment and high poverty tend to trivialize young people's dreams and visions and instead only encourage traditional education paths that lead to careers such as medicine, law, or engineering (Sriram & Mersha, 2010). Business risk is discouraged, and the stigma and shame of failing at an innovative business idea often discourage young entrepreneurs from pursuing their vision and dreams.

### **Conflict and Entrepreneurship**

In Ethiopia, the impact of conflict on entrepreneurship is a very pressing and timely issue, as we have seen uninterrupted conflict for the past three years since 2019. In an atmosphere of prolonged conflict, business confidence comes to a standstill as each report from the war front creates uncertainty and discourages investment risk. Much-needed foreign currency that drives the manufacturing sector gets diverted to war efforts, and entrepreneurship efforts get little to no focus. Internal displacement and interruptions in transportation services disrupt the development of a business that carries across regional and state boundaries and weakens the social fabric of the society. In cases like Ethiopia, where the conflicts are drawn across ethnic lines, the business transactions of the nation also emulate the division across ethnic allegiances, thus reducing the market share from a national one to an ethnic identity-based business transaction. According to Bru¨ck et al., (2010):

Very few studies in the existing literature deal explicitly with the impact of conflict on entrepreneurship, and fewer still concerning the impact of entrepreneurship on conflict. In a recent survey of the entrepreneurship, conflict, and development literature, Naude' (2007, 2008, 2009) points out (1) that violent conflict has a devastating effect on economic activity, (2) that entrepreneurial activity is often tenacious during violent conflict, but has to adjust into (3) ways that are not necessarily good for economic development. The remainder of this section will focus on these findings, based primarily on the discussion in Naude (2007, 2008, 2009) and Bru¨ck, Naude', and Vothknecht (2010). First, although entrepreneurs per se have not been the focus of violent conflict studies until now, the impacts of war and civil conflict on broader macroeconomic outcomes have been studied in detail. Most estimates suggest that the impacts of civil war, especially the indirect impacts, are substantial and tend to last long (Chen, Loayza, and Reynal-Querol 2007). Most notable impacts includes the direct costs of destruction of infrastructure, diverted (military) expenditure, and the much higher indirect costs of disruption of markets and increases in risk and uncertainty. Milanovic (2005) estimates that the poorest countries have lost almost 40 percent of their gross domestic product (GDP) compared to the global average, and Collier (1999) finds that civil conflict depresses growth rates by about 2.2 percent per annum on average.

According to Lopez and Wodon (2005), Rwanda's GDP could have been 25 percent higher in 2001 if it had avoided the genocide of 1994. Civil conflict also reduces growth in neighboring countries (Murdoch and Sandler, 2002). For entrepreneurs, the obvious implications are smaller markets, fewer profitable investments and arbitrage opportunities, more uncertainty, and higher transaction costs. As a result, one might expect, a priori, that this would reduce the supply of entrepreneurship. However, what has been found, for instance, in data gathered by the International Labor Organization (ILO) and Global Entrepreneurship Monitor (GEM) is that entrepreneurship, as measured through self-employment rates of new firm start-ups, often increases during the conflict. One explanation is that conflict reduces opportunities for wage employment and that self-employment reflects the absence of adequate labor market opportunities. As such, it is a necessity or survivalist response. Another is that conflict may result in more opportunities. This may be due to some entrepreneurs exploiting the conflict itself—an explanation discussed in more detail in the following. It may also be due to the fact that some entrepreneurs who are not directly affected by the conflict, for instance because they are located elsewhere in the country, benefit from increased local demand due to increased migration or international aid. (p. 7).

An ideal environment for entrepreneurial development is based on the principle of mentorship. Good mentorship will provide necessary market linkage, address knowledge gaps, and make best practices available to young aspiring entrepreneurs. A well-established mentorship network is critical in making recommendations to financial institutions on potential business ideas that can achieve success. Through mentorship, young aspiring entrepreneurs learn the required emotional intelligence and business ethics to survive in a competitive market and translate their purpose and vision into sustainable business practices.

## **Gaps in Research**

The Bible encourages Christians to work hard and not be slothful in their businesses. Thus, there is the need to be diligent and conscientious in one's chosen field of endeavor (Prov. 10: 4; 22: 29; Rom. 12: 11; I Thess. 4: 11). Therefore, the Church must take a leadership role in modeling a holistic pattern of entrepreneurial skills acquisition because the socio-economic challenges facing the youth and the nation are growing. As the Church educates and equips young people to enter entrepreneurship, enterprises will also create linkages between young entrepreneurs and other economic actors. In addition, youth entrepreneurship promotes innovation and resilience by encouraging people to find new solutions, ideas, and ways of doing things through experience-based learning. Another factor is that youth entrepreneurs tend to be responsive to new economic opportunities and trends because it is increasingly accepted that they can present alternatives to work organization, the transfer of technology, and a new perspective to the market economy.

In view of these factors, the Church is committed to modeling grace by sharing its vital gifts and experiences with the youth to share the gift of good management and administration coupled with the efficiency of operation, space utilization, relationship, money, and effective decision-making. These are salient virtues learned and practiced to support the work of the Kingdom of God as expressed first in the local Church and the many causes of Christ in the world. They are, therefore, rich gifts that the Church communicates to society as the body of Christ and a faithful witness in the world. Thus, to achieve this target, there are some obstacles that the Church will have to contend with. These include motivation, a lack of finances, basic management skills, infrastructure, relevant information, mentoring and coaching, and government policies.

Most youths are not motivated to start and manage businesses because of the harsh environment that affects business growth. Regarding a lack of finances, even when there is some motivation, young people are often frustrated by the lack of funds or inability to access start-up capital or seed grants. Also, most youths do not have even the most basic skills to manage small businesses (Tessema, 2012). A good number of young graduates desire to own and manage their businesses, but in some cases, the choice of business is usually different from their area of academic specialization. Hence, since the skills for being a successful entrepreneur differ, they need to learn more techniques for managing a business in other to achieve set goals. (d)Infrastructur**e** – the infrastructure directly or indirectly affecting business success is not adequately provided. Such amenities include electricity supply, good roads, potable water, and adequate transportation. (e) Information– vital information about the availability of raw materials requires technology. This includes effective business management, access to capital and other capacity building initiatives. (f) Mentoring/Coaching – recent studies have revealed the importance of having someone more experienced than one, to look up to, in whatever endeavor one is involved in. The outcome of mentoring and coaching programs has been tremendous because it provides the protégée with the opportunity to share one's problems and challenges with a more experienced person who can guide and offer necessary assistance when needed. (g) Government Policies – for a budding enterprise to blossom it needs the required conducive business environment to grow. Government is expected to create this type of environment by consciously formulating and implementing policies that will make it possible and this cannot be overemphasized.

# Chapter 3: Christian Worldview Analysis

## **Christian Worldview Analysis**

The Christian worldview analysis of creation describes how a sovereign and absolute God create humanity for the sole purpose of worshipping Him and being His representative on Earth. The fall of Adam in his disobedience is responsible for the current state of humanity with all its brokenness, and it is only through the redemptive work of Christ on the Cross that Humanity can be restored to its proper full place of dominion and rule on Earth. The idea presented in this paper also deals with the issues of redemption and restoration. Despite living in the richest continent in terms of raw materials, weather, and land resources, youth in Africa still live in a state of lack and poverty. Through the gateway of entrepreneurship and coaching, the Church can help restore and redeem the lost dreams of Ethiopia's youth and practically demonstrate what a redeemed and restored humanity should look like and how it ought to operate in victory and success.

# Chapter 4: Conclusion and Interpretation

## **Conclusion and Interpretation**

A nation constantly struggling with forces of poverty, mismanagement and war creates an atmosphere of undue competition for resources and to get ahead. This struggle for survival also affects the Church and instead of being a voice for righteousness and justice the Church gets trapped in political and ethnic factions. A systematic approach of creating an entrepreneurial spirit in the Church will empower both the Church and its constituency and through the creation of wealth the Church can combat factionalism and ethnic groupings. In addition, many Christians go to Church to win the battle against poverty and has made them vulnerable to the many false prophets that prophesy prosperity and breakthrough. The message of love and tolerance in the original Gospel has been distorted into a money making scheme through reliance on prophetic utterances that might or might not be truly from God. Building systems of wealth creation based on innovation and hard work will reduce the reliance of young Christians on prophecy for their breakthrough. In taking an active role in entrepreneurship, the Church will get the opportunity to teach biblical principles of financial management and research based business risk taking along with social responsibility that will ultimately transform the society they live in. The curriculum developed in training young entrepreneurs will also be an asset for the nation as a whole, and could even be useful to neighboring nations as well.

# Chapter 5: Recommendations and Suggestions for Future Research

## **Recommendations**

There are a few examples of churches taking an active role in encouraging young entrepreneurs. These few instances should be taken as case studies and followed by professionals in the business and finance world for their effectiveness and pitfalls. The failure of these few initiatives would discourage other similar efforts from being undertaken. Church leadership should also be encouraged to consider investing in youth entrepreneurial efforts as a priority. The usual investment of churches in buildings and land only benefits a few members of the Church. Investing in lives has to be encouraged as a lucrative venture that will also transform society simultaneously. As the Church works hard to support the youth through these and other challenges, it should inclucate and give the following virtues and support to these young entrepreneurs include

***Vision***

Vision it guides the potential entrepreneur and makes him aspire towards greatness. Having a vision is like having a road map – a morale booster. It also provides an avenue for honest self-assessment. Youth should have both personal and national visions that can guide them on their way to the top.

***Finance***

There is no doubt that capital is one of the crucial factors that affect business. The Church should network with the government and the organized private sector (OPS) to make funds available to budding and existing entrepreneurs. Accessing support from the OPS as a form of Corporate Social Responsibility (CSR) will go a long way in helping young people achieve more rather than being idle. However, without these forms of support, the youth can explore alternative sources of funds like loans from friends and family, amongst others. If a business idea is well communicated and people can explicitly see the value derivable from it, those sources would likely assist.

***Failure***

Failing in a particular venture or endeavor does not infer that the person is an all-around failure. Failure is part of growth, and young people should see it positively. It is not a crime to fail in an endeavor, but many people fail to learn vital lessons from past mistakes.

***Growing Slowly and Steadily***

Some young people are so eager to make millions in the first few years of venturing into a business that they lose focus before reaping the dividends from their labor. This should not be so. In most cases, the few years of starting a business need to be used to create the suitable systems and consolidate whatever one has achieved. It is imperative to know that success is gradual, and young people should be willing and equipped to give it all it takes to reach the apex. ***Getting Requisite Business Management Skills***

There is more to handling or managing a business than just personal interest or suggestions from people. Thus, any viable business management techniques should be adaptable in the real business world, and young people who want to start businesses should be aware of what a business plan is and its importance to success.

***Partnership***

Studies have shown that most entrepreneurs (including youth) feel more comfortable working alone as sole proprietors. This may not be helpful in all cases because people can pull resources together to form a network or alliance that can achieve more than if they were operating as single entities or entrepreneurs. More importantly, as a social advocate, the Church should impress on the government of the day to adopt a holistic approach to solving social problems. This is because young entrepreneurs can be fully utilized to cause a turn-around in the economy. Hence, since it is the primary responsibility of the government to provide social infrastructures, the unavailability or inadequacy of these basic needs will hamper any effort to achieve the desired result.

## **Suggestions for Future Research**

A needs assessment of church leadership on the road blocks to supporting youth entrepreneurship is a top priority for future research. The leadership needs to do deep soul searching to investigate why there has been no effort to help youth become business owners in Ethiopia while the practice has gained traction in other similar nations. Research is also need for the legal ramifications and outcomes for such initiatives since there is no precedence for churches being involved in business related training. The effectiveness of churches in using their social network capital to create economic transformation also needs to be assessed by independent researchers who can give a critical eye to the issue. Another issue that requires future investigation is the impact that such entrepreneurial efforts by the Church in its relationship with social and governmental sectors. Research in the willingness and availability of business mentors is also required to understand the mentorship landscape within the Church.

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