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Rural–urban migration, urban informality and the challenges of promoting inclusive development in Ethiopia

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List of abbreviations and acronyms

| | |
|----------------|---|
| AU | African Union |
| BDS | Business Development Services |
| CSA | Central Statistical Agency |
| EEA | Ethiopian Economic Association |
| EPRDF | Ethiopian People’s Revolutionary Democratic Front |
| FeMSEDA | Federal Micro and Small Enterprise Development Agency |
| FGDs | Focus Group Discussions |
| GTP | Growth and Transformational Plan |
| KIIs | Key Informant Interviews |
| ILO | International Labour Organization |
| IOM | International Organization for Migration |
| IMF | International Monetary Fund |
| MFIs | Microfinance Institutions |
| MoUDHC | Ministry of Urban Development, Housing and Construction |
| MSE | Micro and Small Enterprises |
| MSED | Micro and Small Enterprises Development |
| NGOs | Nongovernmental organisations |
| PASDEP | Plan for Accelerated and Sustainable Development to End Poverty |
| SDGs | Sustainable Development Goals |
| SNNPR | Southern Nations Nationalities and Peoples Region |
| SSA | Sub-Saharan Africa |
| UNDESA | United Nations Department of Economic and Social Affairs |
| UNDP | United Nations Development Programme |
| USAID | United States Agency for International Development |

Abstract

Ethiopia is rapidly urbanising and migration from rural to urban areas plays a major role in this urbanisation. Rural youth choose to migrate to urban areas because of lack of productive employment and entrepreneurial opportunities in the agricultural sector. The capacity of urban centres to plan for and accommodate the massive influx of youth migrants by providing formal employment is limited. Consequently, young people find themselves without access to alternative employment opportunities, and lacking entrepreneurial skills and access to finance. As a result, the majority are pushed into self-employment in the informal sector, primarily street vending. The objective of this paper is to explore the causes and types of informality in Ethiopia and identify barriers that hinder young people from formalising informal businesses and launching and running new businesses. Data for this study were collected in four urban centres – Addis Ababa, Adama, Bahir Dar and Hawassa – as they house the largest share of unemployed youth and informal workers in Ethiopia. The findings show that there are several political, regulatory and administrative bottlenecks, including politicisation of entrepreneurship; lack of understanding of the nature and demands of young people; weaknesses in business organisation and developing markets; weak instructional systems; low levels of service capacity and inefficiency; lack of entrepreneurship education; youth negligence; and corruption. These hinder youth entrepreneurship programmes. These are also some of the impediments to attaining inclusive development in Ethiopia. Government and nongovernmental organisations working on youth entrepreneurship programmes must assess and understand young people’s needs and aspirations, in the context of their local environments, and know how to support them to access finance and the necessary business infrastructure. Developing business, technical and soft skills for enterprise start-up and expansion needs to be emphasised, along with minimising administrative and regulatory procedures.

Keywords

Migration, urban informality, youth entrepreneurship, inclusive development

1 Introduction

Urbanisation has been one of the most significant driving forces of recent global development. More than 50 per cent of the world's population now lives in cities and this proportion is expected to rise to 66 per cent by 2050 (UNDESA, 2014). The majority of today's urban growth is occurring in developing countries, which do not have national or local-level capacities to adequately plan for and design a sustainable model of urbanisation. By 2050, cities in the developing world are projected to absorb more than two billion new urban residents, representing 95 per cent of global urban growth, with African cities representing a majority of the increase (UNDESA, 2019). If managed properly, urbanisation has the potential to create opportunities for a better life, to provide a pathway out of poverty and serve as an engine of economic growth. But while urbanisation is moving the global economy forward, rising inequality and exclusion within cities can negatively affect development progress. In light of this, the international community has acknowledged the need to create more inclusive cities and to ensure that people can reap the benefits of urbanisation equally (UNDESA, 2019).

Over the past few decades, Ethiopia has shown progress in economic growth. Ethiopia's GDP has experienced a sustained increase, with an average annual growth rate of 7.4 per cent between 2004 and 2018 (OECD & ILO, 2019). The country's economic growth outperformed the average of Sub-Saharan African countries, which stood at 5.2 per cent during the same period. Ethiopia's GDP per capita, however, remains low compared to regional standards (World Bank, 2020). Rapid growth, driven by large public investment and an increase in services, has contributed to an improvement in poverty reduction. Over the past two decades, the national poverty rate has dropped from 45.5 per cent in 1995–96 to 23.5 per cent in 2015–16 (Araya & Woldehana, 2019; World Bank, 2020). However, the decline varies between urban and rural areas. While the rural poverty headcount index declined from 47.5 per cent in 1995–96 to 25.6 per cent in 2015–16, urban poverty incidence declined from 33.2 per cent to 14.8 per cent over the same period (Araya & Woldehana, 2019; World Bank, 2020). The rural poverty rate is thus still almost twice as high as that of urban poverty. Although Ethiopia is the fastest-growing economy in the region and the fifth fastest-growing economy among 188 IMF member countries, it remains one of the poorest countries in the world, with a per capita income of \$850 (World Bank, 2019).

While economic growth has led to reductions in poverty rates, it has not been inclusive, and has, in fact, run parallel to an increase in inequality (IMF, 2015). The country's overall inequality has been rising over time from 0.29 in 1995–96 to 0.33 in 2015–16, with a higher increase in urban areas to 0.38 in 2015–16 (Planning & Development Commission, 2018). In addition, unemployment remains high and tackling it remains challenging. Pressures on the labour market are likely to continue over the medium term because of demographic dynamics and lack of job opportunities in labour-intensive sectors (IMF, 2015). Further, Ethiopia is experiencing the largest youth bulge in Africa. Of the country's total population of 112 million people in 2019 (World Bank, 2019), about 41 per cent are under the age of 15. About 28 per cent are aged 15–29 and increasing labour force participation rates in the country has on average led to 1.2 million new job seekers each year (IMF, 2015). The relatively limited growth of the agricultural sector (where the rural youth are expected to be employed and earn a living), compared to manufacturing and service sectors, complicates prospects for new job-seeking youth in rural areas. Furthermore, the need to develop labour-intensive industries to create employment opportunities remains pressing (IMF, 2015). Such slow expansion of formal employment, coupled with rapidly growing urban ward migration among young people, has forced the largest share of the workforce to join the informal sector (ILO, 2013).

The informal sector is the major source of urban employment in Ethiopia. It provides migrants with a simple track to employment compared to the formal sector, which requires specialised skills and working capital (Alemayehu et al, 2021). According to the 2020 urban employment and unemployment survey, the informal sector accounts for about 16.1 per cent of the urban employment share, which has shown a declining trend from 28 per cent in 2015 to 22 per cent in 2018 (CSA, 2020). Despite this decline, the sector accounts for the largest share of urban employment in the country (Cichello & Rogan, 2017). The sector is dominated by youth and women and is an important contributor to poverty alleviation (Guyen & Karlem, 2020). For a growing young population, the informal sector offers the possibility of fulfilling basic needs and feeling self-sufficient (Alemayehu et al, 2021). However, it is characterised by low productivity, resulting in low and irregular earnings. This is heightened by a lack of access to basic services such as water and electricity, to working space, and to high-value markets (Guyen & Karlem, 2020). Informal sector activities are typically not able to access finance, making it hard for workers to make consistent business transactions, to access credit for productive investments or to save regularly to prepare for unexpected threats (Guyen & Karlem, 2020). Indeed, informal sector workers, particularly street vendors, lack social protection, have fewer rights and employment benefits, and are subject to greater exclusion from government institutions (ILO, 2013). Lack of prospects in the informal sector may lead to frustrations and social and political instability in the country. Engaging unemployed youth and those working in the informal sector in development interventions is, thus, central to achieving more inclusive and sustainable urban development in Ethiopia (Kebede, 2015).

In an attempt to address the problems associated with informality and unemployment, the Government of Ethiopia (GoE) has been developing and implementing various policies and strategies since the 1990s. Among these are: the Sustainable Development and Poverty Reduction Programme (2002/3–04/05), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/6–09/10) and the first and second Growth and Transformation Plans of 2010/11–14/15 and 2015/16–19/2020 (UNDP, 2012; EEA, 2015; MoUDHC, 2015). These documents reiterate the importance of youth entrepreneurship through micro and small enterprise development (MSED) as a means to reduce poverty, build an industrial economy and promote inclusive development in the country. Although improvements have been made during the past few decades in addressing unemployment and poverty, the performance of MSED programmes in Ethiopia has fallen short of expectations (EEA, 2015). The degree of recognition and support provided to the informal sector is inadequate. Likewise, formalisation of the informal economy and engaging unemployed youth in micro and small enterprise (MSE) initiatives and programmes is very limited (EEA, 2015; MoUDHC, 2016; Gebreeyesus, 2009).

Several empirical studies have been conducted in Ethiopia related to MSEs. Most studies (eg Feyisa & Tamene, 2019; Hadis & Ali, 2018; Mohammed et al., 2020; Teklehimanot, 2017; Tesgera, 2019;) examine the impact and contributions of MSEs on employment creation, income generation, women's empowerment and poverty reduction. Other studies (eg Araar et al, 2019; Geleta & Talegeta, 2019; Kidane et al., 2015; Yimesgen, 2019; Gebremariam, 2017) investigate the determinants of growth of MSEs and their linkages with food security. Some others (Ayele, 2018; Tekele, 2019; Cherkos et al, 2018; Abagissa, 2021) examine factors that determine the performance of micro and small enterprises, with cases from several towns in Ethiopia, while Gamo and Gollagari (2020) and Mamo (2020) assess the role played by local governments and the effect of their incentives on the performance of MSEs. The existing empirical studies have further addressed the challenges, opportunities and prospects of the informal sector and the development of MSEs (Abebe & Gemada, 2020; Abdulmelike et al, 2018; Ahmed & Ahmed, 2021; Ashenafi, 2017; Gebrehiwot & Wolday, 2006; Hailemariam, 2015; Mehari & Belay, 2017). Lakew and BirBirs (2019) and Singh and Abate (2018) investigated the financial sources and financing practices of MSEs in Ethiopian towns.

The aforementioned studies, however, consider these issues in the context of a single city, in addition to focusing on entrepreneurs who have already started their businesses. Further, they devote their attention to the contribution of MSEs and the determinants of performance and growth of MSEs after their establishment. They do not address the barriers to starting and running MSEs, nor do they take into account problems faced by unemployed youth and the perspective of informal workers. This study therefore examines the causes and types of informality, the specific barriers that young people face in joining and succeeding in youth entrepreneurship programmes, and the landscape of MSEs and youth employment in Ethiopia.

2 Review of the literature

2.1 Conceptual issues

This study revolves around the concepts of inclusive growth, inclusive development and the informal sector. Many recent articles use the terms ‘inclusive growth’ and ‘inclusive development’ interchangeably. However, these two terms are different in their structure and components (Gupta et al, 2015). Inclusive growth is “growth that not only creates new economic opportunities but also ensures equal access to the opportunities created for all segments of society, particularly for the poor” (Ali & Son, 2007, p 12). It focuses on increasing per capita income through economic growth and greater access to non-income aspects of wellbeing through proactive policy making by both state and non-state actors (Chatterjee, 2005). Ianchovichina and Lundstrom (2009) also explain that inclusive growth raises the pace of growth and enlarges the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities.

Inclusive development, on the other hand, is defined as a process that occurs when social and material benefits are equitably distributed across divides in society (Hickey et al, 2015). Inclusive development focuses on the equitable sharing of the benefits of growth and distribution of wellbeing in society across income, age, gender, ethnicity, religion and other groups. It brings into play the dimensions of wellbeing beyond simple income and focuses attention on its distribution. It values and incorporates the contributions from all stakeholders equally, including those of marginalised groups, in addressing development issues (Van Gent, 2017). It aims to promote transparency and accountability and enhance development cooperation outcomes through collaboration between actors in civil society, governments and the private sector (Musahara, 2016).

The informal sector is another concept that needs clarification in this paper. For an issue as universal as informality, there is no consensus on how to define it (Kanbur, 2009). The informal sector has, in fact, evolved different conceptualisations and hence has been known by many names (Desta, 2018). It is known as the informal, hidden, underground, black, grey, clandestine, illegal or shadow economy (Cassim et al, 2016; Desta, 2018). However, Heintz (2012) identifies three different approaches to defining informality: (1) an enterprise-based approach that distinguishes informal from formal enterprises; indicators used in this approach include size, registration status, employer/enterprise social security contributions, legal form of organisation and character of financial accounts, legal entitlements and property rights; (2) employment-based approaches that combine an enterprise and jobs-based definition, recognising that there may be formal employees in informal enterprises (ie self-employed) and informal employees in formal enterprises (ie lacking social protection); and (3) a legal status approach, ie individuals and enterprises that operate outside the law through tax evasion, violation of labour standards and laws, or trade in and production of illicit goods and services.

According to Schneider and Enste (2000), the informal sector is defined as involving economic activities that fall outside the control of government accounting. ILO (2002, p 6) defines the informal sector as “all economic activities which are not usually regulated or protected by legal or regulatory frameworks”. Informal economies are understood as socially desirable economic activities that produce goods and services, which are considered in national account calculations but elude government control, regulation and taxation (Schneider & Enste, 2000). The sector includes several micro and small-scale activities that are either individually or family owned and use labour-intensive

technologies (Asaminew, 2010; Todaro & Smith, 2003). The informal sector is characterised by ease of entry in terms of capital and qualifications, reliance on local resources, family title to enterprises, small scale of operation, labour-intensive and adaptive technology, skills acquired informally, and little or no access to systematised markets, to credit institutions, or to unfettered and competitive markets (ILO, 1972). It stimulates the growth of the market economy, promotes a flexible labour market, and stimulates and absorbs labour more than the formal economy. It helps disadvantaged groups of the urban population to improve the skills required for business development. Employment in the informal sector is an enterprise-based concept and it is defined in terms of the characteristics of the place of work of the worker. By contrast, formal employment is a job-based concept and it is defined in terms of the employment relationship and protections associated with the job of the worker (OECD & ILO, 2019).

In Ethiopia, the informal sector is defined as enterprises (eg hawkers and street vendors, domestic workers, unpaid workers in family enterprises, casual wage employment, home-based workers or service providers, etc), which are not usually registered, and have low levels of organisation, productivity and profitability (CSA, 2020). The informal sector refers to home-based or personal establishments or activities done by the owner with few or no employees, little or no access to organised markets, credit institutions, modern technologies, formal training or public services, and without fixed shopping centres (CSA, 2004).

2.2. Migration, urbanisation and informality in Africa

By 2030 Africa will host six of the world's 41 megacities (Aucoin & Bello-Schünemann, 2016). Sub-Saharan Africa (SSA) is the world's fastest urbanising region (Saghir & Santoro, 2018) and migration is a driving force in urbanisation (UN-Habitat, 2020; Tacoli et al, 2015). Urbanisation in Africa mainly occurs when people move from villages to settle in cities with the expectation of acquiring a better standard of living, access to public services and greater income-generating opportunities (Awumbila, 2017; Benjamin & Mbaye, 2014). This migration is also influenced by economic growth, technological change, conflict and social disruption (Marshall et al, 2009).

Rural–urban migration is driven by pull factors that attract people to urban areas and push factors that force people to leave the countryside. Employment opportunities and high wages in the urban areas are among the key pull factors of rural to urban migration. Industries are located in cities and offer opportunities to earn high wages. There are also educational institutions in urban areas providing courses and training (Alarima, 2018). Poor living conditions and lack of opportunities for employment in rural areas are push factors for migration (Marshall et al, 2009; UN-Habitat, 2018). People leave rural areas because of poor health care and limited educational and economic opportunities, as well as environmental changes including droughts, floods, scarcity of productive land, and other pressures on rural livelihoods (Alarima, 2018).

Several factors influence individuals' decisions to migrate from rural to urban areas (Alarima, 2018; Birchall, 2016; Mercandalli et al, 2019). One such factor is gender, because employment opportunities vary greatly for men and women. Another factor is age, as youth are more likely to migrate than the elderly and children (Birchall, 2016; de Brauw, 2019). Studies conducted in SSA countries (eg Amare et al, 2021) reveal that youth are integral to the migrant population in terms of volume and the effects they have on areas of origin and destination.

Migration in SSA constitutes the most important cause of rapid growth of the urban population. In 2015, migration accounted for about one-third of the urban population growth in SSA (Tacoli et al, 2015). The 2018 UN-Habitat briefing on migration and cities indicates that developing regions, including SSA, are experiencing the fastest rate of urbanisation thanks to an increase in migration. In SSA, rural–urban migration has resulted in the growth of the informal sector, as growth in the formal

private and public sectors is not adequate to create jobs for the rising urban population (Mercandalli et al, 2019). Despite the economic growth of the past decade, the informal sector in Africa remains enormous. Eight out of ten workers in the continent are informally employed; this figure is the highest among all the regions of the world (ILO, 2018). This is attributed to Africa's explosive population growth, ie its 'youth bulge' and urban ward migration (Medina et al, 2017). While international experiences indicate the share of the informal sector declines as the level of development increases, most economies in SSA are likely to have a large informal sector for many years to come (Medina et al, 2017).

2.3. Migration and informal employment in Ethiopia

Youth unemployment presents a pressing challenge for Ethiopia. The country faces increasing landlessness in rural areas and insignificant rural job creation, leading to a surge in migration to urban areas (Broussard & Tekleselassie, 2012). Some of the causes of migration include lack of access to agricultural land, a dearth of non-agricultural employment opportunities, the prevalence of early marriage, rural livelihood shocks resulting from drought and famine, poverty, interrupted education, ethnic conflict, proximity to main roads and high population densities (Assefa & Yismaw, 2018). Lack of employment opportunities in rural areas is among the main motives for rural–urban migration (Atnafu et al, 2014). A survey done by Ethiopia's Central Statistical Agency (CSA) in 2013 showed that, among recent migrants, finding a job was the main reason for migration, followed by living with family members, marriage and education (CSA, 2013).

Youth from poorer households and from villages with less agricultural potential are more likely to migrate to cities (Bezu & Holden, 2014b). In addition, educated youth are more likely to migrate to cities (Bundervoet, 2018). Bundervoet's (2018) study has shown that rural–urban migrants were, on average, 10 years younger than rural non-migrants. They also had twice as many years of education compared with non-migrant rural dwellers and were three times more likely to have attained secondary-level education. Informal self-employment in towns also attracts youth to cities, mainly because it requires relatively fewer resources for starting a business than do formal businesses and activities (Bezu & Holden, 2014a).

Ethiopia is one of the least urbanised nations in the world and only 20 per cent of its population lives in urban areas. Nevertheless, the country's rate of urbanisation is more than 4 per cent per year, which makes it among the highest in the world (Abebaw, 2019).. Investments in infrastructure, factories, services and other sectors have contributed to rural–urban migration, further driving urbanisation, especially in intermediary cities (World Bank, 2015a). For example, in 2013 recent migrants in secondary cities such as Bahir Dar, Hawassa and Adama accounted for 61 per cent, 61 per cent and 59 per cent, respectively, of their populations. In Addis Ababa, recent migrants account for 40 per cent of the population (OECD & ILO, 2019). The largest share of recent migrants in intermediary cities came from small towns.

As a result of this rapid urbanisation, Ethiopian cities are wrestling simultaneously with a rapid increase in unemployment. The capacity of cities to plan for and accommodate the influx of migrants by providing formal employment is limited (OECD & ILO, 2019) and the available jobs in the public and private sectors are insufficient to absorb the migrant youth population (Kar & Ahmed, 2019). Consequently, migrants, particularly youth, find themselves either marginalised and without access to employment opportunities or pushed into self-employment in the informal sector. In 2013, 26 per cent of urban jobs in Ethiopia were in the informal sector (CSA, 2013). While personal freedom and a lack of regulation are attractive aspects of informal employment, the rise in rural–urban migration, the inaccessibility of credit services and land lease difficulties in legally opening a shop, and the heavy tax burden placed on small enterprises operating formally have also been push factors towards informality (Alemayehu et al, 2021).

There are variations between Ethiopian cities in the proportion of informal employment, with secondary cities having a larger proportion of those informally employed than the capital. For example, Hawassa, Dire Dawa and Mekele have 45 per cent, 36 per cent and 35 per cent of their population in informal employment, respectively. This figure is above the national average of 26 per cent in 2013 (CSA, 2020). When compared with the aforementioned cities, Addis Ababa has the lowest share of employment in the informal sector – 11 per cent (OECD & ILO, 2019). The majority of informal workers operate in crafts and related trades, services and shops, and market sales, including as street vendors. Street vending is the most prominent and visible form of informality in Ethiopia (Kebede, 2015).

Labour productivity in the informal sector is low because of a lack of working capital and opportunities for training, among others. Informal activities lead to low and unstable incomes, especially for unskilled workers (Gebre-Egziabher & Yemeru, 2019). Moreover, youth and women in the informal sector are subject to a wide range of challenges and legal obstacles. Harassment and abuse by law enforcement, lack of security, inability to safely plan for the future, and seizure of goods are some of the barriers to their operations. Neglect by the government and lack of inclusion in the decision-making process are also problems for informal sector operators (Alemayehu et al, 2021). Overall, there is a lingering sentiment among the informally employed youth that the government has not created a system that encourages the legalisation of informal businesses. More recently, the Covid-19 pandemic has exacerbated the issues related to the informal sector.

2.4. Entrepreneurship and inclusive development

The 2030 UN Agenda for the Sustainable Development Goals (SDGs) remarks on the importance of inclusive development, which is believed to play a major role in stimulating growth, securing livelihoods, creating decent jobs and promoting social and political stability (UN, 2015a). Given the contributions of the informal sector to the economy of the less developed countries (LDCs), protecting the earnings and promoting the livelihoods of informal workers and creating decent work for all is a key area in realising the SDGs (Chen, 2017).

Similarly, the New Urban Agenda has included a commitment to recognise workers in the informal sector as contributors to and legitimate actors in urban economies (UN, 2017). It also calls for a focus on formalisation that includes social and legal protection, similar to support services for formal workers. The document emphasises that formalisation can be accomplished through multiple processes, such as the establishment of businesses within the legal framework, labour regulation, access to basic services, insurance benefits and minimum compensation, among others (UN, 2017). Agenda 2063 of the African Union (AU) has also given emphasis to inclusive development. The sixth aspiration of the AU Commission (AUC) claims that Africa shall be an inclusive continent, where no child, woman or man will be left behind or excluded on the basis of gender, political affiliation, religion, ethnicity, locality, age or other factors (AUC, 2015). Similarly, the AU assembly's decision in January 2016 established the theme for 2017 as harnessing the demographic dividend through investments in youth. AU heads of states and governments recognise a country-level demographic dividend as central to the continent's economic transformation in the context of AU Agenda 2063. Lastly, the 2015 Addis Ababa Action Agenda underlines the need to promote inclusive societies for achieving sustainable development and building inclusive institutions at all levels. Generating decent work for all and promoting MSEs is given due attention. According to the action agenda, MSEs are believed to be creating a majority of the jobs in many countries but are often characterised by lack of access to finance. Working with private actors and development banks, promoting appropriate, affordable and stable access to credit, as well as adequate skills has been highlighted (UN, 2015b).

All the aforementioned policy frameworks reiterate the importance of entrepreneurship as an important way to tackle the problems of unemployment and informality. Entrepreneurship through the development of MSEs is seen by the policy frameworks as a transformational driver offering support for both attaining and delivering the SDGs while fuelling economic growth. The policy frameworks took entrepreneurship as the most effective and sustainable solution for creating more inclusive urban growth (Gurmeet & Belwal, 2008). The underlying assumption of the MSEs programmes is that MSEs play a vital role in many urban economies of the Global South and should be seen as central to policy formulation for inclusive development (Filser et al, 2019). MSEs create opportunities across geographic areas and sectors and employ diverse segments of the labour force. MSEs are often the principal providers of goods and services for the poor. They are also more tapped into local networks and are instrumental in creating off-take for other local suppliers, thus strengthening local value chains (Filser et al, 2019). MSE is seen as a means to hasten the success of wider socioeconomic objectives, including poverty alleviation (Gurmeet & Belwal, 2008).

The reduction of unemployment and poverty, and the promotion of inclusive development clearly cannot be achieved without paying attention to the informal sector. Organising the informal sector and recognising its role as a lucrative activity contributes to economic development (Birchall, 2001). Formalising the informal sector and creating employment opportunities through entrepreneurship programmes is considered important by the international community in various ways. First, it helps to offer better pay and sustainable employment; second, it broadens the government's tax base; third, it increases the information available about enterprises to strengthen policy advocacy frameworks; fourth, it reduces information asymmetries and thereby facilitates trade and investment; fifth, formalising the informal improves access to business services, formal markets and productive resources such as capital and land; and sixth, formalisation increases the welfare of marginalised groups caught in the informal sector by confirming their right to participate in market opportunities (USAID, 2005, p 4).

In entrepreneurship interventions, the international community has also placed emphasis on young people for several reasons. First, growing youth unemployment threatens economic and political stability. Countries with high youth demographic profiles, like Ethiopia, are at greater risk as the majority of the youth are unemployed and perhaps motivated to be involved in anti-government activities. Youth entrepreneurship can thus be part of the solution (Loughran, 2014). Second, young people have the potential to drive tech entrepreneurship and growth (Brixiova et al, 2015). Third, youth entrepreneurship creates employment and is important in bringing marginalised youth back into the economic mainstream. Fourth, youth entrepreneurship can also have a direct effect on employment if new young entrepreneurs hire other young people. Fifth, youth entrepreneurship promotes innovation and resilience, as it encourages young people to find new solutions, ideas and ways of doing things through experience-based learning (UNECA, 2017).

2.5. Micro and small enterprises development in Ethiopia

Issues relating to urbanisation and inclusive development have received due attention in the various plans of the GoE. One of its key strategic plans is to properly manage and administer the ongoing rapid urbanisation in order to unlock its potential for sustaining growth and the structural transformation of the economy. The second is to promote youth and women's empowerment, ensure their participation in the development process and enable them to benefit equitably from the outcomes of development (Planning & Development Commission, 2018). These two pillars are strategically aimed at addressing the problems of urbanisation and promoting inclusive development in Ethiopian cities. The plans aim to create the structural changes required for the growth of the economy. This development goal is indeed mainly anchored on prompting the development and restructuring of the MSE sector (UNDP, 2012). As such, the government has given attention to MSE as an important means to reduce poverty through employment creation. In so doing, formalising

informal sector activities, particularly street vending and creating new employment opportunities through organising the unemployed youth into enterprise groups have become one of the top priorities of MSED programmes (UNDP, 2012).

Within the framework of the government's five-year development plans – the Growth and Transformation Plans I and II, MSED has been a key strategic priority. The second Growth and Transformation Plan (2016–20) has reinforced the need to support MSEs based on the MSED Strategy, the development of entrepreneurial competence and on strengthening the Technical and Vocational Education Training (TVET) system (Pinto, 2019). MSEs are the key instruments of job creation in urban centres, while job creation is the centrepiece of the country's development plan (MoUDHC, 2016). MSED holds a strategic position within Ethiopia's Industrial Development Strategy. To this end, the government formulated its first MSE Development Strategy in 1997, which included establishing institutions to implement it. The strategy identified priority business sectors for intervention, such as food production, textiles and clothing, metalwork and crafts, agri-businesses, small-scale farming and fishing, construction, small exporters, small-scale tourism, and start-up and expansion firms (MoUDH, 2016). Following the Strategy document, the government set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA) in 2008 (Abagisa, 2021). The regional states have also developed similar strategies based on their local setting and in partnership with the FeMSEDA.

The key areas for MSED intervention include human capital and technology development policy (with a focus on the TVET system), industrial extension services through TVET centres, access to finance (financial literacy, micro finance, guarantees, etc), access to capital and working premises (affordable premises, etc), market development (outsourcing, franchising, markets, bazaars, etc), a one-stop service policy (eg registration, licensing, access to finance), a provider support policy and a favourable business environment policy (MoUDH, 2016; Pinto, 2019). The MSED strategy involves the participation of many institutions at federal, regional and local level. The FeMSEDA has been replaced by two other institutions (the Federal Small and Medium Manufacturing Industries Promotion Authority and the Federal Urban Job Creation and Food Security Agency) and by the Federal TVET Agency (TVET institutions as well as the micro finance institutions (MFIs) (MoUDH, 2016). The MSE institutions at the national and regional levels are focusing on the delivery of support programmes (access to finance, construction of working premises, marketing support, extension services, technology transfer and training). For unemployed youth, programmes focus on job opportunities to help them generate savings to start an MSE and assistance to start a business provided by the one-stop service centres (Pinto, 2019).

The types of government support are categorised into three stages (Abagisa, 2021). At the start-up stage, the government supports individuals to organise themselves into groups, facilitates business licensing activities, develops business plans, and provides working premises and business start operations. MSEs in the second, growth stage are supported in finance, skill and technology capacity, linkage and market opportunity, diversification and provision of production and market centres. At this stage, entrepreneurs are supported on the effective use of inputs, competitiveness (price, quality and supply), sustained profitability, increase in assets and manpower, use of book-keeping systems, and so on. In the third and maturity stage, the government supports enterprises to make additional investments and meet the conditions for graduating to the next higher level (Abagisa, 2021; Pinto, 2019). In this stage, the government provides support that helps MSEs boost their competence. The government also provides tools and leased materials that can help MSEs transfer from micro to small and from small to medium enterprises (Abagisa, 2021; Pinto, 2019).

Experience shows that, while many MSE start-ups survive, many others fail in a few years, leaving only a small percentage to grow into medium and large enterprises (Pinto, 2019). Nevertheless, MSE

operators still serve as the most important pool of growth-oriented investors engaged in developing entrepreneurial attitudes and skills (MoUDC, 2015). The MSED strategy has been successful from diverse perspectives. Regarding policy guidance and regulation, a new strategy was adapted in 2011 with the objective that the sector play a role in creating job opportunities and alleviating poverty. To support the sector to play its role, organs responsible for enhancing the development of the MSE sector were established from federal to district and city administration levels (MoUDC, 2015). Supporting packages like working premises and credit for growth-oriented sectors have been developed. Regulations on accessing markets, granting priority access to government development programmes, and for MSE production, and the administration of sales and display centres have also been developed and implemented (Pinto, 2019). There has been a phenomenal growth in the number of MSEs and the size of employment generated by the sector in the past two decades. Moreover, the increasing tendency towards self-employment among many young university graduates, instead of waiting for employment from the public or private sector, has been encouraging (Abagisa, 2021; MoUDC, 2015; Pinto, 2019).

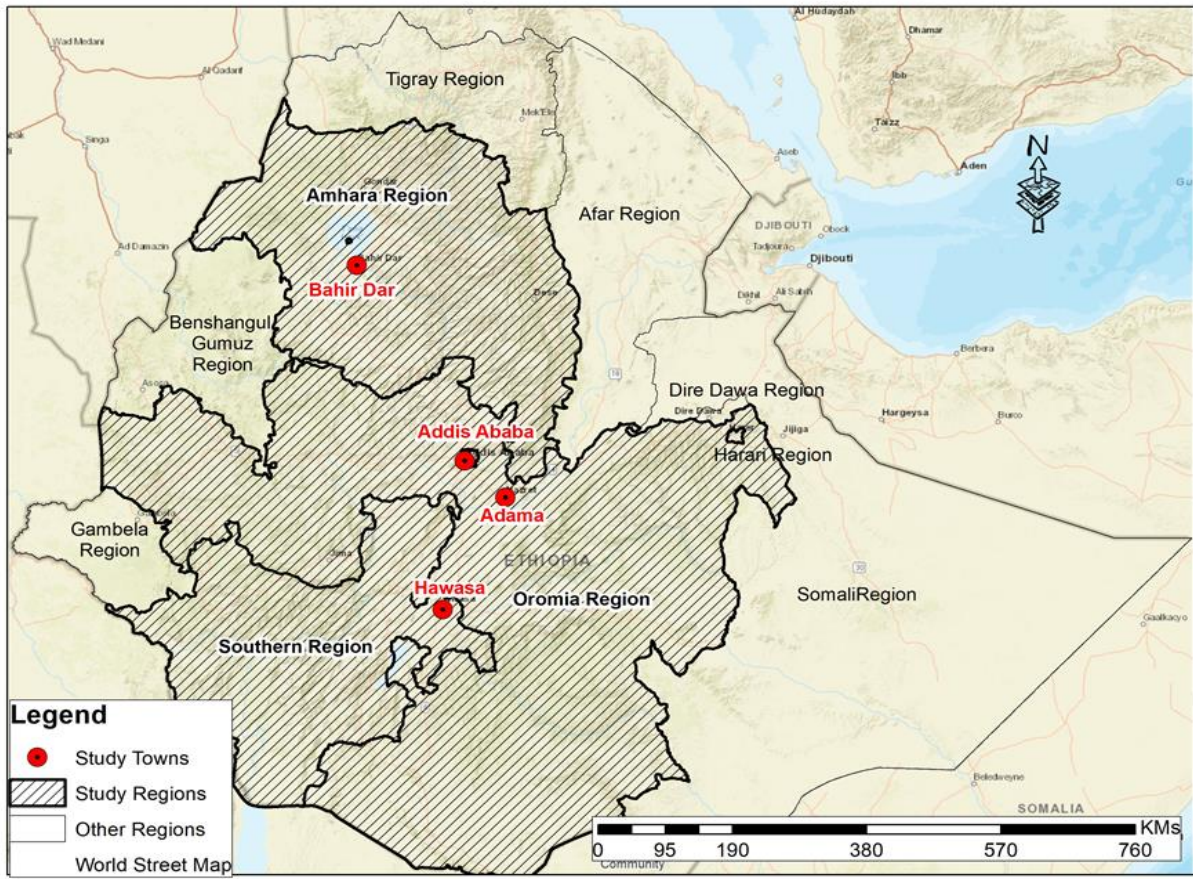
3 Methodology

3.1 Description of study cities

The study focused on four, fast-growing cities in Ethiopia: Addis Ababa, Adama, Bahir Dar and Hawassa (See Figure 1). According to the 2007 Population and Housing Census, the population of Addis Ababa was 3.4 million, with an annual growth rate of 3.8 per cent (CSA, 2007). Estimates suggest that this number will continue to rise, reaching 12 million in 2024 (UN-Habitat, 2008). In 2015, Addis Ababa accounted for 19 per cent of the urban population in Ethiopia. However, this share is expected to drop to 11 per cent by 2035 as other cities grow. Addis Ababa's economy is growing annually by 14 per cent (MoUDC, 2015). The city contributes roughly 50 per cent of Ethiopia's national GDP. This shows the strategic role of the city in the overall economic development of the country (MoUDHC, 2015; World Bank, 2015a). Moreover, it has the highest concentration of high value-added industries and logistics sectors, and hosts the majority of firms' headquarters (MoUDC, 2015). Thanks to its location and prominence, youth from different corners of the country come to the city looking for employment opportunities and services.

Adama city is located in Oromia National Regional State, 100 km from Addis Ababa. According to the 2007 Census, Adama has a total population of 220,212, with an annual growth rate of 3.8 per cent (CSA, 2007). The total population of Adama city was projected to be 369,947 in 2017 (Tefera et al, 2019). The city is defined by its significant economic development potential, with investments being made in manufacturing, banking, agriculture and tourism, and in wind energy production in particular (Tefera et al, 2019). The city is located along a major transportation corridor and is part of an urban cluster. Adama has a strong connection with Addis Ababa, and with other intermediary cities such as Mojo (Ethiopia's national dry port) and Bishoftu, through the recently completed highway. In addition, another highway is being completed which will link Adama with Hawassa along the southern transport corridor, creating an intra-regional link with the Southern Nations, Nationalities and Peoples Region (SNNPR) (OECD & ILO, 2019).

Figure 1: Location map of the study cities



Source: CSA (2007).

Bahir Dar is the capital of the Amhara Region and is located 565 km north of Addis Ababa. It is the third largest city in the country. With a population of 170,000, the city is found on the shores of Lake Hawassa. Finally, Hawassa is the capital of the SNNPR and the newly formed Sidama Region. The city's population is more than 225,700 (CSA, 2013). Hawassa is the second most diverse city in terms of population ethnicity after Addis Ababa.

Addis Ababa has strong functional linkages with the urban centres surrounding it, especially those located along new highways and economic corridors, such as the development corridors linking it to Djibouti, and to the northeastern and southwestern regions of Ethiopia (OECD & ILO, 2019). Adama, Bahir Dar and Hawassa provide market centres to support the distribution of commodities produced in their respective regions. Bahir Dar and Adama are located at the heart of the cereal production areas of Ethiopia, while Hawassa is at the centre of perennial crops. Accordingly, these cities serve as market centres for the distribution of commodities. Adama serves as a market centre for *teff*, which is traded to eastern and southern parts of Ethiopia (OECD & ILO, 2019), while Bahir Dar serves as a market hub for *teff* and other agricultural products for the northern part of the country. These three cities serve as hubs for the production and distribution of agricultural inputs including fertilisers, chemicals and pesticides, and other food and non-food manufactured commodities (OECD & ILO, 2019).

As in other countries, urban economies in Ethiopia rely on industries and services. Cities usually specialise in a few activities and/or with much more diversified sectors. Since different cities are specialised in different sectors, one useful measure of specialisation or diversification for

comparisons across cities is the employment share of each city's largest sector (Duranton & Puga, 2000). It is widely believed that larger cities are more diversified than small cities (Kaulich, 2012). Indeed, diversified economies are less susceptible to economic shocks than specialised ones. In addition, more diversified economies are less volatile in terms of outputs, and lower output volatility is associated with higher economic growth (Kaulich, 2012). A study by the OECD on five intermediary cities in Ethiopia shows that intermediary cities have higher levels of diversification than the capital Addis Ababa, in contrast to the assumption that large cities have the most diversified economies (OECD & ILO, 2019).

3.2. Data and methods

The research presented here is based on a qualitative study in four Ethiopian cities that were selected based on their having the largest share of informal sector workers and unemployed youth. The study focused on unemployed youth and street vendors. Among informal workers, emphasis was placed on street vendors, as they represent the most visible form of informal sector workers in the country. Data were collected from primary sources and include key informant interviews (KII) and focus group discussions (FGDs), which investigated the informants' attitudes, practices and experiences of entrepreneurship development, as well as the challenges young people encountered in joining MSED and associated programmes.

Informants included MSED officials, unemployed youth, street vendors, youth participating in MSED programmes, boutique owners, traffic and code-enforcing police and customers of street businesses. The KII and FGD participants were selected using purposive and snowball sampling techniques, and on the basis of their knowledge and experience related to MSE and entrepreneurship programmes. In total 75 key informants (22 in Addis Ababa, 18 in Adama, 18 in Bahir Dar and 17 in Hawassa) were interviewed in the four cities. In addition, eight FGDs (two in each city), each comprising six to ten members (a total of 59 participants) were organised. The key informants comprised 42 males and 33 females. Among the FGD participants, 22 were women and 37 were men. The ages of KIIs and FGD participants ranged from 22 to 53 years. KIIs and FGDs were conducted in Amharic at the interviewee's office, home or workplace and in open spaces and other places convenient for them. Interviews and FGDs were audio recorded and transcribed.

4 Results and discussion

4.1 Types and causes of informality

The available literature has shown that the reasons for informality are diverse. There are several schools of thought about the reasons why people engage with informality. In the 'dualist' perspective, marginalised youth resort to it as they cannot get jobs in the formal private or public sectors. The informal sector therefore serves as a transitional or permanent career for them, as it has low barriers to entry, making it possible to get subsistence revenue (Rosenbluth, 1994). This is termed 'exclusionary informality' (Fransen & Van Dijk, 2008), which happens when people enter into informal jobs as a result of exclusion from legal and formal job opportunities. The 'voluntarist' school of thought, on the other hand, holds that people join informality as it provides more flexible and attractive employment choices than salaried work (Fransen & Van Dijk, 2008). In such cases, workers voluntarily engage in informality to escape government rules and evade regulatory burdens and taxes.

With these perspectives in mind, discussions were conducted with street vendors in the four cities. Four types or categories of street vendors were identified from the data. The first category consisted of those who pursued informality because of the absence of other employment opportunities, or who might fall under 'exclusionary informality'. The remaining three types were categorised under voluntary informality. The exclusionary informality of street vending is illustrated by a statement provided by a key informant:¹

I came from surrounding rural areas of Bahir Dar. My family has 11 members. We depended on agriculture for our livelihoods. As the number of family members increased, we faced shortage of land for cultivation. The area where I came from was affected by frequent drought. Because of these problems, I decided to come to Bahir Dar looking for employment opportunities. After my arrival, I started to look for jobs but failed to get formal work. The only option that I had was to start street business as it is free to join. With some help from my families back home, I began to sell used cloths on streets. Since then, street business has become my way of life. Now, I am able to support myself. During daytime I do my business and in the night I am attending primary school. I also send money to my parents during holidays.

Likewise, an informant from Adama related his trajectory:²

Before migrating to Adama city, I was a shepherd in the nearby rural area. After coming to Adama, I was unable to get formal employment in either public or private companies as I am illiterate. Thus, to earn income for my livelihood, I started to sell napkins, chewing gum, cigarettes and condoms by moving from one part of the city to another. Though the income from this business is not adequate to sustain my life, I am still in this business as I do not have another option. As I am physically disabled, I cannot work in the construction sector as a daily labourer, which pays a relatively better wage.

Challenges in finding employment are not limited to those with little or no education. An informant in Addis Ababa stated that, despite holding a Diploma in Accounting from a private college in Addis

¹ Interview with a street vendor, Bahir Dar, male, 28 yrs, 16 April 2019.

² Interview with a street vendor, Adama, male, 29 yrs, 14 March 2019.

Ababa, he was unable to secure a job.³ He resorted to selling shoes on the street, a business he learned from a young person living in this neighbourhood. Despite his uncertain future, the informant has been able to eke out an income for his survival.

The second group of informal workers includes those who join informality voluntarily to work on a part-time basis, in order to support their low income from other sources. Many of those falling into this category are government employees who are paid exceptionally low salaries, such as guards, cleaners, etc. A cleaner employed by the government in Hawassa, who also sells fruit and vegetables on the street, reported that her salary of ETB 1000 (US\$22.5) was not sufficient to fulfil the needs of her household, which included three children. In order to pursue both these livelihoods, the informant sells goods on the street after office hours on weekdays and for full days during the weekend.⁴

Another informant in Addis Ababa stated:⁵

I do two jobs simultaneously – street vending and guard of a mall to get more income and [to] support my family of five members. While supervising what is going on around the mall, I do sell cosmetics materials on the streets near the mall. I do the two jobs because the income I receive from being a guard is not enough to support my family. Street vending is my second job. The street business has helped me to at least cover the educational expenditure of my two kids who are attending their education in a private school.

The third informal group consists of individuals who joined street vending because their previous jobs did not provide sufficient income for them to feed their families. While the street vendors in the second group are carrying out business on the street to supplement their meagre income from other jobs, those in the third group have completely shifted their occupation to street vending. In this regard, when asked about why he was selling items on the streets, an interviewee from Addis Ababa said:⁶

As you see me, I am young and my age is 25 years. I have two brothers and one sister. It is me who is supporting the whole family from the income I get from street business. We lost our parents due to an accident six years ago. After the death of our parents, taking care of my siblings rests upon me, as I am the eldest. I have been in the street business of selling clothes for the last six years. Before joining this street business of selling shoes and used clothes, I was working as daily labourer in the construction sector. I also used to be a security guard in night clubs. But the monthly income from these activities was not adequate to cover the food and non-food expenditure of my family. Later on, I joined street vending. Though working in the streets is a hard task, I am able to support my family from the income I get from it.

Several interviewees remarked on the lucrative nature of street vending when compared to other livelihoods. An informant in Adama, who had previously worked as a daily labourer in a metalworks enterprise, earning a monthly wage of ETB 1500 (\$33.7) for arduous work involving assistance to metal workers, found her salary insufficient to cover her expenses.⁷ As a result, she decided to leave the job and engage in street business full-time by borrowing money from friends and relatives, which, in her view, resulted in a better income than working as a daily labourer.

³ Interview with a street vendor, Addis Ababa, female, 27 yrs, 6 February 2019.

⁴ Interview with a street vendor, Hawassa, female, 25 yrs, 11 May 2019.

⁵ Interview with a street vendor and guard, Addis Ababa, male, 29 yrs, 5 February 2019.

⁶ Interview with a street vendor, Addis Ababa, female, 25 yrs, 8 February 2019.

⁷ Interview with a street vendor, Adama, male, 27 yrs, 17 March 2019.

In addition to those who engage in street vending full- or part-time, as either the main source of livelihood or for supplementary income, a fourth group of street vendors comprises owners of formally registered and large-scale businesses who sell their goods on the streets. These groups of street vendors are unable to sell their products in shops as customers do not visit them. In this case, either the boutique owners themselves or street vendors employed or commissioned by boutique owners work on the streets. One street vendor interviewee, who sells kitchen ware in Adama, reported that, because of the price differential created by selling goods in rented stores, compared to on the streets, she was unable to make a profit when selling her goods out of a shop. Rent, taxes and other related costs also increased the price of goods and this had an influence on the prices of items. Resorting to street vending has been beneficial for her as she is able to sell in greater quantities and also makes a profit, as she does not have rent and other expenses.⁸

While the first type of street vending is an example of exclusionary informality (where individuals have no other choice but to resort to street vending), the other three categories are grouped under voluntary informality. Exclusionary informality, however, is dominant in the cities covered by this study. Furthermore, a study by the author (Kebede, 2015) showed that about 76 per cent of street vendors (from a sample of 154) had joined street businesses because of a lack of other livelihood opportunities. The remaining 24 per cent entered into street activities voluntarily, either to supplement their meagre income from other sources or because informal street businesses are profitable.

Whatever the causes and types of formality, street vending is a fraught issue in Ethiopia. While street vendors and their customers argue that street business needs to be supported with proper government intervention, government officers claim that street vendors should be restricted. The Ethiopian government is taking measures to reduce the presence of such vendors, in particular, as they are working outside of formal regulation. Where action taken by the government is concerned, key informants revealed that there are two conflicting views. While some people (owners of formal enterprises and government officials) claimed that informal workers should be 'cleared' from the streets, others (for example, street vendors themselves and their customers) argued that such vendors should not be eliminated; rather, they need to be assisted and suitable policies ought to be devised to support them. The MSED officials claim that they have arranged all the essential services for entrepreneurship, and that benefiting from the available services is up to the youth. Street vendors and other stakeholders, such as their customers, conversely claim that, since street vending is a livelihood strategy for the poor, they must be allowed to work on the streets.

Supporting the elimination of street vending as an activity, one MSED officer in Addis Ababa stated that street vendors preferred to stay on the streets to avoid paying taxes.⁹ He also claimed that they were responsible for causing traffic accidents and selling illegal and unknown products that carry health risks. Therefore, the officer said, the government was no longer 'tolerant' of them. Likewise, code-enforcing police interviewed in Addis Ababa claimed that street vendors were working illegally and paying neither tax nor rent for their spaces. Consequently, they were able to sell their products and services at low prices. This has forced legal entrepreneurs to exit the market.¹⁰

Street vendors and their customers, of course, do not support the ideas of these government officials. One customer had the following to say:¹¹

⁸ Interview with a street vendor, Adama, female, 30 yrs, 18 March 2019.

⁹ Interview with an MSED official in Addis Ababa, male, 40 yrs, 7 February 2019.

¹⁰ Interview with code-enforcing police officer, Addis Ababa, female, 36 yrs, 8 February 2019.

¹¹ Interview with a customer of street businesses, Addis Ababa, male, 46 yrs, 12 February 2019.

An attempt at harassing street vendors is a temporary solution of covering the problem. Most street vendors are youngsters. As they are young, they can be easily discouraged and feel hopeless by brutal actions of the police. These kinds of governmental action can eventually lead the youth to be involved in criminal activities.

In addition, an interviewee from Bahir Dar stated:¹²

The majority of street vendors are young. These young individuals are supporting themselves and other family members with the income they obtain from street businesses. As such, harassing them will increase the number of victims and jobless people in the city. Their customers are also poor segments of the population who are buying products and services with low price.

Similarly, an interviewed street vendor in Hawassa said:¹³

I am supporting my family and myself from the income I make from street business. If the government restricts my job of street business, how can we survive? Vending on the streets is a matter of existence for my family. If the government continues to eliminate street activities, I might be forced to get involved in any criminal activity that brings me money.

4.2. Challenges of youth entrepreneurship

Despite the existence of MSE development strategies and the establishment of MSED agencies, the degree of recognition and support provided by the Ethiopian government to youth entrepreneurship interventions is inadequate and many unemployed youth and informal workers in general – and street vendors in particular – are still out of reach of the programme (Kebede, 2015; Gebreyesus, 2009). Discussions with the key informants and FGDs reveal that there are multiplicities of constraints that prohibit youth's involvement in MSED programmes. These constraints are related to involvement of the government and the ruling party on MSED programs with their political missions, to the burdensome regulatory and institutional requirements of MSED programmes, to administrative constraints, business licensing and registration bureaucracy, lack of key business services, corruption and favouritism, lack of entrepreneurship education, and to reluctance among young people to take part in MSED programmes, among others.

Politics of entrepreneurship

In LDCs such as Ethiopia, providing employment and engaging youth in MSED programmes has long been a key tool for politicians to mobilise and appoint segments of the population into political projects and strategies (Di Nunzio, 2015). The politicisation of entrepreneurship is a frequently raised factor for young people's lack of involvement in MSED programmes, as shown by the data collected for this study. Young people reported that the government and the ruling party were implementing MSED programmes, and government offices at various levels are directly involved in the provision of the necessary business supports to MSEs.¹⁴ NGOs and international organisations are the sources of funds for supporting enterprises. Funding obtained for MSE programmes is managed either partially or entirely by the government. A key problem, informants in the study claimed, was the higher likelihood of being selected for MSED programmes if one was affiliated with the ruling party or the government in power.¹⁵ Such partiality is also applied to public employment

¹² Interview with a customer of street businesses in Bahir Dar, female, 36 yrs, 19 April 2019.

¹³ Interview with a street vendor in Hawassa, male, 32 yrs, 13 May 2019.

¹⁴ FGD conducted in Addis Ababa, 4 February 2019.

¹⁵ Interview with unemployed youth, Addis Ababa, male, 23 yrs, 9 February 2019.

opportunities, where being affiliated with the ruling party allegedly confers benefits.¹⁶

Following Ethiopia's 2005 general election, when the Ethiopian People's Revolutionary Democratic Front (EPRDF) party lost in major cities, youth and women's associations (leagues and forums) became important. The leagues and forums are meant to address young people's and women's socioeconomic problems, as well as boost their political participation. However, according to interviewees, these associations tend to carry out work in support of the ruling party.¹⁷ Furthermore, as the first channel of access for training and job opportunities, leagues and forums are also used by MSED officers to enrol young people in their programmes. To get involved in MSED programmes, the youth have to go to different offices, such as the Micro and Small Enterprises Development Office, Microfinance Office, Trade and Industry Bureau, Housing and Construction Bureau and others. Given their affiliation with the ruling party, the heads of these offices reportedly tend to favour those who have an affiliation with the ruling party as well.

An informant in Addis Ababa said:¹⁸

When we went to the nearby MSE development office to participate in MSED programmes, the first question raised was whether we are members of the ruling party or not. As some of the enterprise groups were not members, the MSED programme officials requested us to be a member of the ruling party. As we do not have any other chance of getting start-up capital, we accepted membership of the ruling party. Following our membership, we were allowed to participate in MSED programmes.

Key informants further reported that beneficiaries of MSED programmes and those who are active in politics through membership in youth forums and leagues are benefiting from entrepreneurship programmes and are successful in their businesses. Pertaining to this, an informant in Bahir Dar explained:¹⁹

I know a friend of mine who established enterprises two or three years ago. He has started his business using his party connections. As they are active in politics and meet the politicians daily, they obtain continuous business development services from the government. For example, he was able to get working space for his enterprise in an area with easy access to markets and [was] also allowed to easily advertise and sell his products at bazaars during holidays. He also gets priority to work in government projects without any competition with other entrepreneurs.

Reported discriminatory practices in MSED programmes, as highlighted above, have allegedly deterred youth from participating in entrepreneurship interventions. When these concerns were raised with government officials, they, in turn, held the youth responsible for their "lack of vision, future plans, determination and a spirit of entrepreneurship". Officials also derided youth for shirking hard work, wanting easy ways of earning money, and prizing immediate profit over the hard work required for enterprise development.²⁰

Regulatory and administrative concerns

Ethiopia's MSED strategy has put in place many regulatory and administrative structures, which may create obstacles to promoting youth entrepreneurship. Regulatory barriers to youth

¹⁶ FGD conducted in Adama, 24 March 2019.

¹⁷ FGD conducted in Addis Ababa, 5 February 2019.

¹⁸ Interview with beneficiary of MSED programmes, Addis Ababa, female, 28 yrs, 10 February 2019.

¹⁹ Interview with beneficiary of MSED programmes, Bahir Dar, male, 31 yrs, 17 April 2019.

²⁰ Interview with MSED official, Addis Ababa, Male, 40 yrs, 7 February 2019.

entrepreneurship include the involvement of many institutions in MSED implementation, priority business areas identified by the government, lack of discussion with young people, centralised and rigid approval procedures for even small activities, frequent restructuring of institutions and of MSED implementation manuals, among others. Such regulatory barriers can make it costly for youth to launch and expand their businesses. Inadequate discussions with them when designing regulations, a lack of understanding of the full range of possible government interventions, and a tendency to shift the burden of providing social goods from government onto enterprises are other obstacles to entrepreneurship. Thus, a chief purported reason for persistent informality is burdensome government regulations. As recounted during an FGD in Addis Ababa,²¹

The GoE has identified priority business areas for MSE development programmes. These sectors include the manufacturing sector, the construction sector, urban agriculture, trade sector and the service sector. The youth who want to be embraced in MSED programmes should choose among these sectors. However, the priority areas set by the government are not in line with our interests and preference. We do not have the chance to choose our own businesses.

Asked about the reasons why youth do not join MSED programmes, an informant from Bahir Dar stated:²²

After graduation, I was unemployed for three consecutive years. One day, I met my friends who have graduated from universities and [we] discussed [a plan] to start our own business. Then we developed a business proposal and formed enterprise groups. The proposal was to open [an] electronics selling and maintenance shop. To do so, we went to the nearby MSED office to get their services. We asked the officials to allow us to engage in activities we used to work in but they refused us, for the proposal we had is not in line to the priority areas. Officials advised us to choose among the priority business areas set by the government. However, the business areas set by the government need large investment and hence we cannot get the return over a short period of time. For this reason, we failed to participate in MSED programs. We all are now vending on the streets except one of our friends who migrated to South Africa.

From interviews conducted for this study, we see that growth-oriented business areas identified by the government, an absence of consultation with the youth while designing regulations, stringent such regulations for MSED programmes and a lack of understanding of the full range of possible MSED interventions are among the barriers to formalising the informal sector and engaging youth in MSED programmes. Pre-setting priority business areas means that young people do not have the possibility to engage in businesses that interest them. For instance, a university graduate interviewed in Bahir Dar reported that, whereas she was interested in engaging in the education sector, and eventually opening a kindergarten or elementary school in collaboration with interested friends, this kind of service was not among the priority areas set by the government.²³

Informants also argued that the priority business areas set by the government had led to a problem of crowding out enterprises, where entrepreneurs copy each other in the priority areas, thus increasing competition and lowering profit. Interviewees in Addis Ababa stated that businesses prioritised and supported by MSED programmes, such as textiles and garments, wood and metal working, food processing and construction, have proliferated in the market, causing competition among entrepreneurs and forcing closure of businesses that are unable to keep up.

²¹ Interview with a street vendor, Addis Ababa, male, 24 yrs, 8 February 2019.

²² Interview with a university graduate street vendor, Bahir Dar, female, 25 yrs, 17 April 2019.

²³ Interview with unemployed youth, Bahir Dar, female, 29 yrs, 6 February 2019.

Another regulatory requirement that the youth are expected to fulfil to participate in MSED programmes is that they must produce the identity card of the city where they live. Since the majority of informal workers and unemployed youth are migrants, they cannot get an identity card from Addis Ababa city administration, at least in the short run. Even the landlords of rented houses are unwilling to help migrants use their house numbers to process the ID card.²⁴

Moreover, involvement in MSED programmes is not allowed on an individual basis unless it is via a private limited company (PLC). The common method used by the government is to organise young people into enterprise groups. Forming enterprise groups may be problematic, as a degree of acquaintance and trust is required that may be difficult to come by for migrant youths. Group formation may also become a major issue if any member of the group defaults and the rest of the group has to share this burden.²⁵

Young people's reluctance to participate in MSED programmes is also attributed to the involvement of several bodies in the execution of the MSED programme and to young people's failure to fulfil the requests of all these institutes. For example, the MSED Bureaus are responsible for organising and screening beneficiaries and providing business development plans. The MFIs are accountable for arranging financial services. The TVET institutes provide business management training. The Trade and Industry Bureaus are involved in trade and investment licensing, and the Design and Construction Bureaus are responsible for the design and construction of work sheds. Applicants who want to participate in MSED programmes must obtain endorsement from all these institutions. Going through all these institutions' bureaucracies takes more than a year and it can be an insurmountable task for street vendors, exacerbated further by poor coordination among the institutions.²⁶

In addition to regulatory issues, administrative constraints are another concern for youth when joining MSED programmes. Administrative barriers are the bureaucratic requirements that flow from regulations, their implementation and enforcement (USAID, 2005). A regulation may be well designed, but its true effect comes from the way in which it is administered. Some of the administrative problems mentioned by interviewees include unnecessary and lengthy paperwork; service incompetence, leading to delays in decision making from business proposal development to licensing and getting finance and work sheds; low levels of training capacity and lack of motivation among MSE workers; and issues related to corruption.²⁷

Additional administrative barriers include poor ICT usage to manage files, limited resource capacity, and lack of understanding of the effect that such barriers have on MSED programmes.²⁸ Corruption is widespread in Ethiopia and is a major factor discouraging youth entrepreneurship, as businesses avoid registration and the payment of taxes in order to minimise contact with corrupt public officials. Informal workers must pay bribes to networks of officials to continue working on the streets.²⁹ In addition, in order to get credit for business proposals and getting a business licence, as well as securing work sheds, youth must also pay bribes.³⁰ The code-enforcing police officers and those officials coordinating MSED programmes purportedly collect thousands of Birr in bribes from

²⁴ Interview with a university graduate street vendor, Hawassa, female, 25 yrs, 17 April 2019.

²⁵ FGD conducted in Addis Ababa, 5 February 2019.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Interview with a boutique owner, Addis Ababa, 42 yrs, 13 February 2019.

³⁰ Interview with a street vendor, Addis Ababa, male, 24 yrs, 8 February 2019.

street vendors and, in some cases, force street vendors to give them a part of their incomes as a protection fee against raids.³¹

The uncertainty, arbitrary enforcement and unreliable access to justice that come with corrupt environments are also deterrents to participation in MSED programmes and to formalising informal activities. Indeed, corruption erodes the trust that youth have in the government and this leads informal entrepreneurs and unemployed youth to conclude that their long-term prospects in MSED programmes are low. Corruption has a negative impact on youth because it imposes an additional business cost on business start-ups and makes them less successful. Another problem mentioned by the youth is the time spent on applications for funding enterprises. In many cases, the time spent on preparing and processing an application to MSED programmes may be a year or more, which is inordinately long for an unemployed young entrepreneur.³²

From youth focus group discussions and interviews, the study found that complex procedures in business registration and licensing, weak linkages between MSEs and government institutions, and inadequate business development services (BDS) were major barriers for youth entrepreneurs. These barriers either directly or indirectly increase the costs of starting new businesses and transitioning from informal to formal.³³ Employment creation for unemployed youths and enforcing formality in Ethiopia also become difficult because of the prevalence of the weak, uncoordinated and inconsistent institutional systems of MSED programmes, which reduce the costs of remaining unemployed and informal. Recurrent institutional restructuring of the MSED programme is another problem.³⁴ Indeed, high-interest rates and lack of sufficient micro-lending are critical constraints to launching and expanding businesses. Linkages with formal firms and information on markets and taxation are not given attention by the administrative and regulatory frameworks.

Entrepreneurship education

In Ethiopia there is high unemployment among graduates with tertiary education. This is in part attributable to the lack of relevant entrepreneurship education training among university and TVET graduates (Issa & Tesfaye, 2020). The educational system in Ethiopia does not prepare its youth with the basic skills required for the world of work (Issa & Tesfaye, 2020). Youth-targeted interventions, such as provision of marketable skills and training of unemployed youth, which can help their transition from school to work through self-employment, are lacking. In this regard, focus group discussions in Adama bemoaned the lack of an educational system that would train youth in technical and vocational skills, in addition to theoretical aspects.³⁵ An MSED official in Bahir Dar did state, however, that the government has designed and expanded TVETs to address these gaps among youth.

Despite the efforts made by the government by establishing many TVET institutes in different parts of the country, there are problems promoting specific technical, technology and business skills, and in training in entrepreneurship and productivity improvement.³⁶ A youth informant in Hawassa stated that sometimes short-lived training sessions were designed that were generic; there was no specific, tailored technical and soft-skill training available to meet labour-market demands.³⁷

³¹ Interview with a street vendor, Hawassa, female, 30 yrs, 19 May 2019.

³² FGD conducted in Adama, 23 March 2019

³³ Interview with unemployed youth, Bahir Dar, female, 23 yrs, 23 April 2019.

³⁴ FGD conducted in Addis Ababa, 5 February 2019.

³⁵ FGD conducted in Adama, 24 March 2019.

³⁶ Interview with MSED official, Bahir Dar, 17 April 2019.

³⁷ Interview with unemployed university graduate, Addis Ababa, female, 26 yrs, 12 February 2019.

Moreover, young people's academic studies are not linked with work-oriented entrepreneurial skills.³⁸

Likewise, FGD panellists in Hawassa noted that entrepreneurship and practical skills did not form an integral part of the education system in Ethiopia. FGD panellists in Adama further emphasised that, if youth want or are required to be involved in MSED programmes, they should get basic business education in aspects such as marketing, bookkeeping, resource management, and estimating market trends. Many young entrepreneurs who start businesses remain unsuccessful as they have problems with skills such as cash flow, market research and responding to fluctuations in the business environment.³⁹

Business development services

The available entrepreneurship literature shows that having more services for entrepreneurs, for instance finance, registration of land titles, infrastructure, public procurement opportunities and management support available for formal businesses, attracts unemployed youth and informal workers into entrepreneurship schemes (Ahmed & Ahmed, 2021). Increasing the possible paybacks for formal enterprises might also increase tolerance of the compliance costs of rules and regulations. But in the study cities, a lack of adequate key BDS was mentioned as a major constraint on participation in MSED programmes. Key informants in the different study cities argued that the level of support provided by the government in these support areas was inadequate. Focus group discussants in Bahir Dar explained:⁴⁰

Some of the BDS provided to the youth are all of a sudden for short period and get interrupted abruptly. This is because most of the services given to the youth are donor driven. When the donors stop their donation, provisions of such services are usually interrupted. In addition, information on BDS is inadequately disseminated and when the services do exist they are not easily accessible by the youth.

Likewise, an informant in Adama stated:⁴¹

Usually MSED officials organise training haphazardly. The surprising thing is that training is organised in the months of May and June to settle unused government budget. It is not truly meant to support the youth to get knowledge and skills on entrepreneurship.

Youth entrepreneurs also face a problem of access to suitable working premises for their enterprises. In light of this, focus group discussants in Adama complained that there was a lack of legal access and title to urban land and work sheds. There is a shortage of all kinds of premises and this is a significant barrier to the growth or even survival of businesses. The bureaucracy involved in securing land-use or work-shed permissions is rampant and unmanageable. When entrepreneurs do secure work sheds for their business, the sheds are located in remote areas where access to market and customers is difficult. There is also ferocious competition in the markets for positions.⁴²

Young entrepreneurs require tailor-made training and counselling pertinent to their particular start-up situation, their business and the sector in which they operate. There is a lack of on-the-job training focusing on the technical aspects of starting a business. Young people seem to be

³⁸ Interview with unemployed youth, Bahir Dar, female, 29 yrs, 6 February 2019.

³⁹ FGD conducted in Adama, 23 February 2019.

⁴⁰ FGD conducted in Bahir Dar, 20 April 2019.

⁴¹ Interview with a street vendor, Adama, female, 30 yrs, 18 March 2019.

⁴² FGD conducted in Adama, 23 March 2019.

underrepresented as a target group in microcredit programmes. Because of their limited work experience, young people require different treatment in terms of business training and counselling. But those authorities charged with supporting the youth are often not sensitive to these situations. The provision of mentoring programmes that match experienced youth entrepreneurs, business leaders and professionals with young entrepreneurs is lacking.

Limited access to finance is another major obstacle that youth face in joining entrepreneurship programmes. Facilitating access to formal financing channels such as microcredit is an overriding step to encourage informal entrepreneurs and unemployed youth to shift towards more formal economic activities⁴³.

Moreover, youth emphasised the difficulty of reaching pertinent MFIs because of their location and the limited number of branches available for seeking out loan officers. MFIs in Ethiopia provide generic products for all types of businesses and people, and fail to provide tailored services for youth. Indeed, MFIs' interest rates are exceedingly high compared to those of commercial banks.⁴⁴ The reason for these high interest rates is that MFIs borrow from banks or from other donors with high interest rates, then spend money on high costs and to protect against a high risk of default, as well as on supplemental support products. These additional costs significantly increase MFIs' lending interest.⁴⁵

Institutional systems

Institutional systems currently in place to manage youth entrepreneurship programmes are weak. Interviews reveal that the prevalence of informal activities is related to an environment characterised by weaknesses in institutional areas such as taxation. Taxation as a barrier to formalisation is closely linked to business registration, because formal registration is often the means of entry into the tax system. A study by the World Bank (2005) shows that taxation levels are negatively correlated with the size of the informal sector, such that countries with higher taxation levels have higher informal shares of the total economy. Extensive requirements for the registration and licensing of businesses are also barriers faced by the youth. Thanks to Ethiopia's ill-functioning tax system, sometimes the tax levied on youth entrepreneurs is greater than their working capital.⁴⁶ Indeed, as discussed with MSED bureau officials in the four cities,⁴⁷ fear of high taxes and complicated financial processes have prevented informal sector operators from joining MSE programmes and formalising their businesses.

Regarding taxation, the bureaucracy involved in registering and licensing informal businesses and new entrepreneurship initiatives is a key barrier to entrepreneurship. As claimed by both young people and MSED officials, the costs of registration and the time involved in dealing with the bureaucracy is a major institutional problem preventing them joining MSED programmes. Lack of clarity about licensing requirements is also a hindrance to formalising business start-ups in the study cities. As reported by youth street vendors, government authorities' distorted awareness of informality is another challenge for formalisation and participation in MSED programmes. In this regard, a youth in Addis Ababa claimed that young street vendors were "considered as persons involved in cheating ... and criminal activities".⁴⁸ Furthermore, young people complained that the government did not organise the informal sector into clusters based on the services or products they

⁴³ FGD conducted in Hawassa, 14 May 2019.

⁴⁴ FGD conducted in Addis Ababa, 5 February 2019.

⁴⁵ Interview with MSED official, Bahir Dar, 17 April 2019.

⁴⁶ Interview with youth engaged in MSED programme, Addis Ababa.

⁴⁷ Interviews conducted with MSED officials in the study cities.

⁴⁸ Interview with a street vendor, Addis Ababa, male, 29 yrs, 12 February 2019.

supplied or produced. Government support for business development and training services to the sector and mechanisms to protect and promote them is also minimal. In one way or another, this discourages young people from engaging in entrepreneurship programmes.⁴⁹

Youth views and perceptions

Unemployed youth who graduate from universities and TVET courses perceive involvement in MSE as underestimating their status after obtaining a Diploma or Bachelor's degree. The study found that many unemployed youth graduates were looking for white collar jobs instead of joining MSED programmes. Related to this, one key informant in Hawassa said:⁵⁰

I have attended my education for 15 years. After spending 15 years of my life in education, why do I get involved in entrepreneurship programmes? To be engaged in MSE programs, I would have wasted all these years in education. I do not need to be engaged in wood and metal work, carpentry, stone works. What I need is to be employed as a social worker as I am a graduate of social work from Addis Ababa University.

Similarly, an unemployed youth in Hawassa stated:⁵¹

I could not get courage to get involved in MSED programmes. As I hold a BSc in Computer Science, I want to get employed in public or private companies and work as a computer technician. I am not a businessman at all.

Although the youth are desperate about being unemployed, they do not know the business environment in Ethiopia. In addition, lack of information about the nature of starting and running businesses is compounded by the lack of success stories highlighting the experiences of successful entrepreneurs. Little information is available on the successes of MSED services and, in particular, how these support mechanisms have affected youth employment. One interviewee from Bahir Dar stated that young people are generally isolated from the entrepreneurship environment.⁵² They do not have business networks to help with starting a business. Moreover, people who have successfully started businesses through government support programmes are not willing to share their experiences as they fear the threat from other businesses. As such, young people have little know-how and the failures of youth-operated enterprises is a demotivating factor for young people to engage in MSED programmes.

As MSED officials interviewed in Hawassa put it,⁵³ the main constraint is the reluctance of young people to participate in MSED programmes. The MSED programme officials reported that the former suspect that being engaged in these programmes will open them to much inspection by the government for taxes and other legal procedures that will affect their income generation. Since most informal trades are run by individuals and families that view adhering to labour laws as a burden, they would rather remain informal.

⁴⁹ Interview with a youth involved in MSED programmes, Adama, female, 26 yrs, 16 March 2019.

⁵⁰ Interview with an unemployed youth, Addis Ababa, male, 26 yrs, 13 February 2019.

⁵¹ Interview with an unemployed youth, Hawassa, female, 28 yrs, 17 May 2021.

⁵² Interview with a resident of Bahir Dar, male, 35 yrs, 18 April 2019.

⁵³ Interview with MSED official, Hawassa, 21 May 2019.

5 Conclusions and policy implications

In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalising world has attracted growing policy and scholarly attention. Although the vital role played by entrepreneurship in driving economic development and job creation is increasingly understood, there has been little effort to look at it from the angle of youth. This study has investigated why unemployed youth and those engaged in the informal sector in Ethiopia remain so, despite government interventions through MSED programmes. The study shows that the politicisation of entrepreneurship, lack of effective regulatory and administrative frameworks, absence of good governance, weak business development services, lack of entrepreneurial education, and lack of access to improved financing systems, technology and infrastructure are some of the critical barriers to youth entrepreneurship in the country. It concludes that fostering inclusive development requires the development of productive capacities and structural transformation, the creation of decent jobs, embracing of informality and the adoption of inclusive policies that give youth an opportunity to participate in and benefit from economic growth.

MSED programmes need to follow a flexible approach in their service delivery and to consider the needs and priorities of young people. For instance, the government needs to shift its approach to MSEs away from the practice of only supporting those organised into enterprise groups towards individual businesses that have proven capacity and indicate an interest in doing business. There should also be a middle ground in the support services offered to youth doing business in a way that does not obstruct their ability to work on their own following government intervention. This calls, then, for a participatory approach, one which engages young people, policy makers and policy implementers, and governmental and nongovernmental organisations in designing interventions and business development services aimed at inclusive development. To reduce the costs of rapid urbanisation, policy efforts that empower and integrate rural youth are essential. The Ethiopian government needs to provide the necessary support for rural youth to stay in their communities by promoting rural entrepreneurship programmes. For example, rural youth can increase agricultural production through investment in innovative, eco-friendly agricultural practices, and post-harvest methods. As agriculture is one of the most promising sectors for rural youth employment, the government must prioritise investments and programmes in irrigation, water resource management, and improved agricultural practices in order to expand young rural farmers' capabilities to produce food and conserve the land, while providing them with the skills and abilities to increase their incomes. The government should also create an enabling environment for the private sector by improving the country's weak business environment.

There is a lack of coordination between institutions involved in MSED programmes. Therefore, there is a need for better harmonisation among institutions so that BDS and information can be better accessed by young people. This would help them obtain key business-related information to continue with an existing enterprise or expand an initiative. Entrepreneurship policies and strategies need to be more selective in the types of initiative and support they promote to address the needs and priorities of the youth. Entrepreneurship education interventions are the most important tool in generating future young entrepreneurs. Therefore, providing youth with entrepreneurial education has a positive effect on their decision to undertake entrepreneurial activities. Partnership and

engagement with the private sector, civic society, NGOs and international development organizations is critical to success and further development in youth entrepreneurship. The government needs to strengthen cooperation between development partners and to explore ways to encourage young people to go into technological start-ups. Young people are sorely in need of the training, confidence and support that would enable them to exploit new technologies.

The establishment of a one-stop-shop by MSED programmes is a modern customer-focused tool to modernise business registration and thereby reduce registration costs. It also helps to reduce the time it takes to initiate and start a business. By using a one-stop-shop, youth can carry out all enterprise development processes at one location instead of going to several institutions here and there. All the required forms, documentation and assistance can be provided by the shop. Mentoring services are a further useful service that could be offered to young people. Since the entrepreneurship climate is a multifaceted landscape, a more effective policy environment to support young entrepreneurs requires structured coordination between government departments. Finally, given that youth are marginalised in entrepreneurship policy development, emphasis should be placed by the government on engaging them in the MSED policy process. Young people also need to understand entrepreneurship as an important area of job creation. Their engagement in businesses with career guidance services that recognise and promote entrepreneurship as a viable labour market opportunity would encourage young people to consider self-employment and business development as their career path.

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