



Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
(Development Management Stream)

Challenges and Prospects of Informal Sector in Alleviating Urban Poverty in Yeka Sub-City of Addis Ababa City Administration, Ethiopia.

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June, 2015
Addis Ababa, Ethiopia

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Masters of Art in Public Management and Policy to the Department of Public Administration and Development Management, College of Business and Economics.

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This is to certify that the thesis prepared by Elias Zewdie Hailemariam entitled, Challenges and Prospects of Informal Sector in alleviating Urban Poverty in Yeka Sub-City of Addis Ababa City Administration, which is submitted in partial fulfillment of the requirements for the degree of Master in Public Management and Policy (MPMP), complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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LIST OF ABBREVIATIONS

AAU	Addis Ababa University
ADLI	Agriculture Development-Led Industrialization
CSA	Central Statistical Agency
EC	Ethiopian Calendar
GDP	Gross Domestic Product
GNI	Gross National Income
GTP	Growth Transformation Plan
HICE	Household Income, Consumption and Expenditure survey
IDPP	Integrated Development Plan Program
ILO	International Labor organization
IS	Informal Sector
MDG	Millennium Development Goals
MFI	Microfinance institution
MoFED	Ministry of Finance and Economic Development
MoLSA	Ministry of Labor and Social Affairs
MSE	Micro and Small Enterprises
NGO	Non-Governmental Organization
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
SDPRP	Sustainable Development and Poverty Reduction Program
SSA	Sub-Saharan Africa
TVET	Vocational Education and Training Center Agency
UIS	Urban Informal Sector
UN	United Nation
UNDP	United Nations Development Program
WIEGO	Women in Informal Employment: Globalizing and Organizing

ABSTRACT

This study focuses on the role of the informal sector in alleviating poverty in Yeka sub city, Addis Ababa, Ethiopia. The objectives of this research were exploring general context in which the informal sector operates, assessing the living and working conditions of informal sector operators, exploring the contribution of the informal sector to reducing poverty, identifying coping mechanism of poverty in the urban informal sector and forwarding recommendation.

A descriptive survey design was used and a purposive sample of two respondent groups, namely government officials and the informal sector participants themselves was drawn, and personal interviews conducted and questionnaires were filled. The purpose of the interviews of the first respondent group was to discover their perception of the informal sector in Addis Ababa City in general, and in Yeka sub city in particular. This perception was vital for it was clear that this group influenced government policies much more than the general public. The informal sector participants themselves filled a questionnaire to learn how the informal sector operated, its scope and benefits, how successful it was in alleviating poverty in Yeka sub city.

The results show that there were mixed feelings among the people in each of the two respondent groups. Although many of the government officials were positive, mainly because the government's policy of free enterprise and promote the formalization of the informal sector publicly, they still believe there is a need to control the sector's operations. More than 83 percent of the informal sector participants are making a comfortable livelihood through their activities despite some difficulties. The lack of employment in the formal sector and the desire to survive were found to be the two pressing problems that enhance the growth of the informal sector in Yeka sub city. The participants could further expand their informal business activities if access to credit facilities and working space were made available. However, further research is required into the size and contribution of this sector to poverty alleviation and economic growth.

Keywords: Informal Sector, poverty alleviation

CHAPTER ONE

I. INTRODUCTION

I.1. Background of the Study

Economic activity in countries simply cannot be understood without recognizing that a great share of income, output and employment is generated outside the formal economy. The informal sector is a source of livelihood for millions of vendors, mechanics, domestic workers, bus drivers and micro-entrepreneurs. Broadly defined as small-scale, self-financed activities operating with a low level of organization in an unregulated environment, the informal sector has exploded with globalization and economic openness (Verick 2006: 2). Its contribution to the economy now matches and sometimes even outweighs that of the formal sector in many developing countries: in 2009, informal activity accounted for over 80% of non-agricultural jobs in Sub-Saharan Africa and South Asia, 50% of gross national savings in India, and 58% of non-agricultural growth in Ghana (CUTS 2009: 5). This expansion shows no sign of slowing down. Even in the presence of strong economic growth in Southeast Asia and Latin America, rates of informal employment have increased steadily over the past twenty years, with formal employment stagnating in comparison (Jütting and Laiglesia 2009: 2). Yet despite the clear economic, political and social importance of this phenomenon, a wide knowledge gap remains concerning the impact of informal sector size on macroeconomic outcomes (Gerxhani 1999: 35). There has recently been a renewal of interest in the dynamics of informality, yet the discourse is not without disagreement: economists and decision-makers disagree as to whether this phenomenon is a problem to be suppressed or an opportunity to be stimulated. Some experts argue that due to their small size, informal firms cannot achieve high capital intensity and productivity (Pagés 2010: 213). Furthermore, a large informal sector may create competition for official firms and draw workers away from these, with negative repercussions for public finance.

This view is reflected in declarations by international organizations stressing the urgency of formalizing economies (ILO-WTO 2009: 127). At a January 2011 panel event hosted by the Organization of American States (OAS), for example, participants discussed the “problem of the informal sector” and presented various “roadmaps to formalization” as proposed policy responses (OAS-GFI 2011). On the other hand, the rising popularity of microfinance initiatives and of micro-pension schemes for informal workers cast informality as a force for inclusive economic development in poor countries. Informal sector jobs can enhance the competitiveness and flexibility of production, allowing workers to find employment in the absence of government support (Misati 2010: 221).

While a considerable number of studies have been carried out to study the registered segment of informal sector, the studies dealing the unregistered segment of informal sector are not, however, adequate. Published information on above aspects is not available at all and, therefore, data on such aspects can only be collected by an empirical study designed specifically for this purpose. Such a study will enable a proper analysis of the informal sector workers and their effort to alleviate poverty. In the light of above, the present paper will examine the employment and income levels, the poverty profiles and describes the various problems faced by unregistered informal sector and suggests measures including rehabilitation program for the overall life improvement of unregistered informal sector workers/establishments.

1.2. Statement of the Problem

The activities of the people operating in the informal sector in most urban settlements in less developed countries cannot be ignored since they play significant role in the development of the economies of these countries. For instance, the sector employs between 35 percent and 65 percent of the labor force; and contributes between 20 percent and 40 percent of the Gross Domestic Product (GDP) in less developed countries (Braun and Laoyza, 1994). In Africa, the sector has grown to be a major source of income to a large population of urban poor and women. In fact, about 400 million African workers earn their livelihood in the informal sector and income generated supports additional 200 million others to survive (Grey-Johnson, 1992).

In Ethiopia, as indicated in a document produced by Ministry of Labor and Social Affairs (MoLSA) entitled: Labor Market Dynamics in Ethiopia (2013), of the shares of informal economy employment for the years 1999 -2010 had the proportion of working population in the informal sector with a significant decline from 72.8% in 1999 to 33.3% in 2010(MoLSA, 2013:16). Out of the total employed population in urban areas of the country, 34.1% were engaged in the informal economy. The highest percentage share who were working in the informal economy was found in Somali region (46.5%) followed by Gambella region (42.1%). The lowest proportion of people engaged in the informal economy was found in Addis Ababa City Administration (20.5%). The sector also provided most of the population with a means of livelihood or essential supplementary income. Most probably the sector is also the only reliable source of livelihood for women and the poor, for whom the formal sector has no accommodation for economic engagement (MoLSA, 2013).

Despite its contribution to economic development, the sector is still regarded as the sector where the bulk of the poor are found. Scientific studies on the challenges and perspectives of informal sector in alleviating poverty and their coping measures are still in short supply in Yeka sub-city. Some related researches were conducted in other sub-cities but their scope was limited to a specific operator group on

specific issue of the informal sector. It is therefore difficult for officials and policy makers to provide pragmatic solutions to the poverty situation in the sector. In order to provide objective solution to the poverty situation in the sector, this study will fill in the gap by conducting a study on the challenges and prospects of employment and income levels, the poverty alleviation mechanisms and the various problems faced by unregistered informal sector at the Sub-city level.

1.3. Objective of the Study

The general objective of the study is to assess the role of informal sector in poverty alleviation, the various problems faced and coping mechanism in the unregistered informal sector of Yeka Sub-city, Addis Ababa, Ethiopia. The study has the following specific objectives:

- a) To explore general context in which the informal sector operates in Yeka-Sub City,
- b) To assess the living and working conditions of informal sector operators in the Sub-city,
- c) To explore the contribution of the informal sector to reducing poverty in the Sub-City
- d) To identify coping mechanism of poverty in the urban informal sector of yeka Sub-city.
- e) To recommend the kind of support the informal sector requires from the government and other agencies

1.4. Research Questions

The basic questions in this study are:

- What is the context the urban informal sector operates in Yeka Sub-City?
- What are the living and working conditions of participants in the sector?
- To assess the contribution of the sector to poverty alleviation?
- How do the poor in the sector cope with poverty in the Sub-City?
- What intervention is needed in addressing the problem of poverty in the sector?

1.5. Significance/Justification for the Study

In Ethiopia, significant efforts have been made to reduce unemployment and poverty, but its continuing and persistent increase despite the different programs and strategies suggested and put in place by the government, non-governmental organizations, community-based organizations and individuals at reducing it. The performance of these programs and strategies (e.g. structural adjustment, plan for sustainable development and eradication of poverty, millennium development goals, different

reform measures, growth and transformation plan) can be traced to the effort in the implementation of the programs to reduce poverty and unemployment. However, due to resource constraints, mismanagement of the project/program funds and corruption, the poor in the informal sector have not been adequately served by these programs. Targeting poverty and unemployment requires identification of who is poor? Why are they poor? Why are they unemployed? And where do they live?

Drawing from the above, it becomes important that an analysis of the living and working conditions of the informal sector participants in order to capture those that are poor and why they are poor in the urban informal sector of Yeka Sub-city becomes crucial. Results from this study would be useful in understanding and designing appropriate poverty reduction and unemployment measures by the sub-city administration and development partners for the people operating in this sector, which would support some of the aspirations of governments' development Strategies and those of the Millennium Development Goals that include, among others, eradication of extreme poverty and hunger by 2015.

1.6. Scope of the Study

The scope of the study would be delimited to unregistered informal sector operators in Yeka Sub-City of the Addis Ababa City Administration. The sample to be selected included street vendors, homemade food staff producers (Baltina, ባልጎፍ), home to home service providers and traders, and skilled vocational workers. The study also is delimited to approaching relevant government offices dealing with the issue at hand. The sub-City is purposively selected because of its relative access for information and researcher's convenience. Hence the findings would be applicable to Yeka sub-city, Addis Ababa City Administration.

1.7. Methodology

A descriptive survey design is used to collect data from two sources. These are secondary source which concentrated on reviewing the literature related to informal sector and develop contextual framework; and primary source from interviews and questionnaire filled by respondents to attain the general and specific objectives. The study relied on both qualitative and quantitative methods of data collection used in this research.

1.8. Limitation of the Study

The scope and depth of the research problem was broad and was constrained to cover exhaustively due to limited resources and expertise of the researcher.

1.9. Operational Definition of Terms

Coping Strategies: ordinal mechanisms people pursue to mobilize resources in order to tackle difficult life situations.

Informal Sector: in the context of this study refers to a street vending, home based and small/micro business owned by individuals and mainly run by family labor, doesn't have book of account; doesn't have a license; but their product/Service they are engaged in is mainly for market.

Poverty: a multidimensional deprivation of human capabilities including consumption and food security, health, education, rights, voice, security, dignity and decent work. It includes both material and non-material deprivations.

Poverty Line: Poverty line in simple term is an arbitrary line that delineates the poor from the non-poor.

1.10. Organization of the Study

This research report is organized in to five chapters. The first chapter dealt with the introduction of the problem and its approach. The second chapter is concerned with the review of the related literature. The third chapter treats the methodology. The fourth chapter dealt with the analysis and interpretation of the data. The fifth chapter contains summary, conclusion and recommendations of the study. Finally, list of reference materials and papers containing important information are annexed in the appendices.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2. Informal Sector and Poverty

2.1. The Informal Sector

The earlier studies on the informal sector can be traced to the studies by the International Labor Organization (ILO) in Kenya in 1972 and Keith Hart in Ghana in 1973 (ILO 1972; Thomas 2002). However, in theory the emergence of the study on the informal sector can be linked to Lewis (1954) which conceptualized economic development as the emergence and growth of manufacturing sector through the absorption of labor being freed from agriculture, due to the more efficient means of production in the former (Todaro 1987).

The study by Rogers and Swinnerton (2004) also saw the emergence of the sector as a result of undesirable economic distortions and unfavorable policies of government. Studies by Loayza (1994) saw its emergence from the growth of urbanization and the problems that come with it—unemployment and low skills, heavy burden on taxes fees, labor market restrictions and inefficient government institutions. The studies also showed how the informal sector arises in a neoclassical model when some firms choose to remain small to enjoy legal exemption from a mandated minimum wage policy and tax which distorts resources away from best allocations.

2.1.1. Definition and Characteristics of Informal Sector

The informal sector covers a wide range of labor market activities that combine two groups of different nature. On one hand, the informal sector is formed by the coping behavior of individuals and families in an economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations.

The two types of informal sector activities can be described as follows:

- Coping strategies (survival activities): casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding;

- Unofficial earning strategies (illegality in business): (i) unofficial business activities: tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company; and (ii) underground activities: crime, corruption - activities not registered by statistical offices (GDRC 2009).

The simplest definition of informal economic activity is any exchange of goods or services involving economic value in which the act escapes regulation of similar such acts. ILO (2009) refers to it as all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs (Husmanns, 2004). Blaauw (2005) also defined the informal sector as unorganized, unregulated and mostly legal but unregistered economic activities that are individually or family owned and uses simple, labor intensive technology.

The informal sector often referred to as subterranean economy, underground economy, shadow economy, non-corporate enterprises, micro-enterprises and petty producers is also defined as a large volume of self employed in developing countries who are engaged in small-scale intensive work such as tailoring, food preparation, trading, shoe repairing, etc. These people are often regarded as unemployed or underemployed as they cannot be included in the national employment statistics but they are often highly productive and make a significant contribution to national income. Their work in general is characterized by low capital-output ratio, that is, the ratio of the level of equipment or capital relative to output is low (Soares, 2005).

Fluitman (1989) saw the informal sector as a heterogeneous phenomenon which encompassed a wide variety of economic activities which tend to be overlooked in statistics including all sorts of manufacturing activities, construction, trade and commerce, repair and other services. For example, informal sector workers made beds, pots and pan, they repair watches, cars and radio, they write letters, lend money, run restaurant, and barber-shops in the side walk, they transport goods and people on their motorbikes, they sell fruits and cooking oil and cigarettes by the

piece. Informal sector activities are mostly carried out in small units owned and operated by one or a few individuals with little capital; they are usually labor intensive activities which result in low quality but relatively cheap goods and services.

The 'informal' sector is understood by many names such as black market, casual work, clandestine activities, community of the poor, family-enterprise sector, hidden sector, informal economy, informal opportunities, intermediate sector, invisible sector, irregular sector, lower-circuit of the urban economy, non-plan activities, non-westernized sector, one-person enterprise, parallel economy, people's economy, petty commodity production, shadow economy, trade-service sector, transient sector, underground economy, unobserved economy, unofficial economy, unorganized sector, unrecorded economic activities, unremunerated sector, unstructured sector, urban subsistence sector and so on. Essentially these terms characterize it in terms of what IS is not: IS is not the formal sector (non-formal), it is not controlled by the government (non-plan, hidden, unofficial, unrecorded), it is not legal (illegal, black, shadow) and it is not taxable (unrecorded, parallel). But recent research and exploration on the issue has resulted in a more benign approach, where the names and definitions have used the characteristics of the sector itself (casual, family enterprise). Some emphasize its poverty focus (subsistence, petty commodity, and one-person enterprise) as well as its 'temporary' nature (transient, intermediate). In reality, it is all of these taken together, that define all the characteristics of the sector (GDRC 2009).

2.1.2 Characteristics of Businesses in the Informal Sector

As observed by Women in Informal Employment-Globalizing and Organizing (WIEGO) (2009) early debates regarding the causes and characteristics of the informal sector were crystallized into four dominant schools of thought namely the dualist school; the structuralist school; the legalist school and the il-legalist school. The characteristics of the informal sector include among others: ease of entry; predominant use of local resources, family ownership of the enterprises; small scale of operation; adaptation of largely labor-intensive technology; acquisition of skills mainly outside the formal system of education and training; and operation in an unregulated competitive market (ILO, 1972). The informal sector characterized to comprise these economic enterprises which employ less than certain number of persons (e.g. 5 or 10, depending on the country's official procedures) per unit, and which simultaneously satisfy one or

more of the following criteria:

- a) it operates in open spaces,
- b) it is housed in a temporary or semi-permanent structure,
- c) it does not operate from spaces assigned by the government, municipality or private organizers of officially recognized market-places,
- d) it operates from residences or backyards, and
- e) it is not registered.

The ILO/ICFTU international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorized into three broad groups:

- a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices;
- b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and
- c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, home workers and paid domestic workers (GDRC, 2009).

Looking at the enterprise side, there are also a number of defining features, which characterize these businesses in Africa. These include: low set up costs and entry requirements, which are presented above as key factors behind informalization. Operations are typically on a small scale with only a few workers. Skills required for the business activities are usually gained outside formal education. The production of goods and services is labor intensive. Again turning to the Doing Business Database compiled by the World Bank, it is interesting to consider the heterogeneity in some of the key business factors behind the development of the sector in Africa. The database contains figures for various indicators representing the ease of starting up a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts, licensing requirements and closing a business.

Another barrier for enterprises to operate in the formal economy is licensing. In sub-Saharan Africa there are on average 20.1 licensing procedures for a business in the construction

industry to build a standardized warehouse. These procedures include obtaining licenses and permits, completing notifications, inspections and submitting the necessary documents. These procedures take approximately 251.8 days in sub-Saharan Africa, ranging from 127 in Ghana to 569 in Cote d'Ivoire. On average the cost of registration amounts to 1,597.3 percent of GNI per capita, with a minimum in Mauritius of 16.7 percent and maximum of over 10,000 percent for Burundi. This cost illustrates another barrier enterprises face when undertaking such an investment (Verick, 2006).

The different dimensions covered by the World Bank's Doing Business database allows for a more detailed empirical country-level analysis of the most important factors determining the size of the informal economy. A first look at the correlations between the size variable and other characteristics reveals that the following factors are positively and significantly correlated with the size of the informal economy: time to get a license; cost of registering a property. While there are many potential variables that influence the formation and growth of the informal economy, this preliminary analysis indicates that these barriers and costs to doing business are important factors behind this phenomenon.

The informal sector in Africa is dominated by trade-related activities, with services and manufacturing accounting for only a small percentage of this sector. For example, in Angola, Nigeria, South Africa and Uganda, a majority of informal sector workers are active in retail trade. Most of these workers are self-employed, which accounts for 70 percent of workers in this sector in SSA, with the remainder in wage employment. Street vending is one particular informal activity that is prevalent on the continent. Available data indicate that street vendors represented 80.7 percent of all economic units surveyed in urban areas in Benin, with women making up over 75 percent of vendors (Verick, 2006).

2.1.3. Informal Sector and Economic Development

The contribution of the informal sector to economic development is enormous. As Morgan (2009) puts it, "though detail statistics on the enterprises are hard to come by owing to lack of extensive data bases. It is clear that in many countries their role is extremely important as contributors to the nation's wealth. Evidences from developing economies show that micro-

enterprises are a major engine in industrial and commercial development.

The informal sector represents an important part of the economy and certainly of the labor market in many countries, especially developing countries, and thus plays a major role in employment creation, production and income generation. In countries with high rates of population growth and/or urbanization, the informal sector tends to absorb most of the growing labor force in the urban areas. Informal sector employment is a necessary survival strategy in countries that lack social safety nets such as unemployment insurance or where wages, especially in the public sector, and pensions are low. In such situations, indicators such as the unemployment rate and time-related underemployment are not sufficient to describe the labor market situation. In other countries, the process of industrial restructuring in the formal sector is seen as leading to a greater decentralization of production through subcontracting to small enterprises, many of which are in the informal sector (Husmanns and Mehran, 2008).

Evidence from a number of countries has shown that an increased proportion of employment, income and output are originating from the sector. For instance, the International Labor Office (ILO) has estimated that in the poorest countries, 80 percent of workers operate in the informal and agricultural sector while for middle-income countries the informal/agricultural figure exceeds 40 percent. On the average, 30 percent of workers in developing world cities are informal. In a few cases, this percentage is lower; in many it is substantially higher. According to a recent statistical compilation by the ILO of total urban employment the informal sector portion accounts for 49 percent in Peru, 40 percent in Ecuador and 54 percent in Columbia. Among 15 Sub-Saharan African nations urban informal employment as a percentage of total informal employment ranges from between 9 and 44 percent in Zimbabwe to 80 percent in Benin, 22 percent in Swaziland, 43 percent in Zambia, 89 percent in Ghana and in Nigeria one-third of urban labor force are found in the informal sector, with a median of 49 percent in five Asian countries, the corresponding percentages range from 17 percent to 67 percent (Xaba, et.al 2008).

Its contribution to economic development can also be viewed from the interaction between the various operators in the sector and between the informal sector operators and the formal sector operators. According to Herchbach (2009) and Lanjouw (2008) the relationship among the operators in the informal sector and the relationship between the informal sector operators and

the formal sector operators have contributed to the growth of the informal sector and to its contribution to economic development and poverty reduction. For instance, the linkages among the informal sector operators has helped improved the quality of goods and services produced by the operators thus making them compete favorably with what obtained in the formal sector. Their relationship with the formal sector has made them powerful distributors for the goods and services produced by the formal sector enterprises. And the formal sector enterprises are also known to provide inputs and services to informal sector enterprises through sub-contracting (Abumere, 1995).

Grey-Johnson (1993) also reiterates that the linkages with the formal sector are strong, providing it with a wide array of intermediate and final products. For instance, there are more demands for informal goods from outside the sector than from within it. For instance, the informal sector operators consume only 5 percent of their products whereas 50 percent are consumed in the formal sector and the remainder in subsistence agriculture.

2.2 Poverty: Meaning, Measurement, Causes and Consequences

2.2.1. Meaning

Poverty has been a difficult concept to define due to its multi-dimensional nature. Earlier studies on poverty have always linked it to a situation where an individual is confronted with low income or low consumption-expenditure which is often used for the construction of poverty line. However, over the years various theories have been advanced in order to put in proper perspective the mechanics of poverty. According to Bradshaw(2006), the orthodox Western views of poverty, reflected in the 'Vicious Circle Hypothesis' stated that a poor person is poor because he is poor, and may remain poor, unless the person's income level increases significantly enough to pull the person in question out of the poverty trap. This thought sees poverty from the point of absoluteness, i.e. when poverty is seen as the level of income below what is required to have a decent standard of living, which in other words is a situation where the total earnings of individuals/families are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency. In contrast to this is relative poverty which explicitly relates poverty to a reference group. Rather than refer to a supposedly

objective standard, it links poverty to a particular point in the distribution curve of a particular variable such as income. People are judged to be poor if they are poor in comparison to those around them. This notion of poverty is therefore particularly relevant when debates on social justice do not merely focus on the needs of bare survival, but also on the question of inequality in society (Bradshaw, 2006; Nunes, 2008).

In recent time, a number of studies on poverty have come to see poverty beyond the lack of income and its skewed distribution, but relate it to hunger, lack of basic capabilities to live in dignity, lack of shelter, being sick and not being able to go to school, not knowing how to read, not being able to speak properly, not having a job, fear for the future, losing a child to illness brought about by unclean water, powerlessness, lack of representation and freedom (Sen, 1985; Sengupta, 2003). In the light of the International Bill of Rights, poverty is seen as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights (UN, 2002).

2.2.2. Measuring Poverty

Over time, different methods were identified and used in the measurement of poverty. Key among them is the use of a poverty line that separates the ‘poor’ from the ‘non-poor’. There are two types of poverty lines which are generally used: Various methods have been employed in constructing poverty lines. The most popular methods, however, are the Cost of Basic Needs (CBN) and Food Energy Intake (FEI)

- i) is that which represents the value of a selection of goods or services that are identified as necessary, and
- ii) is that which relates to the distribution of income/expenditure within a society.

The first poverty line which represents the value of a selection of goods or services that are identified as ‘needs’ is generally calculated by giving a monetary value to a basket of goods or services that are identified according to the standard of living or well-being that policy makers decide should reflect a state of impoverishment. This type of poverty line can be used to depict what is known as a ‘head count’ of the total number of people living in poverty. The second is the poverty line that relates to the distribution of income/expenditure within a society which is often relative and set at the level that includes people living below a particular

threshold/benchmark. An example is when the poverty line is set at the level that indicates that people living below 20 percent of national income of a nation as being very poor like in the case of South Africa or a poverty line set at \$275 and \$370 per person a year for the extreme poor and for the moderate poor respectively or a poverty line set at \$1 and \$2 dollars a day for the extreme poor and for the moderate poor respectively as provided by the World Bank. One advantage of this measure of poverty is that it allow for comparisons of poverty levels between countries to be drawn with relative ease (World Bank, 1990; 2001).

Related to the above measure of poverty is that provided by Foster, et.al (1984), which includes the following?

- (i) the head count poverty index given by the percentage of the population that live in the household with a consumption per capita less than the poverty line;
- (ii) poverty gap index which reflects the depth of poverty by taking into account, how far the average poor persons income is from the poverty line; and
- (iii) the distributional sensitive measure of squared poverty gap defined as the means of the squared proportionate poverty gap which reflects the severity of poverty. Put together, they are referred to as P-alpha Class measure of poverty.

Recently too, the use of income and consumption-expenditure as basis for determining the poverty line are beginning to lose much of their relevance since the method of calculation was not adapted to the new economic trends resulting from high rate of inflation and the prevailing high increase in interest rate and exchange rate devaluation. Thus the Minimum Wage and Minimum Pension, Food Insecurity Measures of Poverty (FIMP), Human Development Index (HDI) and Capability Poverty Measure (CPM) and Indices of Multiple Deprivation (IMP) are now advocated.

2.2.3. Causes of Poverty

Theoretically, a number of studies have over time provided and discussed some of the factors that are the root causes of poverty. For instance, as observed by Bradshaw (2006) key among the causes are:

- i) those that focus on the individuals as responsible for their poverty situation;
- ii) those linked to the culture of the people;

- iii) those linked to economic, political and social distortions and discrimination;
- iv) those linked to geographical disparities; and
- v) those caused by cumulative and cyclical interdependencies.

i) Poverty Caused by Individual Deficiencies.

This first theory of poverty is a large and multifaceted set of explanations that focus on the individual as responsible for their poverty situation. Typically, politically conservative theoreticians blame individuals in poverty for creating their own problems, and argue that with harder work and better choices the poor could have avoided (and now can remedy) their problems. Other variations of the individual theory of poverty ascribe poverty to lack of genetic qualities such as intelligence that are not so easily reversed.

Books like Herrnstein and Murray's *The Bell Curve* (1994) are modern uses of this explanation. Rainwater (1970:16) critically discusses individualistic theories of poverty as a "moralizing perspective" and notes that the poor are "afflicted with the mark of Cain. They are meant to suffer, indeed must suffer, because of their moral failings. They live in a deserved hell on earth." Rainwater goes on to say that it is difficult to overestimate the extent to which this perspective (incorrectly) undergirds our visions of poverty, including the perspective of the disinherited themselves.

Ironically, neo-classical economics reinforces individualistic sources of poverty. The core premise of this dominant paradigm for the study of the conditions leading to poverty is that individuals seek to maximize their own wellbeing by making choices and investments, and that (assuming that they have perfect information) they seek to maximize their wellbeing. When some people choose short term and low-payoff returns, economic theory holds the individual largely responsible for their individual choices--for example to forego college education or other training that will lead to better paying jobs in the future.

In sum, to the extent that policy makers or program leaders hold the individual theory of poverty, it is increasingly unlikely that they will pursue a community development approach to solving poverty. Thus, in spite of the widespread societal view that individuals are responsible for their own poverty, community developers look to other theories of poverty for more positive approaches.

ii) Poverty Caused by Cultural Belief Systems that Support Sub-Cultures of Poverty

The second theory of poverty roots its cause in the “Culture of Poverty”. This theory is sometimes linked with the individual theory of poverty or other theories to be introduced below, but it recently has become so widely discussed that its special features should not be minimized. This theory suggests that poverty is created by the transmission over generations of a set of beliefs, values, and skills that are socially generated but individually held. Individuals are not necessarily to blame because they are victims of their dysfunctional subculture or culture.

iii) Poverty Caused by Economic, Political, and Social Distortions or Discrimination

Whereas the first “individualistic” theory of poverty is advocated by conservative thinkers and the second is a culturally liberal approach, the third to which we now turn is a progressive social theory. Theorists in this tradition look not to the individual as a source of poverty, but to the economic, political, and social system which causes people to have limited opportunities and resources with which to achieve income and wellbeing. Research and theories in this tradition attempt to redress the problem noted.

Much of the literature on poverty now suggests that the economic system is structured in such a way that poor people fall behind regardless of how competent they may be. Partly the problem is the fact that minimum wages do not allow single mothers or their families to be economically self-sufficient (Jencks 1996). The problem of the working poor is increasingly seen as a wage problem linked to structural barriers preventing poor families from getting better jobs, complicated by limited numbers of jobs near workers and lack of growth in sectors supporting lower skilled jobs (Tobin 1994). Interestingly research is showing that the availability of jobs to low income people is about the same as it has been, but wages workers can expect from these jobs have fallen. Fringe benefits including health care and promotions have also become scarce for low skilled workers. These and related economic changes documented by Blank (1997) and Quigley (2003) show the way the system has created increasingly difficult problems for those who want to work.

Elimination of structural barriers to better jobs through education and training have been the focus of extensive manpower training and other programs, generating substantial numbers of successes but also perceived failures. However, in spite of perceived importance of education, funding per student in less advantaged areas lags that which is spent on richer students, teachers are less adequately trained, books are often out of date or in limited supply, amenities are few, and the culture of learning is under

siege. This systemic failure of the schools is thus thought to be the reason poor people have low achievement, poor rates of graduation, and few who pursue higher education (Chubb and Moe, 1996).

A parallel barrier exists with the political system in which the interests and participation of the poor is either impossible or is deceptive. Recent research has confirmed the linkage between wealth and power, and has shown how poor people are less involved in political discussions, their interests are more vulnerable in the political process, and they are excluded at many levels. Coupled with racial discrimination, poor people lack influence in the political system that they might use to mobilize economic benefits and justice.

A final broad category of system flaws associated with poverty relate to groups of people being given a social stigma because of race, gender disability, religion, or other groupings, leading them to have limited opportunities regardless of personal capabilities. No treatment of poverty can be complete without acknowledging that groups against which discrimination is practiced have limited opportunities regardless of legal protections. The process of gaining stronger rights for minorities in poverty is an ongoing one, for which legal initiatives and public policy reform must work with efforts to change public attitudes.

iv) Poverty Caused by Geographical Disparities

Rural poverty, ghetto poverty, urban disinvestment, Southern poverty, third-world poverty, and other framings of the problem represent a spatial characterization of poverty that exists separate from other theories. While these geographically based theories of poverty build on the other theories, this theory calls attention to the fact that people, institutions, and cultures in certain areas lack the objective resources needed to generate wellbeing and income, and that they lack the power to claim redistribution. As Shaw (1996:29) points out, "Space is not a backdrop for capitalism, but rather is restructured by it and contributes to the system's survival."

One theoretical perspective on spatial concentrations of poverty comes from economic agglomeration theory. Usually used to explain the emergence of strong industrial clusters (Bradshaw, King, and Wahlstrom, 1998) agglomeration shows how propinquity of similar firms attracts supportive services and markets, which further attracts more firms. In reverse, the propinquity of poverty and the conditions leading to poverty or the consequences of poverty (crime and inadequate social services) generate more poverty, while competitive areas attract business clusters, drawing away from impoverished communities. Low housing prices in such locations may attract more poor persons, for

example, leading to housing disinvestment by building owners. In a world in which the criteria for investment is “location, location, location,” it is not unreasonable to track investment going to neighborhoods, communities and regions in which there is already substantial investment, while leaving less attractive areas.

v) Poverty Caused by Cumulative and Cyclical Interdependencies

This theory has its origins in economics in the work of Myrdal (1957:23) who developed a theory of “interlocking, circular, interdependence within a process of cumulative causation” that helps explain economic underdevelopment and development. Myrdal notes that personal and community wellbeing are closely linked in a cascade of negative consequences, and that closure of a factory or other crisis can lead to a cascade of personal and community problems including migration of people from a community. Thus the interdependence of factors creating poverty actually accelerates once a cycle of decline is started.

One place where the cycle of poverty is clearly defined is in a book on rural education by Sher J. (1977) in which a focus is on the cycle by which education and employment at the community and individual level interact to create a spiral of disinvestment and decline, while in advancing communities the same factors contribute to growth and wellbeing. For example, at the community level, a lack of employment opportunities leads to outmigration, closing retail stores, and declining local tax revenues, which leads to deterioration of the schools, which leads to poorly trained workers, leading firms not to be able to utilize cutting edge technology and to the inability to recruit new firms to the area, which leads back to a greater lack of employment.

This cycle also repeats itself at the individual level. The lack of employment leads to lack of consumption and spending due to inadequate incomes, and to inadequate savings, which means that individuals can not invest in training, and individuals also lack the ability to invest in businesses or to start their own businesses, which leads to lack of expansion, erosion of markets, and disinvestment, all of which contribute back to more inadequate community opportunities. Health problems and the inability to afford preventive medicine, a good diet, and a healthy living environments become reasons the poor fall further behind.

In furtherance to the above position, Bradshaw (2006) also cited the work of Sher J. (1977) on the interaction between education and employment at the country and individual level. At the individual level, the lack of employment leads to lack of consumption and spending due to inadequate incomes, and to inadequate savings, which means that individuals can not invest in training, and individuals also lack the ability to invest in businesses or to start their own businesses, which leads to lack of expansion, erosion of markets, and disinvestment, all of which contribute back to more inadequate community opportunities.

In order to better understand and be able to distinguish between levels of causes of poverty, McCaston and Rewald (2005) developed a causal hierarchy that is useful in understanding the underlying causes of poverty. This causal hierarchy is broken down into three categories: immediate causes; intermediate causes; and underlying causes as shown in Table 2.1 below.

Table 2.1: A Causal Hierarchy of Causes of Poverty

		Some Examples
1	Immediate Causes	<p>These are causes that are directly related to life and survival and include:</p> <ul style="list-style-type: none"> • Disease • Famine • Environmental disasters • Conflict
2	Intermediate Causes	<p>These causes affect people's well-being and opportunities for development and livelihood security, and include:</p> <ul style="list-style-type: none"> • Low livelihood (agriculture or income) productivity; • Limited livelihood opportunities; • Lack of skills; inadequate access to food; • Inadequate care for women and children; • Lack of basic services, e.g., health, education, water and sanitation education
3	Underlying Causes	<p>These causes are related to the structural underpinnings of underdevelopment, specifically social systems and political and economic structures, and environmental issues. They involve:</p> <ul style="list-style-type: none"> • <u>Economic</u>: Inequitable resource distribution

	<p>(distributive justice); globalization; terms of trade; structural adjustment</p> <ul style="list-style-type: none"> • <u>Political</u>: Poor governance and institutional capacity; corruption; violent conflict; lack of political will; domination by regional/global superpowers • <u>Social</u>: Marginalization, inequality, social exclusion (based on gender, class, ethnicity); harmful societal norms, customs and cultural practices, over-population • <u>Environmental</u>: Carrying capacity; resource-based conflict; environmental disasters; propensity for human disease; propensity for crop & livestock disease
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Source: McCaston and Rewald, 2005.

2.2.4. Consequences of Poverty

According to Von Hauff and Kruse (1994), the consequences of poverty include among other things:

- (i) consequences arising from physical and psychological misery, which understandably are caused by inadequate nourishment, lack of medical care, a lack of basic and job related education and marginalization in the labor markets;
- (ii) consequences arising through the formation of slums in cities, a worsening of ecological problems particularly, as a result of predatory exploitation in the agricultural sector and through the failure to use the available human resources; and
- (iii) Consequences that tend to preserve or reinforce the existing power structures and thus also the privileges of a minority of the population. In some cases this involves corrupt elites. These privileged minorities in the population are not generally interested in structural changes for the benefit of the poor population.

As observed by Narayan, et. al (2000a) when people are poor, they tend to lack protection against violence, extortion and intimidation and also lack civility and predictability in interactions with public officials. The poor is also prevented from taking advantage of new economic opportunities and engaging in activities outside their immediate zone. Threat of physical force or arbitrary bureaucratic power makes it difficult for them to engage in public affairs, to make their interests known and to have them taken into account.

Narayan, et al. (2000b) also indicates that with poverty, a lot of people are also confronted with agonizing choices when they are powerless and voiceless. Powerless as they are in many respects, poor people face options that are often exceptionally constrained. In making choices the best they can do may be to look for the least negative and damaging. They have to choose with care, for example, among different sources of cash or credit for daily needs or for an emergency. They are forced again and again to trade-off one bad thing against another just like trading off a good candidate for a bad one during an election because of money.

2.2.5. The Link between Poverty and Informal Sector

When the informal sector was first introduced in the 1970s, the common belief was that it existed only in some low income countries. Informality was explained as a consequence of under development where inefficient public institutions, burdensome registration processes and a general distrust of the government urged the creation of a market outside a country's formal structures. Therefore, it was assumed that these factors and hence informal employment would disappear with economic development (OECD 2009).

However, reality turned out to be different. Informality increasingly spread worldwide. In developed countries, a growing tendency to an "in-formalization" of working conditions created informal employment, partly because of increasing international competition in the course of globalization. In developing countries, informal employment became one of the key characteristics of the labor markets. Large numbers of workers in those countries accept jobs with lower wages, poor working conditions often without access to social security coverage. According to a recent study by the OECD (2009), informal employment worldwide amounts to an average of 60% of total non-agricultural employment. This share varies from about 50% in Latin America, the Middle East and North Africa to almost 70% in South and Southeast Asia, and 75% in Sub-Saharan Africa. So "informal is normal" illustrates very precisely a key feature of today's labor markets worldwide.

This widespread growth of the informal sector during the past decades attracted the attention of researchers and policy makers and nourished a debate on defining its features, measuring its size, and identifying its various consequences economically, socially and politically. On the one hand, in cases of limited employment growth rate in the formal sector, the informal sector is viewed as

a safety valve absorbing excess labor and reducing poverty especially in time of crises (UNESCO, 2006). On the other hand, the informal sector may cause negative impacts on some of the main economic and social indicators. At the macro level, high rates of informal employment result in reduction in the tax base and hence reduction in the amount of resources available to address vital social objectives such as the provision of health and unemployment protection. Informality may also negatively affect competitiveness and growth, as informal jobs are believed to be of lower efficiency and productivity. At the micro level, informal employment often means being locked in low-paid, high-risk and unstable activities and hence increasing poverty and low job quality. This is a challenging situation especially for developing countries where labor is by far the most important productive asset of the poor (OECD 2009).

Accordingly, one of the most debated Aspects of informality is its role in economic development, and within this debate, a primary place is occupied by the study of the relationship between informal jobs and poverty (UNESCO, 2006)

2.3. An Overview of Poverty in Ethiopia

Ethiopia is a country where the majority of the population is poor and there is significant variation in individual and household level experiences of poverty (Woldehana, 2004). The country is the third most populous, but least urbanizes in sub-Sahara Africa and one of the world's poorest by any standard (Bogale and Korf, 2009). According to the World Development Report, the country has the lowest GNP per head in the world, and its purchasing power parity adjusts to GNP ranks 200th out of 206 countries (World Bank, 2009). Human development indicators of the United Nations Development Program (UNDP, 2008) also attest to the seriousness and extent of poverty in the country.

Available data on the poverty situation in Ethiopia has shown that over time, there has been an increase in the total poverty head count. There have been two major sources of information on poverty in Ethiopia: a series of Welfare Monitoring System (WMSs), undertaken every three to five years since 1996, which track household characteristics and the non-income dimensions of poverty; the 5-yearly Household Income, Consumption and expenditure Survey system (HICESs), which measures income poverty. CSA has been conducting the HICES every five years since 1996 in order to gather income and consumption expenditure data. So far, the HICES

was conducted four times: 1995/96, 1999/2000, 2004/05, and 2010/11.

2.3.1. Status of National, Rural and Urban Poverty in Ethiopia

According to the 2010/11 HICES, the proportion of poor people (poverty head count index) in the country is estimated to be 29.6% in 2010/11 (Table 3). In 2010/11, while the proportion of the population below the poverty line stood at 30.4% in rural areas, it is estimated to be 25.7% in urban areas. The poverty gap index is estimated to be 7.8% while it is 8.0% for rural areas and 6.9% for urban areas. Similarly, the national level poverty severity index stood at 0.031 with rural poverty severity index (0.032) being slightly higher than that of urban areas (0.027). Between 2004/05 and 2010/11, income (consumption) inequality measured by Gini Coefficient has shown a slight decline from 0.3 in 2004/05 to 0.298 in 2010/11. Inequality as measured by the coefficient has declined in urban areas from 0.44 to 0.37, while rural inequality increased from 0.26 to 0.27 though inequality is still higher in urban than in rural areas. (CSA, HICES:2010/11)

Table 2.2. Poverty head count indices and inequality in 2010/2011

	Total poverty)	Food poverty	Gini-Coefficient. (inequality)
Urban	0.257	0.279	0.371
Rural	0.304	0.347	0.274
Total	0.296	0.336	0.298

Source: HICE survey 2010/11; Number of observation=27830

Although the headline “poverty rate” in Ethiopia is based on a monetary definition of poverty, it is well understood by policymakers and analysts that poverty is a multidimensional phenomenon. This chapter therefore examines non-income aspects of wellbeing such as health, nutrition, education and literacy, sanitation, access to services and assets using data from the 2011 Welfare Monitoring Survey. By merging the WMS data with the HICE we are also able to compare differences across the consumption distribution as well as a breakdown by location and gender. Whilst there are many improvements since 1995, and also since 2004, some aspects of non-monetary poverty remain stark in Ethiopia and are areas for improvement. For example rural road quality appears to be driving the low secondary school enrolment rates seen in rural areas. Electrification rates also remain low in rural areas at below five percent. Nationally, the average rate is 18% which is lower than the average for sub-Saharan Africa (24%). The rate of stunting

remains just above that compared to other African countries (the average rate in sub-Saharan Africa is 40% compared to 44% in Ethiopia), but the gap has narrowed substantially between Ethiopia and the rest of the continent (MoFED, 2013).

2.3.2. Status of Regional Poverty in Ethiopia

The regional distribution of total and food poverty in Ethiopia and trends in this distribution are shown in Tables 7 and 8. In 2010/11, poverty head count index is the highest in Afar (36.1%) followed by Somali (32.8%) and Tigray (31.8%), while poverty estimates are lowest in Harari (11 percent) followed by Addis Ababa (28.1 percent) and Dire Dawa (28.3 percent). In terms of food poverty, the highest poverty is observed in Amhara (42.5 percent) followed by Tigray (37.1) and Benehsangul Gumuz (35.1%). The lowest food poverty is found again in Harari (5%) followed by Dire Dawa (21.7%) and SNNP (25.9).

The 2010/11 poverty results indicate that total poverty is much lower than food poverty in all regions and both total and food poverty have decline over the past five years in all regions despite the occurrence of frequent domestic economic shocks such as inflation and drought and worldwide shocks that hit many of the rural and urban population in the country. Registering substantial poverty reduction in times of such domestic and global crisis show the appropriate policies put in place and the capability of the Ethiopian Government to protect its vulnerable people from the economic crises.

Table 2.3. Trends of regional poverty headcount indices

Region	1995/96			1999/2000			2004/05			2010/11		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Tigray	0.579	0.457	0.561	0.616	0.607	0.614	0.510	0.367	0.485	0.365	0.137	0.318
Afar	0.518	-	0.331	0.680	0.268	0.56	0.429	0.279	0.366	0.411	0.237	0.361
Amhara	0.567	0.373	0.543	0.429	0.311	0.418	0.404	0.378	0.401	0.307	0.292	0.305
Oromia	0.347	0.276	0.340	0.404	0.359	0.399	0.372	0.346	0.370	0.293	0.248	0.287
Somale	0.346	-	0.309	0.441	0.261	0.379	0.452	0.353	0.419	0.351	0.231	0.328
B.B.G	0.476	0.345	0.468	0.558	0.289	0.54	0.458	0.345	0.445	0.301	0.213	0.289
SNNP	0.565	0.459	0.558	0.517	0.402	0.509	0.382	0.383	0.382	0.300	0.258	0.296
Gamb.	0.418	0.244	0.343	0.546	0.384	0.505	Na	na	na	0.325	0.307	0.320
Harari	0.133	0.291	0.22	0.149	0.35	0.258	0.206	0.326	0.270	0.105	0.117	0.111
AA	0.404	0.300	0.302	0.271	0.362	0.361	0.299	0.326	0.325	...	0.281	0.281
DD	0.366	0.246	0.295	0.332	0.331	0.331	0.398	0.329	0.352	0.142	0.349	0.283
Total	0.475	0.332	0.455	0.454	0.369	0.442	0.393	0.351	0.387	0.304	0.257	0.296

Source: HICE survey of 1995/96, 1999/00, 2004/05 and 2010/11

The incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 % in 2004/05 to 29.6 % in 2010/11. This implies that Ethiopia is on the right track to achieving the MDG target of reducing poverty by half. Over the same period, poverty gap is also reduced, but not the severity of poverty. Headcount poverty fell in all regions of the country.

The headcount poverty rate fell in rural areas from 39.3 % in 2004/05 to 30.4 % in 2010/11. Over the same period, in urban areas it declined substantially, from 35.1 % in 2004/05 to 25.7 % in 2010/11.

Nationally, the Gini coefficient for per adult equivalent consumption remained constant. In urban areas there was a substantial decline in inequality from 44 % in 2004/05 to 37.8 % in 2010/11 while it was increasing until 2004/05 at an alarming rate.

2.3.3. Status of Urban Poverty in Ethiopia

Urban poverty situations are usually linked to the problems associated with urbanization, which in turn is linked to the massive movement of people from the rural areas to the cities. As observed by Sabry (2010), given the massive movement of people from the rural areas to the cities, the scale of urban poverty has been on the rise worldwide, thus creating urban slums, often referred to as informal settlements, which are areas without enough resources, with degraded environmental conditions, without or with limited access to proper sanitation, clean water, electricity and health care facilities. These worsening environmental conditions in turn damage residents' health and entrench the stigma and isolation of living in informal settlements, making it all the more difficult to escape from poverty (Montgomery and Hewett, 2004).

Poverty lessening tools and approaches developed for rural areas will not work in urban areas, for the reason that urban poverty is different in its nature from rural counterparts (UNDP, 2007). Urban sectors share of the poor population in a developing country increases its share of the total population. As the dimensions of poverty are many, there are subsets of characteristics of urban poverty which are more pronounced and require specific analysis (Mboup, 2003). At

the same time, as a result of rural to urban migration, the number of poor in urban area will rise in developing countries (Todaro, 2004). Baker and Shuler (2004) outlined clear-cut and indispensable characteristics of urban poverty that is quite different from their rural areas i.e.:

- (i) Commoditization or reliance on cash economy for food, fuel, housing and are often more expensive in town than in rural areas. More than 60% income of urban poor spends for consumption on agricultural products and more suffer from higher food prices.
- (ii) Overcrowding living condition (slums). While towns become more modern, the growth of slums lead to pollution problems, unemployment, deficiency in basic services, and food insecurity issues. For that end, World Bank launches antipoverty projects to cope up the problems.
- (iii) Environmental hazards derive from stupidity and perilous location of settlement and expose to multiple pollutants. Crime and violence are highly pervasiveness in urban than rural.

The study by Sabry (2010) indicates that the poverty estimates in the Egyptian urban areas in 2009 was 11 percent. In Cairo, especially the Greater Cairo made up of Giza, Qalyoubia and Helwan areas, the poverty rate is high because they form parts of the slums/informal settlements in the city. The study also revealed that these areas have the highest rate of malnutrition, where about 16 percent of children were underweight which is much higher than the recorded income poverty rate in urban areas. The study also revealed that the costs of basic non-food needs—such as for housing, transportation, basic education and health, and access to water, sanitation and electricity—are much higher than commonly recognized.

In Ethiopian, according to an official document entitled ‘_Development and Poverty in Ethiopia 1995/96-2010/11’ (MoFED, 2013:49) stated that Urban poverty declined substantially between 2004/05 and 2010/11, but only limited the incidence and depth of poverty. The 2010/11 urban poverty head count and poverty gap are lower than that of 2004/05 by 27% and 10%, respectively, and poverty severity of 2010/11 is higher than that of 2004/05 by 5%. The changes of poverty incidence are all statistically significant. The decline in urban poverty incidence and gap could be attributed to the pro-poor activities undertaken in urban areas since 2005 including the on-going efforts waged by the government to creating favorable environment for private sector investment, promote micro and small enterprises development, job creations and

distribution of subsidized basic food items provided to the urban poor in times of inflation over the last five years. However, in urban areas too, the growth fails to significantly reach the bottom poor as these extreme poor people are unable to cope with the inflation (MoFED, 2013).

2.4. Empirical Literature

2.4.1. Research on other Countries

Davies and Thurlow studied South Africa's high unemployment and small informal economy has been attributed to barriers to entry in informal labor markets (Davies and Thurlow, 2010). They developed a general equilibrium model based on a typology of informal activities that captures formal/informal linkages in product and labor markets. According to their study, Simulations reveal that trade liberalization increases formal employment, hurts informal producers, and favors informal traders and may explain the dominance of traders instead of producers. Wage subsidies also raise employment but further heighten competition for informal producers. Cash transfers favor informal employment, albeit with a fiscal burden. In their study, Davies and Thurlow, confirmed the role of formal/informal linkages and product markets in explaining policy outcomes.

Gerry Finnegan and Andrea Singh focused their study in particular those working in the informal economy, coped with economic crisis. Their methodology borrows from the Sustainable Livelihoods approaches, as adopted by UNDP and DfID among others, and explores the impact of economic crisis on financial, human, natural, physical and social forms of capital. According to their study, at times of crisis, people turned to their informal networks of family and friends for support. In addition, being a member of a local association was a positive support and tended to provide more economic options for association members. Borrowing also increased at times of crisis, and most of this went into financing household expenditure rather than investment in productive activities (Gerry Finnegan and Andrea Singh, 2004). In the Thai context, the effects of the economic crisis on employment showed that there was evidence of women becoming the main income-earners within their families. Children's education was also adversely affected. Some were placed in "cheaper" schools, while others were put at greater risk as they had to leave school early to assist with their family's income-generating activities.

James Heintz and Joann Vanek (2007) discussed the importance of improving data on employment-poverty linkages that should not be underestimated. Without a better understanding of these relationships, development strategies aimed at poverty reduction may be incomplete, misdirected, or unsustainable (James Heintz and Joann Vanek, 2007). They studied those improvements in data that allow analysis of the employment-poverty nexus is essential if this challenge is to be overcome and appropriate policies implemented. Their study identifies major conceptual and measurement issues associated with linking informal employment to poverty outcomes and suggests ways to address these challenges. The three major challenges discussed in detail are: (1) bridging individual-level and household-level analysis; (2) forging linkages between different sources of data and types of surveys; and (3) improving measures of earnings and poverty. The study then provides concrete examples of how existing datasets have been analyzed with regard to the linkages between informal employment, the informal sector, and poverty outcomes. It also highlights steps that must be taken if such analysis were to be adapted and applied more generally.

Onyemaechi Joseph Onwe researched on an observed general negligence of the informal sector or the informal economy in development policies and national accounting (Onyemaechi Joseph Onwe, 2013). According to this study, this has been the case irrespective of the fact that the sector has been noted as accounting for about 21 percent of total employment in Sub-Saharan African countries (ECA, 2005), and about 38 percent of the gross domestic product (GDP) in Nigeria (FOS, 1999). This background informed their interest on the economic role of the informal sector, using Nigeria as a reference point. The methodology was a survey of available literature on growth, characteristics, and economic significance of the informal sector. The survey was empirically supported by data from the survey of the Nigerian informal sector, carried out by the Central Bank of Nigeria (CBN) in collaboration with the then Federal Office of Statistics (FOS) and the Nigerian Institute of Social and Economic Research (NISER). The analysis indicates as follows: first, the traditional or informal sector is continuously expanding in developing countries, and has been serving as a 'safety belt' in providing employment and income to the teeming poor; secondly, informal sector activities, often described as unrecognized, unrecorded, unprotected, and unregulated by the public sector are no longer confined to marginal activities but also included profitable enterprises in manufacturing activities; third, the informal sector is largely characterized by low entry requirements, small-

scale operations, skills acquired outside of formal education, and labour-intensive methods of production; forth, the informal sector is defined according to different classifications in terms of activity, employment category, location of actors, and income and employment enhancing potential.

Given these observations, the study recommended as follows: (i) emphasis on the informal sector's role in Nigeria's development policies; (ii) making data on the informal sector available for in-depth analysis; (iii) thinking in the direction of inclusion of the informal sector in national income accounting; (iv) financial and technical support of identifiable informal-sector activities such as, retail trade, small-scale home-based manufacturing activities, and services; and, (v) need for scholars to understand existing gaps in the economic use of the informal sector in Nigeria and other African countries.

2.4.2. Research Reviews in Ethiopia

In the Ethiopian context, the working definition for the informal sector is provided by Central Statistical Authority (CSA, 2014) National Labor Force Survey (2013:139) as follows:

- a) Does the enterprise have book of account (Tax); or
- b) Does the enterprise have a license; or
- c) Does the product/Service of the organization you engaged in is mainly for market?

Based on the response to these three questions, classification on sector of economy was made as: formal, informal or "not identified". Employed persons who satisfy at least one of the above conditions (a or b answered yes) were considered as working in the formal sector. On the contrary, those who respond "no" for a and b and yes for c, the activity was taken as informal. For those who don't know the situation about their main activity/business/ enterprise with respect to the above questions was labeled as "not identified". Some empirical studies on the informal sector were conducted in Ethiopia to look in to the features, problems and solutions.

Amene Afework discussed that Urban poverty and unemployment in many urban centers of Ethiopia has been expanding. He confirmed that this pushed many people particularly the urban

poor and other impoverished groups of the society to various income generating activities in the informal sector (Amene Afework, 2011). According to this researcher, just like other urban centers of the country, the urban poor women in Dejen town are engaged in different informal activities; however, their participation is intense in the processing of Tella and Katicala. These alcoholic drinks were previously prepared for home-based drinks and to colorfully celebrate cultural holidays, but the current economic hardship together with other factors forced women to use it as a commercial item. The purpose of this study was to assess the livelihood conditions of women in the urban informal sector with particular emphasis on Tella and Katicala producers and sellers in Dejen town. In order to achieve this objective, the researcher used two types of sampling techniques (purposive and stratified sampling) and a sample of 115 women were selected and relevant data were gathered through questionnaire, interviews and observations. The data collected from different sources were analyzed quantitatively (using frequency, percent, mean, median and correlations) and qualitatively.

The researcher in his study reveals that most of the operators are in the productive age groups, illiterate, migrants and were house wives. The study also found that the reasons for women participation into informal activities were lack of alternatives for living, divorce, insufficient monthly income, school dropouts, family and/or husband death, and presence of large dependents in the households.

In the research, the problem of housing, shortage of working capital, strong competition, lack of institutional and government support, fluctuation in demand and cost of inputs and health problems were reported as major working constraints for these women.

Solomon Shimelis discussed that Child labor is pervasive problem throughout the world, especially in developing countries. In his study the researcher confirmed that as in many developing countries, child labor is a widespread problem in Ethiopia. In rural areas, agriculture is by far the dominant sector of child employment where as in urban areas child workers are mostly engaged in the informal sector. There are different types of child labor in the informal sector in Ethiopia but the study focused only on those children who are engaged in shoe shining activities in Gulele sub city (Solomon Shimelis, 2006). The objective of the study was to know the factors that led the children into shoe shining work, the types of hazards and risks they face,

the number of hours they devote to work, the impact of work on the health and education of the working children. Both quantitative and qualitative data were collected by using survey method, focus group discussion and direct observation.

The findings of the study indicated that nearly all the child shoe shiners that participated in the study were with disadvantaged background involving lack of access to education, coming from poor families, some being orphaned and having migrated from other parts of Ethiopia to Addis Ababa. According to the study findings working children that participated in the study were forced to engage into shoe shining carrier by so many reasons including the socio- economic and cultural factor of their circumstances.

The study findings showed that child shoe shiners that participated in the study were leading adult leaves, normally working for long hours under conditions damaging to their healthy and to their physical development, facing physical and verbal abuse, frequently deprived of meaningful educational opportunities that could open up for them better future. Finally the researcher forwarded some recommendations as a solution to reduce the problem faced by child shoe shiners in the study area.

Tefera Darge discussed that informal sector plays an important role in reducing urban unemployment, crime and violence, and serving as a breeding ground for new entrepreneurs. The study was aimed at assessing the role of informal sector in reducing youth unemployment. Data were gathered from a sample of 264 youth informal sector operators in Hawassa city. Ordinary logistic regression is used to determine the factors that can contribute to the livelihood improvement of the operators. Nearly, 90 percent of the operators have witnessed that their livelihood has improved after they joined the informal sector. Operators who were more educated, natives to the city, more profitable, stayed longer in the activity, and have a culture of saving, have depicted better livelihood improvement vis-à-vis their counterparts (Tefera Darge Delbiso, 2011). According to the researcher, however, lack of working capital, working premises, adequate market and raw materials were reported as the major impediments for the operators. The study recommends, given the immense contribution that the sector has, therefore, the government needs to consider the sector as one of the fundamental pillar to combat youth unemployment. Thus, operators should be encouraged to join the formal sector by lessening the

bureaucracy to get license, minimizing entry cost such as lowering registration or licensing cost, and providing tax-holidays for sometimes.

Ethiopia Etsubdink investigated the importance of informal sector in Ethiopia economy and identify constraints and risk in the operation, specifically to examine the reason why informal operators become in the informal sector. To achieve this aim; the researcher constructed structured interview based on theories that the main research question associated with the four causal theory of informal sector that debates of different school of thoughts and indicator build on other related theories, and then interviewed 91 a sample of street vendors (Ethiopia Etsubdink, 2013). Finally, used descriptive and logistic regression analyses method. The findings of the study showed that the main factors determining the reason of informal operators to become in the informal sector are unable to fulfill criteria of formal sector and lack of job opportunity in the formal sector. Also the study revealed that informal sector is source of income for the poor or means of employment and also it is a base of formal sector. The study showed that the majority of the street vendor's constraint was shortage of capital and faced working place.

In general, those empirical studies tried to look in to the issue of informal sector by studying specific aspects such as age, type of business and specific problem of the sector. While this research tried to assess all business types i.e. production, service and trade. All age groups were part of the study and this research looked in to the general aspects of challenges and prospects of the informal sector in alleviating poverty.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

3.1.1 Description of Study Area

Addis Ababa is the capital of Ethiopia where out of the totally employed population nearly 75% were engaged in the formal sector and the rest are engaged in the informal sector. The share of informal sector in the city economy indicates that the informal sector would play an important role in alleviating poverty and creating employment through small units of production and service (CSA, 2014).

Addis Ababa has 10 sub cities namely Akaki Kaliti, Nefas Silk-Lafto, Kolfe Keraniyo, Gulele, Lideta, Kirkos, Arada, Addis Ketema, Yeka and Bole sub city administrations. From these sub cities, the study focused on Yeka sub-city because of its large population size next to kolfe Keraniyo sub-city (CSA, 2008: Annex 4 and 5) and its convenience to this researcher.

Yeka sub-city is found in North-Eastern part of Addis Ababa and located at a geographical coordinate of 90 01' 30.73''N and 380 46'27.55''E on the Earth's surface. And it has an estimated area of 8265.02 HC. Yeka sub-city has 13 Woredas. Of those, five of them (i.e. Woreda 2,4,6,7 and 8) were purposively chosen as a case area for they have a good number of informal sector participants (ILAA of Addis Ababa City, Annex 3)

3.1.2 Demographic Status

The total population of Yeka sub city according to the 2007 census was around 346,664, from this population the male population was around 46.7% which is about 161,592 and the rest female population was 53.3% which is about 185,072 (YSCA, 2008).

The main objective of the study is to assess the challenges and prospects of informal sector in alleviating poverty and the coping mechanism in the unregistered informal sector of Yeka Sub-city, Addis Ababa, Ethiopia. The study has the following specific objectives:

- To explore general context in which the informal sector operates in Yeka-Sub City,
- To assess the living and working conditions of informal sector operators in the Sub-city,
- To explore the contribution of the informal sector to reducing poverty in the Sub-City

- To identify coping mechanism of poverty in the urban informal sector of yeka Sub-city.
- To recommend the kind of support the informal sector requires from the government and other stakeholders.

A descriptive survey design was used to collect data from two sources. These are secondary source which concentrated on reviewing the literature related to informal sector and develop contextual framework; and primary source from interviews and questionnaire filled by respondents to attain the general and specific objectives. The study relied on both qualitative and quantitative methods of data collection used in this research.

3.2. Primary Data Source

Primary data source involved personal interviews and filling questionnaire by different respondent groups, which included indirect respondents from relevant government departments and respondents who involve directly in the informal sector; specifically street vendors, homemade food staff producers (Baltina, ባልትና), home to home service providers and traders in Yeka Sub-City. The latter group was divided into three categories: traders, producers and service providers.

3.3. Secondary Data Source

Secondary data source concentrated mainly from literature review of the subject. The available literature was used to gain an understanding of the informal sector and also to compile the theoretical chapters. In addition, literature on the informal sector and development theory was used throughout the study to support the researcher's viewpoints or provide alternative viewpoints. It was also used as a reference point to determine what other authors have discovered on this subject, which may or may not be similar to the author's findings. The chief sources of secondary data were broadly classified into two groups: Published sources and unpublished sources.

3.4. Data collection

Data was collected in Yeka Sub-city from two sources. Primary data was gathered using a questionnaire and interviews for the informants. Secondary data was gathered from published and unpublished materials.

3.4.1. Data Gathering Instrument Design

Two types of data gathering instruments/tools were designed for the purpose of primary source. The first is an open-ended interview developed for the respondent group from government officials. The second is a questionnaire developed and distributed to the respondent group from the informal sector operators. The questionnaire was mostly closed-ended questions and few open-ended questions which would help probe more opinion from the respondents.

3.4.2. Pretesting the questionnaire

Before proceeding with pretesting, contacts were made with the informal sector participants to obtain permission to conduct this research in Yeka Sub-city. Twenty (20) informal sector participants were personally approached by the researcher. By conducting the pretesting of the questionnaire, some corrections were done to wrong wordings and gaps were filled before the actual administration of data collection process and helped to improve the instrument.

3.4.3. Sampling

Samples were drawn from two different target groups: government officials and the informal sector operators themselves. The sample size for the second group is based on the population estimates, purpose of study, time and money available. Sample size is based on the recommendation made by Chadwick et al (1984:68) who stated “Researchers have developed certain rules of thumb about sample sizes”. According to Bailey (1982), 30 is considered by many as a minimum size for a sample. Others opt for a minimum sample of 100 units and we encourage the selection of at least 200 cases. Details on the way sampling is done in each group are provided below.

i) The Government Officials

The Purposive sampling method is used. According to this method, there is a deliberate selection of certain units on the judgment of the researcher and nothing is left to chance (Gupta 1993:111). The officials selected using the purposive sampling method are relevant experts of Addis Ababa City Government, Medium and Small Enterprise Development Bureau, MSE experts of yeka Sub-City and it’s Woredas’ Offices, experts of the Ministry of Work and Social Affairs, experts from Ministry of Trade and experts from Addis Ababa Revenue and Custom Authority Woreda Offices. A sample of 30 are drawn using purposive method from a population of 57.

ii) The Informal Sector Participants

Since there is no accurate official data on the population size of the informal sector in Addis Ababa City in general and Yeka sub-City in particular, the researcher used purposive method to select a sample size of 120 (One Hundred twenty) respondents from the informal sector participants in the three categories: traders, producers and service providers. Forty (40) respondents are drawn from each category purposively.

3.4.4. Data Coding and Entry

Coding refers to assigning number digits, letters or both to various responses to make possible easy tabulation of information. The purpose of coding is to classify the responses to a question into meaningful categories, which is essential for tabulation (Gupta 1993:153). On completion of this simple manual coding, the variables (in this case, the questions) and the assertions are entered into frequency tables.

3.4.5. Data analysis

The data will be analyzed in two ways as follows:

i) Quantitative data

The data is easily analyzed by generating frequency tables and computing percentages. Then the findings were identified, discussed and conclusion is drawn for each item.

ii) Qualitative data

As for the qualitative data, which is generated from the open-ended questions, summaries of the major or interesting points are made and reported as the results of this survey.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

While the research methodology was outlined in the previous chapter, this chapter concentrates on the actual research findings. These are presented in two sections. Firstly, the findings on the government officials are examined; secondly, the findings on those of the informal sector participants themselves are presented.

In each section, the results are presented in a simple report, which is divided into three subsections: the finding, a discussion and a conclusion. In addition, the results of the informal sector participants are stated using frequency tables and percentages.

4.2. Presentation and Analysis of data collected from Government Officials

The main objective of interviewing this group was to discover the government's role in the activities of the informal sector. The assumption made was that the government employees working in relevant Offices as stated in the sampling (3.4.3., i) would represent the government's role in understanding and supporting the sector.

Twenty Three (23) government officials out of thirty (30) were interviewed which is 76.66%. Seventeen of them were experts and officers, three of them are team leaders and the remaining three are Office heads. The researcher was unable to make contact with the other Seven (7) officials (23.34%) due to various reasons. All of the respondents contacted had first degree and above. More than Seventy six percent (76%) of the government officials who were interviewed had been in their present Office and position for less than five (5) years. The remaining twenty four (24%) percent had been in their current organization and at different positions for more than 5 years.

There are several possible explanations for the above data. The government officials are able to comprehend relevant policy and strategy documents due to their literacy and day to day activities of their office. Some of the government employees who served for less than Five years might have been new employees to their current office and their predecessors might have been promoted or transferred to other departments. Others might have resigned from government job either

because they had found another good job, retired, started their own business. However, all the officials interviewed were involved in the informal sector in their day-to-day jobs. As for the twenty four percent (24%) who had worked for more than 5 years, the chances were that they preferred to stay in the same office for various personal reasons and have a good understanding of the informal sector operations.

Although the majority of the officials had been in their current position for less than five years, their understanding about the role of the government and its policy measures towards the informal sector is significantly useful because they deal with the issue under study in their day-to-day jobs.

Government policy or strategic document that guides the development of informal sector operators in Ethiopia in general and Addis Ababa in particular

All of the government officials agreed that the government does have policy and strategy documents on how to handle and guide the informal sector. All of the respondents who said the government have a policy and strategy by referring to different poverty reduction documents designed by the government. They mentioned PASDEP, GTP, MDG, MSE, TVET strategy documents as an example. The researcher had access to see some evidences proving the existence of such a strategy despite the issue of informal sector was treated together with poverty and unemployment problems. Some of the responses were as follows:

The aim of the strategy is to control the informal sector operations by providing special Sunday market places and by organizing them in to associations where informal sector participants can operate. One of the components of the strategy documents is the introduction of weekend markets on public areas and roads and training for entrepreneurship so that the self-employed can also employ others. The MSEs development program of the government focuses on the training of the informal sector participants to support them in the formation of formal small enterprises. The emphasis is on facilitating the graduation of the informal sector into formal ones that will contribute to the economy.

Three things emerge from the findings above as a government strategy: the need to construct Sunday markets on the road to control the operations of the informal sector, the need to have a structure that will regulate operations and collect market fees, the need to train and encourage the

informal sector participants to organize themselves into formal businesses so that they can contribute more fully to the economy of the country. While the responses were diverse, the impression given by the government officials was that the government intended to provide the infrastructure to the informal sector to enhance control and ensure that it contributed more to the economy of the country.

The Ethiopian government does have a policy and strategy document on how to handle the informal sector and the intention mainly focusing on providing the infrastructure to the informal sector to enhance administrative control and not developing the life of the individual operators in the sector .

Data/information regarding the population size of the informal sector in Addis Ababa in general and Yeka Sub-City in particular

All of the government official respondents did not have any precise statistics on how many people were involved in the informal sector at sub-city level. They were able to make estimations based on CSA's survey data, and tended to give unreliable estimates.

The fact that there is no official definition of the informal sector, it is difficult to come up with reliable statistics on how many people are involved in this sector. The informal sector plays a crucial role in absorbing urban labor and its role cannot be fully appreciated without research into its size, a challenge which presupposes a precise definition. Without an official definition of the informal sector, it was not surprising to find out that the government officials did not have statistics to guide the government activities on the informal sector in Yeka sub-city.

A clear and official definition plays a key role in gathering the statistics or estimates of the informal sector in a country. Without this definition, measurement becomes difficult.

The criteria to identify participants in the informal sector from the formal sector

Majority of government officials agreed that the criteria to identify those who participate in the informal sector revolve around all jobs which are not recognized as normal income source which taxes are not paid. The term is sometimes used to refer to only illegal activity, such as an

individual earn wages but does not claim them on his or her income tax, or a cruel situation where people are forced to work without pay. However, the informal sector could also be interpreted to include legal activities such as jobs that are performed in exchange for something other than money opposite of formal sector.

The informal sector refers to activities and income that are partially or fully outside government regulation, taxation, and observation. The activity allows employers, paid employees, and the self-employed to increase their take home earnings or reduce their costs by escaping taxation and social contributions. It is also a means of employment who cannot find a job in the formal sector.

Evaluation of the role of informal sector development activities in reducing urban poverty in Addis Ababa in general and in Yeka Sub-City in particular

According to the government officials, they are of the opinion that the government evaluated the role of the informal sector participants in a positive way, which they help to reduce poverty in the country by helping the poor to survive in the sub-city thereby stabilizing market for the poor.

While the evaluations were positive, there were also negative evaluations, particularly in the area of the environment and market price. These negative evaluations were viewed as the disadvantages of the informal sector. It is interesting to note that other government officials think that the informal sector is destabilizing market prices. According to the government policy and strategy, this does not seem to be the government's perspective. It is the officials' perspective because the government has implemented the liberalization policy promoting free trade. The government is more concerned about fair prices for the people in the marketplace.

The government evaluates the informal sector positively because of its critical contribution to the economy of the country. However, it is widely believed that there are issues that need to be addressed to improve this sector.

Government support system is available to the informal sector operators that will assist them to grow to formal sector

Respondents were asked whether the government has support system for the informal sector participants or not. Most of them agreed that the government arranges easy access for credit with appropriate interest rates and business spaces for those who willingly seek assistance. They agreed that the problem of credit and market place should be solved not only by the participants in the informal business but also primarily by the government support through microfinance institutions and NGOs.

Provision of support in relation to the transition from informal sector business to formal sector, MSEs development strategy of the government is a solution for achieving the intended goal of alleviating poverty. Support system of human resource development and technology, market development support system, Finance and credit service support system are available.

A number of problems and obstacles affect the sustainability and income of informal sector operators in the study area. To this end, marketing stands, bank loan access, working premise and getting training were among the support systems put in place by the government.

4.3. Presentation and analysis of data collected from the Informal Sector Participants

One Hundred twenty (120) (100%) informal sector participants were contacted in Yeka Sub-city of Addis Ababa City Government following the planned sampling procedures as stated (3.4.3., ii). The primary objective of contacting this group through a questionnaire was to collect information on the role of the informal sector to poverty alleviation. The findings on the informal sector participants have been presented on frequency tables following data collected for this research; the report is organized in to findings, discussion and conclusion below.

4.3.1. Respondent Background

Sex, Age, Marital Status and Children of the Respondents

Of the 120 informal sector participants who were contacted by a questionnaire, 40.83% were male and 59.17% were female. When the researcher examined the sample, it was found out that there were relatively more women involved in the sector as shown in table 4.1 below.

Age is an important demographic variable that influences the physical and mental abilities of individuals at work. The results of the study revealed that the age of sample respondents ranges from 14 – 25 years with the percentage of 20.83. As can be seen from table 4.1, huge proportion 38.33% of respondents fall within the age ranges from 26 – 35 years which is productive age group. 29.17% of the respondents were between the age range of 36-50 while the remaining 11.67% fall beyond 51 years of age.

Regarding marriage status of respondents, 43.33% of the participants were married, 30% were single, 7.5% were divorced, while the remaining 19.17% were widowed.

65.83% of the participants had children while 34.17% did not have children. 53.16% of all the participants had one to two children and the remaining 46.84% had three to five children as indicated in table 4.1 below.

Table 4.1: Respondent Background

S.N.	Item	Frequency	Percentage
1	Sex:		
	a) Male	49	40.83
	b) Female	71	59.17
	Total	120	100
2	Age:		
	a) 14-25	25	20.83
	b) 26-35	46	38.33
	c) 36-50	35	29.17
	d) 51 and beyond	14	11.67
	Total	120	100

3	Marital Status:		
	a) Single	36	30.00
	b) Married	52	43.33
	c) Divorced	9	7.50
	d) widowed	23	19.17
	Total	120	100
4	Do you have children?		
	a) Yes	79	65.83
	b) No	41	34.17
	Total	120	100
5	If your answer is 'yes' for Q. 4 above, how many of them?		
	a) 1-2	42	53.16
	b) 3-5	37	46.84
	c) 6-7	--	--
	d) more than 8	--	--
	Total	79	100

Source: Own Survey, 2015

The informal sector in Ethiopia in general, in Addis Ababa City in particular is associated with poverty as well as a lack of opportunity and capital. Because of cultural and economic barriers, it generally takes a great deal of courage for women to be involved in the informal sector. This makes things extremely difficult for female respondents to engage in decent job in the formal sector. Many of the informal sector participants had experience in married life and had children during their productive ages. It may also be because more young people are involved in the informal sector. A possible reason for this could be that married respondents have greater difficulty raising a family, and the motivation to engage in the informal sector was stronger for them.

A significant number of the informal sector participants were young and raise a family. Many of the informal sector participants are/were married. The respondents are capable of becoming involved in the informal sector if they are given the opportunity, and the environment is secure enough for them. From this, it can be understood that the majority of informants have dual responsibilities of performing productive and reproductive tasks in the household.

4.3.2. Education level of the Participant

Almost all of the respondents were literate, according to table 4.2 below. More than 80% had finished secondary school and beyond. Only 17.50% of the respondents had attended primary school. However, 87.50% of respondents wish to further their education. Among these

respondents, 55% of them have been living in Yeka sub-city for less than 5 years, 25% been living for 6 to 10 years and 20% of them for more than 10 years.

Table 4.2: Education and Tenure in Yeka Sub-City

S.N.	Item	Frequency	Percentage
6	Educational level:		
	a) No Schooling	--	--
	b) Primary	21	17.50
	c) Secondary	30	25.00
	d) College/TVET Diploma	62	51.67
	e) 1 st Degree and above	7	5.83
	Total	120	100
7	Do you still wish to further your education?		
	a) Yes	105	87.50
	b) No	15	12.50
	Total	120	100
8	How long did you live in Addis Ababa?		
	a) Less than 1 year	--	--
	b) 1-5 years	66	55.00
	c) 6-10 years	30	25.00
	d) above 10 years	24	20.00
	Total	120	100

Source: Own Survey, 2015

It is clear from these findings that many of the informal sector participants were literate. Some of these participants may have tried to find a job in the formal sector, but with the high unemployment rate, were unsuccessful, and, thus ended up in the informal sector. It seems logical that a literate person would be able to run a business in the informal sector if they acquire the necessary skills and experience.

It can be inferred from the data that one can function and be involved in the informal sector, irrespective of educational status and gender. It is also learned from the data that majority of the respondents were newcomers to the sub-city. This implies that migration is the cause for the increment of informal sector businesses in the sub-city.

4.3.3. Respondent Housing Situation

Regarding where the respondents live, 95% of the participants do not own a home while the minorities 5% of respondents own home. However, of all those who don't own home, 65.79% live in a rented house, 20.18% live with their parents and the remaining 14.03% live with their relatives as indicated in table 4.3 below. According to the data obtained from the survey, all of the participants paid rent and/or contributed to the payment of rent where they live in. Of the participants who paid rent, 25.44% paid rent of less than 500 birr per month, 44.73% paid rent between 501 to 1000 birr per month, 21.92% paid rent between 1000 to 1500 birr, while the remaining more than 7% of the respondents paid more than 1501 birr per month.

Table 4.3: Respondents' Housing Situation

S.N.	Item	Frequency	Percentage
9	Do you own a home of your own?		
	a) Yes	6	5.00
	b) No	114	95.00
	Total	120	100
10	If your answer for Q. 9 above is 'No', where do you live?		
	a) With my parents	23	20.18
	b) With my relatives	16	14.03
	c) With my friends	-	--
	d) In a rented house	75	65.79
	e) Other Specify	-	--
	Total	114	100
11	Do you have to pay any rent or contribute to the payment of rent where you are living?		
	a) Yes	114	100
	b) No	-	--
	Total	114	100
12	If your answer is 'yes' for Q. 11, how much do you pay per month?		
	a) Less than 500 birr	29	25.44
	b) 501 to 1000 birr	51	44.73
	c) 1000 to 1500birr	25	21.92
	d) 1501 to 2000birr	6	5.26
	e) 2001 and more	3	2.63
	Total	114	100

Source: Own Survey, 2015

One commonly held characteristic of these respondents was the desire to be independent rather than dependent on someone else for their housing. This afforded them an opportunity to have raised families in the sub-city. On the other hand, they have built their own homes (the 5% who owned homes) using the money they earned from their informal businesses activity.

As for those who rented a house, it is clear from the figures that an attempt was made by the participants to rent relatively the cheapest place possible. It is interesting to note that those who lived with relatives also contributed to the payment of rent.

Minority of the informal sector participants in Yeka Sub-City live with their families and relatives, while majority of those who rent homes, pay the minimum rent possible. One can infer from this that the informal sector business in the sub-city afforded participants to contribute to their day to day livelihood and be able to support their families.

4.3.4. Respondent's Living Cost Responsibilities

With respect to cost of living, table 4.4 shows the average amount of money spent on food, school fees, transport and health issues per month. This table shows that 31.66% of the informal sector participants spent less than 1000 birr per month on food. 43.33% spent from 1001 to 2000 birr per month while 25% spent more than 2001 birr on food alone on average per month.

The same table shows that 33.33% of respondents spent less than 500 birr per month on school fees, clothing and transport, while 26.66% spent 501 to 1000 birr per month, 29.16% of the respondents spent from 1001 to 2000 birr per month and the remaining 10.83% spent more than 2001 birr per month.

The same table also shows that 81.66% of participants spent less than 500 birr on health services, 14.17% of those spent 501 to 1000 birr per month, while the remaining 4.17% spent between 1001 to 2000 birr per month.

Table 4.4: Respondents' Living Cost Responsibilities

S.N.	Item	Frequency	Percentage
13	How much do you spend on average on food for you and those you support per month?		
	a) Less than 1000 birr	38	31.66
	b) 1001 to 2000 birr	52	43.33
	c) 2001 to 4000 birr	24	20.00
	d) 4001 to 6000 birr	6	5.00
	e) 6001 and more birr	--	--
	Total	120	100
14	How much money on average do you spend per month in order to meet other needs like school fees, clothing and transport?		
	a) Less than 500 birr	40	33.33
	b) 501 to 1000 birr	32	26.66
	c) 1 001 to 2 000 birr	35	29.16
	d) 2001 to 4000 birr	13	10.83
	e) 4001 birr and more	--	--
	Total	120	100
15	How much money on average do you spend per month on health issues for you and those you support?		
	a) 0 to 500 birr	98	81.66
	b) 501 to 1000 birr	17	14.17
	c) 1001 to 2000 birr	5	4.17
	d) 2001 to 4000 birr	--	--
	e) 4001 and more	--	--
	Total	120	100

Source: Own Survey, 2015

It is clear from the above table that many of the participants spend a significant amount of their income on food, school fees, clothing, on transport and health services. This may be because they are able to obtain cheaper sources of food items. It is also possible that they use more of the informal markets which supply non expensive goods and services. More than one USD (\$1) per day is, however, higher than the national poverty line (World Bank, 20010). Thus, these participants at national level are well above the poverty line. Based on this finding, one may argue that the informal sector is indeed contributing to the well-being of individuals who would otherwise be extremely poor.

The findings also show that women spend more than men on food. This is normal because women are more caring and nurturing than men, and it is therefore obvious that they tend to spend more on the basic food to meet everyday household costs and often also take responsibility for children whom they want to see cared for, well-nourished and possibly better educated. One may argue

that the percentage of those who are above the poverty line could well be majority, showing that the informal sector is indeed an effective strategy for poverty alleviation.

An interesting finding is that respondents seem to spend much less on health issues. This is because they and their family are healthy and they are free to spend more of their money on food, as stated above.

It can be inferred from the information gathered above is that the more responsibility one has, the more one spends and respondents are likely to spend more on household necessities to support themselves and their families. Therefore, income generated from the involvement in the informal sector helped support participants to alleviate poverty and contributed to self-sufficiency.

4.3.5. Characteristics of the Work Activity, Registration and Tax Payment

The study looked in to the type of work/business, registration and tax payment by the informal sector participants. According to from Table 4.5 below, 17.50% of respondents are engaged in trade, 30.83% of them provide services and generate income, 26.67% engaged in production of domestic goods (ባልጎሮ) while the remaining 25% of the respondents engaged in a combination of work/business types to generate income for their livelihood.

With regard to registration for license, all of the respondents (100%) had no official registration/license for their business activities. Of all these with no registration, 66.67% do not want their business activity to be registered, 7.5% do not know whether they should register or not and the remaining more than 25% of respondents claimed either the process is challenging with too many requirements and too much payment to get registered.

Also with respect to paying tax, all of the respondents (100%) do not pay tax as indicated in table 4.5 below. Minority respondents (19.66%) of these do not want to pay any tax, majority (65.83%) claimed that their income is too small while the remaining 15% do not know whether they have to pay tax or not.

Table 4.5: Characteristics of the work Activity

S.N.	Item	Frequency	Percentage
16	What type of work/business are you engaged in?		
	a) Trade	21	17.50
	b) Service	37	30.83
	c) Production	32	26.67
	d) A combination of these	30	25.00
	d) Other (Specify)_____	--	--
	Total	120	100
17	Do you have official registration/license for your work/business?		
	a) Yes	--	--
	b) No	120	100
	Total	120	100
18	If your response for Q. 17 above is 'No', why?		
	a) Do not want my business be registered	80	66.67
	b) Do not know if I have to register	9	7.50
	c) Too many requirements to complete registration	15	12.50
	d) Have to pay too much to register	16	13.33
	e) My work activity does not qualify for registration	-	--
	f) Other (specify) _____	-	--
Total	120	100	
19	Do you pay an income tax?		
	a) Yes	--	--
	b) No	120	100
Total	120	100	
20	If your answer for Q. 19 above is 'No', what reason do you have?		
	a) I don't want to pay tax		
	b) My income is too small	23	19.66
	c) I don't know if I have to	79	65.83
	d) No state agent or institute asked me to pay tax	18	15.00
	e) Other (Specify)_____	--	--
Total	120	100	

Source: Own Survey, 2015

The types of businesses in which the informal sector participants are involved in Yeka sub-city do not require major investment and sophisticated assets. In one way, this makes entry into this sector quite easy. The participants do not need to get registered and pay tax in order to participate in the sector. They can start small, according to their financial abilities and locational advantages, and gradually grow. This strategy is in accordance with the CSA's definition of the informal sector and the one developed for this thesis in section (CSA,). However, the respondents stated their own reasons for not getting registered and not paying tax.

It can be inferred from the finding and discussion above that the informal sector in Yeka sub-city is involved in trade, service and production businesses that are small and do not require neither sophisticated assets, registration for license nor the payment of tax in order to operate. However, it is also implied from the participants' response that there is a deliberate escape from formal sector by getting no license and paying no tax as the case stated in the finding.

4.3.6. Characteristics of the Work/Business

More than 15% have been in the business for more than five years. 57.5% have been in the business for 3 to 5 years and the remaining 26.67% for less than three years. Table 4.6 provides details.

With respect to operating the current work/business activity, 72.5% of the respondents stated that they operated their current because it was the only source of income, 15.83% said the reason was to avoid taxation and registration fee, and the remaining 11.67% quoted not fulfilling minimum requirements for registration.

As to their previous status, 8.33% of the respondents were students before starting their current business activity, 6.67% were employed in the formal sector, 75% were unemployed and the remaining 10% were engaged in self/family owned business activity.

Respondents also stated the where about of their current business activity in which 15% of them did their business where their customers to be found, 26.67% of them did the work in their home where they currently live, 40% of those did their business in a rented work place/shop/shade and the remaining 18.33% did their work by roadside vending/door to door.

Table 4.6: Characteristics of the work/Business

S.N.	Item	Frequency	Percentage
21	How long have you been in your current work activity?		
	a) 1-2years	32	26.67
	b) 3-5 years	69	57.50
	c) 6-8years	11	9.16
	d) 8 years and beyond	8	6.67
	Total	120	100
22	Why do you operate your current work/business activity? /Multiple answer is possible/		
	a) It is the only source of income/survival	87	72.50
	b) To avoid taxation and registration fee	19	15.83
	c) It is highly profitable	--	--
	d) Not fulfilled minimum requirements for registration	14	11.67
	e) Other (Specify)_____	--	--
	Total	120	100
23	What were you doing before starting your current work/business?		
	a) Student	10	8.33
	b) Employed	8	6.67
	c) Unemployed	90	75.00
	d) Retired	--	--
	e) Self/family owned business activity	12	10.00
	f) Other (Specify)_____	--	--
	Total	120	100
24	Where do you operate your current work/business?	18	15.00
	a) Where my customers to be found	32	26.67
	b) In my own/family living quarter/home	48	40.00
	c) In a rented business place/shop/shade	22	18.33
	d) Roadside vending/ Door to door	--	--
	e) Other (Specify)_____		
	Total	120	100

Source: Own Survey, 2015

More than 72% have been in the business for more than two years, which seems to suggest that business is stable and they have acquired the needed experience. However, one can argue that some people join the sector as a temporary survival mechanism but simply stay because they lack alternatives.

The majority of the informal sector participants in Yeka sub-city have been involved in the informal sector for more than two years.

4.3.7. Source of Capital for the Work/Business

When one examines the sources of this initial capital of the respondent, the main sources of initial capital for were their own personal saving (19.17%), borrowed from parents or relatives (42.5%), assistance from family, friends or relatives (25%) and the remaining (13.33%) borrowed from micro finance institutions. See table 4.7 below for details.

With regard to supplementing income by engaging in other activities, 45% of the respondents confirmed that they did other jobs to supplement their small income while 55% of those did not engage in other jobs. Out of those who did other supplementary jobs gave their reasons that 90.74% of respondents claimed that it was to supplement their small income and support their family and the remaining 9.26% enjoyed engaging in multiple income generating activities.

Table 4.7: Source of Capital for the Work/Business

S.N.	Item	Frequency	Percentage
25	What was the source of start-up capital for your current/business activity?		
	a) Personal Saving	23	19.17
	b) Borrowing from family, friends or relatives	51	42.50
	c) Assistance from family, friends or relatives	30	25.00
	d) Borrowing from Micro finance institutions	16	13.33
	e) Other (specify) _____	--	--
	Total	120	100
26	Do you do other jobs to supplement your income?		
	a) Yes	54	45.00
	b) No	66	55.00
	Total	120	100
27	If your answer for Q. 26 above is <u>Yes</u> , why?		
	a) To supplement my small income and support my family	49	90.74
	b) To make use of my spare time	--	--
	c) I enjoy engaging in multiple income generating activities	5	9.26
	d) Due to my strong conviction to escape from poverty	--	--
	e) Other (Specify) _____	--	--
	Total	54	100

Source: Own Survey, 2015

Respondents started their informal sector businesses with their own money. This was because of the lack of other sources of capital. The fact that they used their own capital means that they would have started with very little. The only other source of capital for them was borrowing and assistance from parents, relatives and friends who generally did not give them much. Since most of the parents, friends and relatives are also poor, they consequently start their businesses with very little capital. There are both advantages and disadvantages to this problem. One of the advantages is that they start small and gain the required experience as they grow. This helps the business to survive. In fact, there were some who went out of business and managed to borrow a little capital to restart.

However, one of the disadvantages of beginning with such a small investment is the amount of time required to start making substantial profits. The challenge is that, as they develop their business, they still need to take care of themselves and their families. With a small profit each day, balancing the needs of the business with the daily expenditures required for their families is a huge task.

To supplement their small income, a little less than 50% of the respondents engage themselves in other income generating activity to supplement their small income from current business.

The informal sector participants lack the adequate capital to start their businesses and this affects the size and rate of growth of their work. It does not follow that the more one invests, the more profit one will make, for profit levels depend on the business itself, the skill of the participant, the business environment and sometimes the length of the period that it has been operational.

4.3.8. Difficulties Faced while Establishing Business Activity

As indicated in table 4.8 below, 35.83% of the participants experienced lack of start-up capital/seed money to start their businesses, 9.17% had problems because of lack of a business space, while 4.17% had problems of inadequate business skill, 6.67% lack of experience, 15.83% had problems of competition, 9.17% of respondents claimed police harassment is their serious problem and the remaining 19.16% had a combination of problems while starting their current business activity.

14.17% of the participants work for four to six hours per day in their business, 33.33% work six to eight hours per day and the remaining 52.5% work for more than eight hours per day.

21.67% of the participants work five days per week, 63.33% work six days per week, while the remaining 15% work for seven days per week.

Table 4.8: Difficulties Facing while Starting a Business

S.N.	Item	Frequency	Percentage
28	What were the serious difficulties you faced when you started your current work/business?		
	a) Lack of start-up capital/Seed money	43	35.83
	b) Lack of space	11	9.17
	c) Inadequate skill	5	4.17
	d) Lack of encouraging government policy	--	--
	e) Lack of demand for my product/service	--	--
	f) Lack of experience	8	6.67
	g) Competition	19	15.83
	h) Police harassment	11	9.17
	i) A combination of the above	23	19.16
	Total	120	100
29	How many hours per day do you work?		
	a) Less than four hours per day	--	--
	b) Four to six hours per day	17	14.17
	c) More than six hours but less than eight hours a day	40	33.33
	d) More than eight hours a day	63	52.50
	Total	120	100
30	How many days per week do you work?		
	a) Two days or less	--	--
	b) Between 2-4 days a week	--	--
	c) 5 days a week	26	21.67
	d) 6 days a week	76	63.33
	e) 7 days a week	18	15.00
	Total	120	100

Source: Own Survey, 2015

The fact that the informal sector participants struggle to raise capital for business startup costs is not at all surprising because they are not eligible for bank loans or loans from lending institutions. This was because of a lack of assets or collateral at the time of start-up of their businesses. In addition, some institutions require proof of business experience on the part of the participant before they risk lending money to him or her, which tends to be a major problem for new participants.

Lack of acquiring skills and business space was also indicated as a problem by the respondents. This shows that entry into the informal sector is not always as easy as some may think. One has to overcome several barriers before one can become involved.

The findings seem to suggest that it is necessary to work longer hours in the informal sector than in many of the formal sector jobs. The fact that many of the participants are owners of the businesses, seem to suggest that their businesses are a part of their lives. However, those who will devote more time to their business are extremely successful.

Lack of capital, strong competition, lack of space and harsh law enforcement is the main obstacles to the entry into the informal sector. Most of the respondents devoted more hours per day and more days per week to informal sector businesses to be successful.

4.3.9. Training and Job Creation

As it is presented in table 4.9 below, 69.17% of the respondents had training prior to starting their current business while the other 30.83% had never had any training before. Out of all who had training, 56.63% received their training through formal education and training school, none of those received it from workshops, 16.87% from experience learnt from family members and the remaining 26.5% were employed in the formal sector.

25.83% of the participants had employed other people to help them in their businesses. Of these, 77.42% had one to three assistants while 22.58% had four to six assistants; Tables 4.9 provides details of these findings. However, majority of the participants (74.17%) do not have employed workers under supervision.

Table 4.9: Training and Job Creation

S.N.	Item	Frequency	Percentage
31	Before you started this work/business, did you have any sort of training?		
	a) Yes	83	69.17
	b) No	37	30.83
	Total	120	100
32	If your answer is 'yes' for Q.31 above, what sort of training was it?		
	a) Formal education and training	47	56.63
	b) Workshops held by the government/NGO units	--	--
	c) Experience learnt from family members	14	16.87
	d) Was employed in a company where I learnt the skill	22	26.50
	e) Other (Specify) _____	--	--
	Total	83	100
33	Do you have employees in your current work/business?		
	a) Yes	31	25.83
	b) No	89	74.17
	Total	120	100
34	If your answer is 'yes' for Q. 33, how many workers?		
	a) 1-3	24	77.42
	b) 4-6	7	22.58
	c) 7-10	--	--
	d) More than 11	--	--
	e) Other (Specify) _____	--	--
	Total	31	100

Source: Own Survey, 2015

Many participants started their informal sector businesses with some form of prior training. This may have been for the following reasons:

The participants were motivated by the entrepreneurial spirit learned from their training or frustrated by less employment opportunity in Yeka Sub-City and therefore had to start the business.

It was interesting to note that, of those who had training, the majority received their training through formal education and apprenticeships to others in the informal sector. This type of training gives them practical skills on how to run their businesses because the owners share their experience and instruct them.

It is important to remember that, apart from having employees and contributing to job creation, the participants themselves are self-employed, thus decreasing the number of unemployed people in Yeka sub-city.

The best initial training for the informal sector participants is to have a mix of the practical type of training, which can be offered through formal training schools, workshops and apprenticeships with those who own businesses in the informal sector. The employment of assistants in the informal sector in yeka sub-city is not based on the amount invested or the average income made per day but possibly on the type of business being conducted or the need to help another person.

4.3.10. Business Location and Working Condition

When asked how they found the place they are using for their business, several reasons were given by respondents who work in the same place every day. Table 4.10: shows that 9.17% of the respondents got the place from their parents, 26.67% found it through brokers, 5.83% by contacting the owner of the shop personally and the remaining 58.33% started their business using their current work place without contacting anybody.

Only 32.5% of the respondents paid rent for the place they were using. 67.5% of them do not pay rent for their business place. 15.39% were paying less than 500 birr per month, 23.07% were paying between 501 and 1000 birr per month. The majority, 53.85% paid a rent between 1001 and 2000 birr per month while the remaining 7.69% paid a monthly rent between 2001 and 4000 birr.

Out of those who do not pay a monthly rent for their business places, 13.58% of the respondents carry out their work/business activity in places owned by their parents and do not pay rent, 30.86% of them carry out the business vending on street while the remaining majority 55.56% of respondents carry out the business by going to their customers' place like home-to-home sales/service.

Table 4.10: Work/Business Location

S.N.	Item	Frequency	Percentage
35	How did you find this work/business place?		
	a) I got it from my parents	11	9.17
	b) Through brokers	32	26.67
	c) I contacted the owner of this shop to let me rent it	7	5.83
	d) I just started using this place without contacting anybody	70	58.33
	e) Other Specify _____	--	--
	Total	120	100
36	Do you pay any form of rent for your work/business place?		
	a) Yes	39	32.50
	b) No	81	67.50
	Total	120	100
37	If your answer is 'yes' for Q. 36, how much is the rent per month?		
	a) Less than 500 birr	6	15.39
	b) 501 to 1000 birr	9	23.07
	c) 1001 to 2000 birr	21	53.85
	d) 2001 to 4000 birr	3	7.69
	e) More than 4000 birr	--	--
	Total	39	100
38	If your answer is 'No' for Q.36, why?		
	a) It is my own	--	--
	b) My parents don't let me pay	11	13.58
	c) I'm a street vendor	25	30.86
	d) It is my Customer's place	45	55.56
	e) Other (Specify) _____	--	--
	Total	81	100

Source: Own Survey, 2015

Although many of the participants did not have a permanent structure in which to conduct their businesses, they tended to use the same place every day where they reach their customers easily. Their reasons for doing so had to do with proximity to customers and availability.

The participants who paid rent ensured that they paid the lowest possible amount because they were aware that they cannot compete with the formal sector.

It is imperative that the informal sector participants work in the same place every day and avoid paying rent whenever possible as they build up a successful business. Hence, not all the informal sector participants were paying the market fee.

4.3.11. Respondents' Earning and Life Status

Of those asked about their daily income, 5% of the respondents made between 5 to 20 birr per day, another group of 10.84% made an average of 21 to 40 birr per day. 5.83% made 41 to 60 birr per day, 30% made 61 to 100 birr per day while the remaining 48.33% made more than 101 birr per day, as shown in table 4.11 below. 71.67% of the participants thought that their current work/business activity improved and supported their life. The remaining 28.33% disagreed that their work did not improve their life. 37.21% of those who thought their life was improved due to their informal work claimed that they were able to support themselves and their family economically. 20.93% said their monthly income has increased substantially, 36.05% claimed that they could create jobs for others and the remaining 5.81% said that their working capital has increased from time to time.

Table 4.11: Average Income of the Respondents

S.N.	Item	Frequency	Percentage
39	How much money do you normally make per day?		
	a) 5-20 birr	6	5.00
	b) 21-40 birr	13	10.84
	c) 41-60 birr	7	5.83
	d) 61-100 birr	36	30.00
	e) More than 101 birr	58	48.33
	Total	120	100
40	Do you think that your current work/business activity improved and changed your life in a better way?		
	a) Yes	86	71.67
	b) No	34	28.33
	Total	120	100
41	If your answer is 'Yes' for Q. 40 above, how can you tell?		
	a) I can support myself and my family economically,	32	37.21
	b) My monthly income has increased substantially,	18	20.93
	c) I was able to create jobs for others,	31	36.05
	d) My working capital has increased from time to time,	5	5.81
	e) Other (Specify) _____	--	--
	Total	86	100

Source: Own Survey, 2015

85% of the participants made on average more than 100 birr (\$5) per day, which translates into more than 3000 birr (\$150) per month based on the current exchange rate (\$1=20 birr). According to the poverty line set at \$1 and \$2 a day for the extreme poor and for the moderate poor respectively as provided by the world bank (World Bank, 2001), they were making US\$150 per month which is

significantly above the poverty line. With this income in mind, one may conclude that the informal sector participants were doing very well in Yeka sub-city. However, the average number of people per participant household should be taken in to consideration. This however was still higher than the poverty line of US\$129.

More than 80 percent of the informal sector participants in the sub-city earned enough money through their businesses to make a good livelihood. Given the same opportunities, women are just as capable of establishing and running profitable businesses as men. It can be inferred from this that the sector played a significant role in poverty alleviation in Yeka sub-city.

4.3.12. Future Plans of the Respondents

Respondents were asked if they wanted to expand their current business, 97.5% of participants indicated that they would want to expand their business. 15.38% of those who want to expand their businesses indicated that they would easily do so if they had an opportunity to loan and credit facility, 17.95% needed training, 11.12% needed descent market place, 4.27% needed a license while the remaining majority 51.28% needed a combination of the alternatives provided here as shown below Table 4.12. While expressing their opinion regarding the benefits of working in the informal sector, 7.5% of respondents said not paying tax is their benefit, 18.33% claimed no cost involved for registration, 41.67% said its free entry and exit as their benefit, 21.67% of them claimed that they are their own boss and the remaining 10.83% said the benefit was its being market oriented and flexible.

Table 4.12: Factors that can lead to the expansion of businesses

S.N.	Item	Frequency	Percentage
42	Do you want to expand your work/business activity?		
	a) Yes	117	97.50
	b) No	3	2.50
	Total	120	100
43	If your answer is 'yes' for Q. 42 above, what do you need to expand your Work/business activity?		
	a) A loan or credit facility	18	15.38
	b) Training	21	17.95
	c) Descent market place	13	11.12
	d) A license	5	4.27
	e) A Combination of the above	60	51.28
	Total	117	100

44	What do you think is the benefits of being an informal sector participant?		
	a) You do not pay tax	9	7.50
	b) No cost involved for registration	22	18.33
	c) It's free entry and Exit	50	41.67
	d) You are the boss for yourself	26	21.67
	e) Market oriented and flexible	13	10.83
	f) Other Specify _____	--	--
Total		120	100

Source: Own Survey, 2015

Almost all the participants wanted to expand their businesses. This is because everyone wants to progress in what they were doing. In addition, expanded businesses would enable them make more profit which, in turn, would help them to improve their standard of living. As stated above, the obstacle to expansion is a combination of factors listed in item number 43 in the above table. The participants mentioned several benefits of being involved in the informal sector.

The majority of the informal sector participants in the three major cities of Malawi want to expand their business. Expanded access to capital would enable them do so. The benefits of the informal sector differ when one examines them from the perspective of the participants themselves. All these benefits, however, make the informal sector in Yeka Sub-City increasingly relevant.

The respondents were also provided with an open-ended question to give comment on their current work. The respondents had several comments:

- Respondents forwarded their comment that government should make the business environment very conducive so that some hardworking members of the informal sector participants would like to grow into a formal sector through process.
- It would be helpful if institutions give training for informal sector participants and facilitate access to credit facility which is a major problem in the growth of the sector.
- Since the informal sector provide goods and services more cheaply than most shops in the formal sector, the government's effort to support the informal sector should not focus on tax collection purpose only. The informal sector participants in Yeka sub-city have ideas on how to improve their businesses but most of them require support from the government, NGOs and other institutions to do so.

4.4. Conclusion of the Chapter

It is clear from the findings that the participants are making a substantial contribution to the lives of the people in the informal sector business. The need for opportunities to obtain credit was underlined, and they are of the opinion that this would further enhance their activities. A large percentage of the participants are supporting themselves and other family members from the income generated through informal sector businesses. These businesses contributed to alleviating poverty by creating employment and improving livelihood in Yeka Sub-City.

The findings of this research were presented in two areas, namely the government officials and the informal sector participants themselves. The government officials were interested in how they could control the operations of the informal sector participants. The informal sector participants themselves were interested in how the government, NGOs and institutions could help them enhance their activities so that they could expand and support their families. Chapter 5 examines the conclusions drawn in each section, and then makes recommendations.

CHAPTER FIVE

CONCLUSION, SUMMARY AND RECOMMENDATIONS

The role of the informal sector in alleviating poverty in Yeka Sub-City was the general objective and focus of this study. The specific objectives for this study were to explore general concepts on the informal sector which forms a background upon which the analysis would be based to understand the business environment, to explore the contribution of the informal sector to reducing poverty and identify coping mechanism of poverty in the sub-city.

5.1. Summary of the Main Findings

A summary of the main findings critical to the objective of this study has been drawn from chapter 4 and introduced into this section to enable the author to make comprehensive recommendations later. These main findings are presented below:

- Majority of the government officials confirmed that the government holds a positive perspective towards the presence of the informal sector even if negatively influence the performance of the formal sector, informal sector activities are being supported with clear guidelines regarding government actions and regulations.
- The living conditions of the informal sector operators especially Women live supporting their own families in their homes, which they either own or rent. They faced many challenges such as lack of working and market place, lack of credit facility, police harassment and lack of experience. They also shoulder a huge responsibility to look after their families.
- The informal sector businesses contributed a lot to poverty alleviation by being a good source of income for the operators and helped them support a sustainable livelihood. They had initial training and practical hands-on type of experience, which is helpful to those already engaged in the business.
- The informal sector operators used a coping mechanism by working as an apprentice for family, relatives or friends. They also borrowed money without interest from their families to start their business. Others had employment in the formal sector to acquire the skill and experience even though the payment was far from adequate.

- The informal sector operators use also a stable work place by renting cheaper business place and living house; others work and live sharing family property to avoid paying rent, some others move from work place to work place to skip work place rent and still others use long working hours per day and many days per week as a coping mechanism.

5.2. Conclusions

The informal sectors are becoming the major source of livelihood for many people in both urban and rural areas of Ethiopia. This sector in Yeka sub-city, Addis Ababa, provides livelihood for huge population mainly to the poor and other impoverished groups of the society.

- The participation of individual citizens into informal work activities in the sub-city have been increasing mainly due to lack of job opportunities and insufficient monthly income of households.
- There are various factors that hinder the success and profit earning potential of these informal sector participants. These include lack of convenient working place, shortage of working capital, inadequate skill, lack of experience, strong competition, lack of institutional and government support, and police harassment.
- Informal sector work/business in Yeka sub-city supports the livelihood of the poor. Most of the operators depend on it for living while some others used it as an additional source of income. The monthly earnings of participants are low on average. In addition, natural incidents like illness and loss of family; and human induced problems like competitions and market fluctuation further aggravate the vulnerability of informal sector participants.

The challenges and prospects of informal sector in alleviating poverty with reference to the participants' day to day livelihood and the objectives of this research show that;

- They do have the human resource and physical well-being, which gives them a potential to work in areas that require education and skills.
- They do have financial/capital shortage which poses a challenge to expand their activity,
- The majority of participants lived in rented houses and rented business places which consumed their earnings making investment almost impossible.

- It was found that social relations are a big asset that these participants have. Many of the participants borrowed money and obtained assistance from their families, relatives and friends.
- Informal sector participants do not have access to credit facility and training support from government and stakeholders despite their activity contributed to employment creation and poverty alleviation in the sub-city.

From the above, it can be concluded that most of the informal sector participants in this study were challenged by lack of convenient working place, shortage of working capital, inadequate skill, lack of experience, strong competition, lack of institutional and government support, and police harassment.

Coping strategies were implemented by participants to tackle these challenges. These include:

- Renting cheaper working places and living house,
- Using family property to cut rent cost,
- Street vending to cut work place rent
- Spending less on cheaper food items,
- Borrowing items in kind/cash from families, relatives and friends,
- Engaging in multiple jobs to supplement income.

Involvement in informal sector work/business is a livelihood strategy that participants pursue to survive and alleviate poverty in urban centers like yeka sub-city of Addis Ababa City. These activities as a livelihood strategy have brought various outcomes. Initially most of the participants had only their literacy, skill and small amount of startup capital before they start work, however, after their participation in the informal work/business; they are able to create jobs for themselves and others to better survive and alleviate poverty even if their living condition is still unsatisfactory. In addition to this, some participants have showed significant improvements in their living and were able to make various assets including house.

5.3. Recommendations

There are several recommendations that can be made based on the findings and conclusions stated above. However, the author decided to look only at the major recommendations, as presented below.

- Addis Ababa city government in general and Yeka sub-city Administration in particular needs to compile a systematized data base and official statistics of the informal sector that will guide policy implementation and help design support programs for the sector and be able to measure its contribution to the national economy.
- Yeka sub-city administration and the informal sector participants should work together on rules, regulations so that the operations of the informal sector can be discussed, agreed upon and a plan of action devised on how to build trust between each other and contribute to the national economy and tackle unemployment.
- The government, private sector, NGOs and other stakeholders should support the operations of the informal sector by providing for their required credit or capital needs, training programs and work place for their business operations with no or minimal precondition.
- There is need to strengthen the relations between the formal and informal sector by making sure that it is a mutually inclusive rather than excluding themselves from the formal sector through market linkage and SMEs.
- The informal sector should engage with government on issues that concern the informal sector participants in order to come up with solutions critical to the success of their businesses. The process of formalization should be the ultimate goal for the informal sector.

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Annex 1
Interview Questions
Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
Master of public Management and Policy Analysis
(MPMP)

Interview Questions for Government Officials

Educational level _____

Position _____

Work Experiences _____

- 1) Is there any government policy or strategic document that guides the development of informal sector operators in Ethiopia in general and Addis Ababa in particular? Explain?
- 2) Is there precise data/information regarding the population size of the informal sector in Addis Ababa in general and Yeka Sub-City in particular? If Not, why?
- 3) What are the criteria to identify participants in informal sector from the formal sector?
- 4) How do you evaluate the role of informal sector development activities in reducing urban poverty in Addis Ababa in general and in Yeka Sub-City in particular?
- 5) What kind of government support system is available to the informal sector operators that will assist them to grow to formal sector?

Annex 2
Questionnaire
Addis Ababa University
College of Business and Economics
Department of Public Administration and Development Management
Master of Public Management and Policy (MPMP)

Questionnaire

This questionnaire is designed to investigate “Challenges and Prospects of Informal Sector in alleviating Urban Poverty in Yeka Sub-City of Addis Ababa, Ethiopia” The researcher kindly reminds the respondents that the response given will be used only as an input for the research work. Please do not ignore any of the questions; your responses are essential in getting accurate information for the topic under study. Thank you for taking time to answer the questions. Please encircle the appropriate alternative.

Section 1: Respondent Background.

1. Sex:

- a) Male b) Female

2. Age:

- a) 14-25 b) 26-35 c) 36-50 d) 51 and beyond

3. Marital Status:

- a) Single b) Married c) Divorced d) widowed

4. Do you have children?

- a) Yes b) No

5. If your answer is „yes“ for Q. 4 above, how many of them?

- a) 1-2 b) 3-5 c) 6-7 d) more than 8

6. Educational level:

- a) No Schooling b) Primary c) Secondary d) College Diploma
e) 1st Degree and above

7. Do you still wish to further your education?

- a) Yes b) No

8. How long did you live in Addis Ababa?

- a) Less than 1 year b) 1-5 years c) 6-10 years d) above 10 years

Section 2: Participant's Responsibility and Housing Situation

9. Do you own a home of your own?

- a) Yes b) No

10. If your answer for Q. 9 above is „No“, where do you live?

- a) With my parents c) With my friends
b) With my relatives d) In a rented house
e) Other Specify_____

11. Do you have to pay any rent or contribute to the payment of rent where you are living?

- a) Yes b) No

12. If your answer is „yes“ for Q. 11, how much do you pay per month?

- a) Less than 500 birr d) 1501 to 2000birr
b) 501 to 1000 birr e) 2001 and more
c) 1000 to 1500birr

13. How much do you spend on average on food for you and those you support per month?

- a) Less than 1000 birr d) 4001 to 6000 birr
b) 1001 to 2000 birr e) 6001 and more birr
c) 2001 to 4000 birr

14. How much money on average do you spend per month in order to meet other needs like school fees, food and transport?

- a) Less than 500 birr d) 2001 to 4000 birr
b) 501 to 1000 birr e) 4001 birr and more
c) 1 001 to 2 000 birr

15. How much money on average do you spend per month on health issues for you and those you support?

- a) 0 to 500 birr d) 2001 to 4000 birr
b) 501 to 1000 birr e) 4001 and more
c) 1001 to 2000 birr

Section 3. The Characteristics Of The work activity

16. What type of work/business are you engaged in?

- a) Trade b) Service c) Production d) A combination of these

d) Other (Specify)_____

17. Do you have official registration/license for your work/business?

- a) Yes b) No

18. If your response for Q. 17 above is „No“, why?

- a) Do not want my business be registered
b) Do not know if I have to register
c) Too many requirements to complete registration
f) Other (specify) _____
- d) Have to pay too much to register
e) My work activity does not qualify for registration

19. Do you pay an income tax?

- a) Yes b) No

20. If your answer for Q. 19 above is „No“, what reason do you have?

- a) I don't want to pay tax
b) My income is too small
c) I don't know if I have to
d) No state agent or institute asked me to pay tax
e) Other (Specify) _____

21. How long have you been in your current work activity?

- a) 0-2years b) 3-5 years c) 6-8years d) 8 years and beyond

22. Why do you operate your current work/business activity? /Multiple answer is possible/

- a) It is the only source of income
b) To avoid taxation and registration fee
e) Other (Specify) _____
- c) It is highly profitable
d) Not fulfilled minimum requirements for registration

23. What were you doing before starting you current work/business?

- a) Student b) Employed c) Unemployed d) Retired
- e) Self/family owned business activity
f) Other (Specify) _____

24. Where do you operate your current work/business?

- a) Where my customers to be found
b) In my own/family living quarter/home

- c) In a rented business place/shop/shade
- d) Roadside vending/door to door
- e) Other (Specify) _____

25. What was the source of start-up capital for your current/business activity?

- a) Personal Saving
- b) Borrowing from family, friends or relatives
- c) Assistance from family, friends or relatives
- d) Borrowing from Micro finance institutions
- e) Other (specify) _____

26. Do you do other jobs to supplement your income?

- a) Yes
- b) No

27. If your answer for Q. 26 above is „Yes“, why?

- a) To supplement my small income and support my family
- b) To make use of my spare time
- c) I enjoy engaging in multiple income generating activities
- d) Due to my strong conviction to escape from poverty
- e) Other (Specify) _____

28. What were the serious difficulties you faced when you started your current work/business? Multiple answers are possible.

- | | |
|--|--|
| a) Lack of start-up capital/Seed money | e) Lack of demand for my product/service |
| b) Lack of space | f) Lack of experience |
| c) Inadequate skill | g) Competition |
| d) Lack of encouraging government policy | h) Police harassment |
| i) Other (specify) _____ | |

29. How many hours per day do you work?

- | | |
|---------------------------------|--|
| a) Less than four hours per day | c) More than six hours but less than eight hours a day |
| b) Four to six hours per day | d) More than eight hours a day |

30. How many days per week do you work?

- a) Two days or less
- b) Between 2-4 days a week
- c) 5 days a week
- d) 6 days a week
- e) 7 days a week

Section 4. Training and Job Creation

31. Before you started this work/business, did you have any sort of training?

- a) Yes
- b) No

32. If your answer is „yes“ for Q.31 above, what sort of training was it?

- a) Formal education and training
- b) Workshops held by the government/NGO units
- c) Experiences learnt from families, friends and relatives
- d) Was employed in a company where I learnt the skill
- e) Other (Specify) _____

33. Do you have employees in your current work/business?

- a) Yes
- b) No

34. If your answer is „yes“ for Q. 33, how many workers?

- a) 1-3
- b) 4-6
- c) 7-10
- d) More than 11
- e) Other (Specify) _____

35. How did you find this work/business place?

- a) I got it from my parents
- b) Through brokers
- c) I contacted the owner of this shop to let me rent it
- d) I just started using this place without contacting anybody
- e) Other Specify _____

36. Do you pay any form of rent for your work/business place?

- a) Yes
- b) No

37. If your answer is „yes“ for Q. 36, how much is the rent per month?

- a) Less than 500 birr
- b) 501 to 1000 birr
- c) 1001 to 2000 birr
- d) 2001 to 4000 birr
- e) More than 4000 birr

38. If your answer is „No“ for Q.36, why?

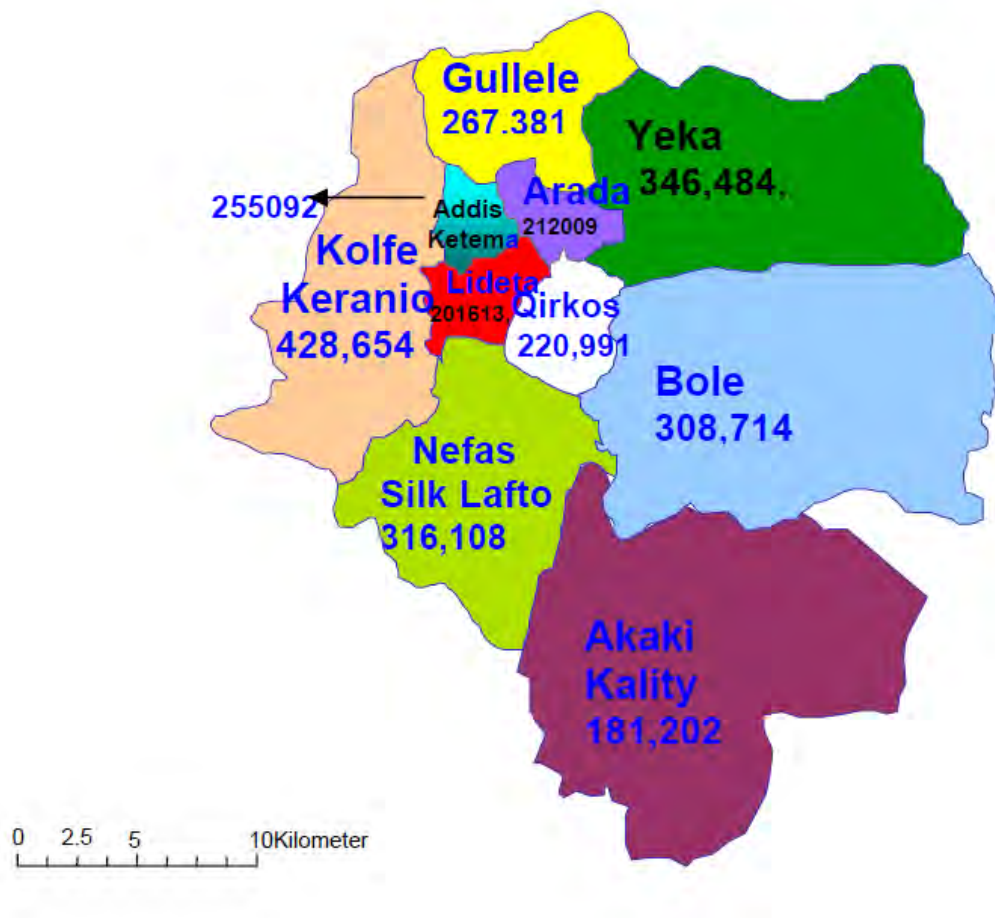
- a) It is my own
- b) My parents don't let me pay
- c) I'm a street vendor
- d) It is my customer's place
- e) Other (Specify) _____

Annex 3: Administrative Map of Addis Ababa



Source: Integrated Land Administration Agency of Addis Ababa City

Annex 4: Addis Ababa City's Distribution of Population by Sub city



Source: CSA, 2008, The 2007 population and Housing census

Annex 5: Addis Ababa City's Distribution of Population by Sub cities

Sub City	Number of Kebeles	Population Size
Kolfe Keranio	10	428,654
Yeka	11	346,484
Nefas Silk Lafto	10	316,108
Bole	11	308,741
Gullele	10	267,381
Addis Ketema	9	225,092
Qirkos	11	220,991
Arada	10	212,009
Lideta	9	201,613
Akaki Kaliti	8	181,202
Addis Ababa	99	2,738,248

Source CSA: (2008). The 2007 Population and Housing Census Report

DECLARATION

I, **Elias Zewdie**, have been a student of Master of Public Management and Policy (MA) in the Department of Public Administration and Development Management, College of Business and Economics (CBE), Addis Ababa University (AAU), Addis Ababa since September, 2013.

I do hereby declare that the thesis entitled, “**The Role of Informal Sector in alleviating Poverty in Yeka Sub City**” for the Master’s Degree of this University, is my own piece of original research work.

This thesis is submitted for the Master of Arts (MA.) in Public Management and Policy, under the direct supervision and guidance of my advisor Dr. **Jemal Abagisa**. I also assert that this thesis has not been submitted earlier for the award of any other degree or diploma anywhere else.

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Date: June, 2015