

# The Contribution of Informal Economy to the Livelihood of the Urban Poor (Evidence Based Review)

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## Abstract

The objective of the review was to analyze the contribution of informal economy to the livelihood of the urban poor. To write this article, various secondary sources were reviewed. The informal sector constitutes a vital part of developing countries' economy. It serves as a major source of employment and livelihood for the urban poor in the world in general and Ethiopia in particular. However, despite its multifaceted economic contributions in many developing countries, little is known about its contribution. In country's experiencing rapid urbanization caused by rural-urban migration, informal economy is becoming the main mechanism of livelihood for the urban dwellers, to the poor in particular. The government designed various strategies to formalize the informal economy, regardless of lack of commitment and other problems in its implementation. Some of the challenges in the formalization process are: Absence of visible benefits, partial or piecemeal formalization reforms, knowledge gaps, non-tailored reforms, lack of readiness of the informal businesses to formalization, ignoring the existing traditional order and etc. Finally, some strategies to be designed to transform the informal economy were indicated, which include: Improving access to financing, arranging convenient place for businesses to operate, young people ought to focus on organizing themselves, youth migration from rural to urban areas should be reduced & further steps to address unemployment should be taken by creating jobs to the rural youths, initiating dialogue with participants in the informal economy, simplify tax administration and etc.

**Keywords:** Informal economy; livelihood; migration; unemployment; urbanization

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## Introduction

### 1.1. Background to the Review

The genesis of informality is well documented in the literature. The informal sector as we know it today was historically known as the "traditional sector" and has evolved over time. In the mid-1960s activities, which were often characterized by self-employment, constituted the core of the *informal sector*. Since then, the informal sector became an increasingly popular subject of study. The term "informal sector" was first used by the ILO in the 1970s' in reference to subsistence activities of those working in the fringes of the economy (Macias & Cazzavillan, 2010).

Informal sector plays an important role in urban poverty alleviation through creating jobs and reducing unemployment (Reddy *et al.*, 2005; Lal *et al.*, 2010). Informal sector is a dynamic sector, and not a transitory phenomenon in the development process. It is rather, to be absorbed soon by the formal sector (Ruffer & John, 2007). The 2006 United Nations Center for Human Settlement document has regarded informal sector as a transitional stage in the move to formal sector (UNCHS, 2006). This sector does not only provide employment to the low income group, but it also contributes largely to the overall Gross Domestic Product (GDP) growth in different countries. For example, in 2005, it contributed up to 35.5% of GDP in South Asia, 41.5 % in Latin America and Caribbean, about 42.3% in sub-Saharan Africa (UN-Habitat, 2007 cited in Mathur, 2013).

In urban areas of Africa, for example, the employment in informal sector is estimated to be 60 percent (World Bank, 2008); this figure is about 37 percent in Ethiopia (CSA, 2012). Currently, in many African countries, especially in sub-Saharan Africa, the population continues to grow, and so does the number of people living in urban areas. Economic growth does not keep pace with the population growth which surpasses the capacity of both industrial and urban social services to effectively absorb the growing labor force (UN-Habitat, 2008). Most developing countries are experiencing unsustainable urban growth and consequently, poverty incidences are high resulting in a large increase in the number of the urban poor. Thus, many of the poor have turned to the urban informal sector for their livelihoods (Muiruri, 2010).

The sector also provides a wide range of services, and produces a variety of basic goods that can be used by all classes of consumers, especially by the low income groups (Portes & Haller, 2010). Besides, the sector can serve as a breeding ground for new entrepreneurs, and absorbs the labour force that is left out from the formal sector employment (Delbiso, 2013). In addition, the sector contributes a lot in reducing urban crime and violence (Reddy *et al.*, 2005).

## 2. Objective of the Article

To review the Contribution of Informal Economy to the Livelihood of the Urban Poor

### 3. Methods

The methodological approach adopted in this review is “best evidence review” whose focus is targeted towards combining various systematic methods of study-selection and result exploration. The data were collected from various secondary sources such as, policy and regulatory framework documents, past related study and ILO reports. Based on their relevance, over very recent 40 related published journal articles and other related were referred and used as a background to analyze and synthesize the existing conditions regarding the title. Depending on these, data were examined and interpretations were done to show the contributions and the trends of informal economy in Ethiopia. Basing the previous studies, the practical situation in the sector is examined and the problems encountering its transformation were identified. Eventually, the proposed interventions and strategies to be adopted are indicated.

### 4. Definition of Informal Economy

While there is growing recognition of the informal economy, there is no universally accepted definition of this phenomenon in the literature. According to Koufopoulou (2019); Dell'Anno (2022), the definition has a wide range of terms such as “shadow economy”, “black economy”, “unreported economy”, the “hidden economy”, “survival sector”, “non-structured sector”, casual work, clandestine activities, community of the poor, family-enterprise sector, hidden sector, informal economy, informal opportunities, intermediate sector, invisible sector, irregular sector, lower-circuit of the urban economy, non-plan activities, non-westernized sector, one person enterprise, parallel economy, people's economy, petty commodity production, trade-service sector, transient sector, underground economy, unobserved economy, unofficial economy, unorganized sector, unrecorded economic activities, unremunerated sector, unstructured sector, urban subsistence sector and so on are used in the literature to describe the informal economy. In equal measure there are several definitions of informality. Indeed, the hidden nature of informal activity has complicated its definition and accurate measurement.

Definition of informal economy according to ILO is “all economic activities, excluding illegal activities, by workers and economic units that are – in law or in practice – either not covered or insufficiently covered by formal arrangements” (ILO, 2021).

In very general terms, this is the unregulated part of a market economy that produces goods and services for sale or other forms of remuneration.

According to the IMF (2017) in Blanton *et al* (2018); Nguimkeu & Okou (2019), the informal economy, “comprises economic activities that circumvent costs and are excluded from the benefits and rights incorporated in laws and administrative rules covering property relationships, commercial licensing, labor contracts, torts, financial credit, and social systems”.

#### 4.1. Introduction to Urban Situation in Ethiopia and its Role to the Expansion of Informal Economy

Ethiopia is one of the least urbanized nations in the world and only 20% of its population lives in urban areas. Nevertheless, Ethiopia's rate of urbanization is more than 4% per year, which makes it among the highest in the world (Koroso *et al.*, 2021). According to the World Bank (2015a) report, the rate of urbanization is expected to be even faster, at about 5.4% a year. Alongside rapid urbanization, the labor force has doubled in the past two decades. It is projected to rise from 33 million in 2005 to 82 million in 2030 (Desta *et al.*, 2018). Despite economic growth, unemployment has remained high, particularly among youth, and inequality has risen sharply. Unemployment, which is estimated at 25%, is still the highest in the country (International Development Research Centre, 2017). Creating job opportunities is thus critical if Ethiopia is to benefit from the demographic dividend (Abebaw, 2019).

Ethiopia is urbanizing rapidly and migration is the major factor in the urbanization process. Migration is selective and rural youth are more likely to migrate to cities than others. However, the capacity of cities to accommodate migrants by providing formal employment is limited. Consequently, migrants remain without access to employment opportunities.

Rural-to-urban migration is a rising phenomenon and is expected to keep growing as urban centers continue to attract rural migrants in Ethiopia (OECD/PSI, 2020). The country faces growing youth landlessness in rural areas and insignificant rural job creation, leading to a surge in migration to urban areas (Broussard & Teklelelassie, 2012). The lack of access to agricultural land, non-agricultural employment opportunities, prevalence of early marriage and rural livelihood shocks owing to drought and famine, poverty, interrupted education, ethnic conflict, proximity to main roads and high population densities are some of the causes of rural–urban migration in Ethiopia (Atnafu *et al.*, 2014; Assefa & Yismaw, 2018). A survey made by the CSA in 2013 has shown that among recent migrants, finding a job was the main reason for migration, followed by living with family members or due to marriage and education (CSA, 2013).

The urban people in poverty particularly, have been forced into multiple and resourceful strategies for survival and betterment. Empirical evidences suggest that urban households do indeed, engage themselves in multiple activities, and rely on diverse income portfolios. Thus, the majority are pushed into self-employment in the

informal sector. In developing countries like Ethiopia due to an increasing rate of urbanization associated with rapid population growth; service provision to the current urban population is becoming a serious challenge for municipalities, urban planners and concerned bodies. Informal sector is becoming an important and alternative source of livelihood and employment to the urban poor thereby reducing urban unemployment and poverty by increasing household income. It creates a wide employment opportunity; means of income generation for the urban poor especially for those who migrate from rural areas.

#### 4.2. Types of Informal Economy

According to Chen (2016), informal economy covers a broad range of occupations. In rural areas, they are related mainly to agriculture; including livestock and fisheries, whereas in urban areas, we find occupations as diverse as parking-lot attendants, fuel wood carriers, money changers, gardeners, construction workers, pushcart transporters and waste recyclers, etc.

The informal economy is largely seen as semi-organized and un-regulated. Yet, players in the informal economy are not necessarily small businesses. Actually, the informal economy comprises small and big players both from formal firms and informal firms. They range from professionals (such as lawyers, doctors, accountants and engineers) to fruit and vegetable vendors, public transport operators, food kiosks, hairdressers/ barbers, jua-kali manufacturers of all sorts of goods including artisans like tinsmiths, ironmongers and blacksmiths, shoe shiners, open air photographers, hawkers of all sorts of wares, painters, engravers, graphics and designers, carpenters, massage parlours, saloons and sand harvesters. In addition, it also includes street vendors, which serve as livelihoods to many people (Skinner, 2018).

#### 4.3. Contribution of Informal Economy

The *informal economy* actually represents a vital part of the economy in many countries and has numerous advantages at both macro and micro levels. First it is a major source of employment for large sections of the people the world today. According to Godfrey (2015); ILO (2019), up to 2 billion workers (or 61.2% of the world's working population) is in informal employment. In most developing countries informal employment is a larger component of the workforce than formal employment. That means the informal economy contributes significantly to the gross domestic product (GDP), to job creation, to income generation for the majority of citizens, as well as the provision of vital services to the poor segments of the society in least developed countries. The vast majority of workers in Africa (85.8%) rely on the informal economy.

According to International labor organization (ILO, 2004), the lack of jobs in the formal sector of the economy as well as the lack of skills in a large part of the labor force has resulted in the growth of a substantial informal sector in which most workers are in low paid employment under unregulated and poor working conditions.

Work in Ethiopia is mainly informal. According to recent surveys, over 90 percent of workers in Ethiopia are in the informal sector. That means that they are working and producing in precarious and vulnerable conditions and often are subject to poverty. This means the share of informal employment is high (Friedrich-Ebert-Stiftung, 2022; Susanne Stollreiter & Rudolf Traub-Merz, 2023).

Secondly, it is a major source of livelihood. According to the ILO (2021), typical informal sector activities (unpaid work in a family enterprise, casual wage labor, home-based work, street vending, etc.) provide the only opportunity for poor people to secure their basic needs for survival. Engagement in the informal sector offers them a necessary survival strategy especially in countries that lack social safety nets (such as unemployment insurance or other kinds of social benefits) or where wages are low, especially in the public sector.

Thirdly, the informal economy plays a significant role in poverty reduction. As the main and often the only source of income for the poor, employment in the informal sector plays a major role in reducing poverty.

Finally, the informal economy plays an important role in the supply of goods and services. In many countries the contribution of informal enterprises to gross value-added (GVA) is substantial. The fact that many countries in SSA prepare such estimates reflects the importance of the informal sector in their total GVA. The goods and services produced in the informal sector contribute greatly to what is consumed by both poor and more affluent households.

#### 4.4. Characteristic Features of the Informal Economy

The informal economy exists in many forms and in all countries in the world. It includes small manufacturing enterprises and small-scale traders and service providers, legal and illegal activities, and a wide array of artisans. The areas of activity also vary extensively, ranging from construction, vehicle repair and transport, arts and crafts to food and agriculture. Informality is driven largely by factors linked to the economic context, the legal, regulatory and policy frameworks and to some micro level factors such as low levels of education, discrimination, poverty and, lack of access to economic resources, to property, to financial and other business services and to markets (Krasniqi & Topxhiu, 2012).

The main characteristics of the informal economy include: resilience and persistent growth, lower growth and

productivity, dominance of self-employment in informal enterprises (i.e. small and/or unregistered) and wage-employment in informal jobs (i.e. without secure contracts, worker benefits or social protection) and the strong presence of women (Ronald Hope, 2014).

#### 4.5. The Consequences of the Informal Economy

**Impact on government revenues:** A large informal economy usually reflects significant government revenue losses as a result of tax evasion. This tends to lead to lower levels and quality of public services (Fallah, 2014). Such a scenario often compels governments to increase the tax burden on the formal sector to compensate for tax losses. Poor public services and an excessive tax burden in their turn result in frustration of formal businesses and workers and negatively affect their trust in public institutions, as they see little benefit to paying taxes. In the final analysis, this reduces the incentive to join the formal sector, leading to a vicious circle of expanding the informal sector and low provision of public services (Fallah, 2014). Consistent with this scenario, evidence by researchers suggests that economic growth is lower in countries with a larger informal sector.

**Impact on productivity:** A big and growing informal economy also has a negative impact on productivity by suppressing economies of scale. This happens when firms operating informally chose to maintain small-scale operations in order to minimize the probability of government detection. This is compounded further by the lack of access to credit usually due to insufficient collateral, which limits their ability to expand informal business operations. Several studies have attempted to quantify the productivity loss driven by a large informal sector. For example, a World Bank (2010) report examines total factor productivity (TFP) differences among formal and informal Turkish firms. The study found that in manufacturing, the TFP for formal firms was 50% higher than in informal firms, and in services the TFP in formal firms was 40% higher TFP (Fallah, 2014; Mpofo, 2021).

**Impact on government policies:** In addition to lowering productivity, a large informal economy impedes growth by distorting economic policies. Specifically, a large informal economy can render monetary policy less effective as informal firms are less connected to the banking system. This is also true with regard to the fiscal side: decreasing the tax rate might have a less stimulatory effect on economic growth and increasing the tax rate might have a less restraining effect on growth or inflation, due to excessive tax evasion (Eilat & Zinnes, 2002). Furthermore, a large informal economy tends to impose social costs. In many developing countries, informal workers often operate in poor settings with lower pay and inadequate workers' rights and social protection (ILO 2002). Besides, a larger informal sector raises concerns about safety, health and environmental measures that arise in economies with insufficient government monitoring.

#### 4.6. Transitioning from the Informal to the Formal Economy

While the informal economy plays a significant role in economic development, most people enter it not by choice, but out of a need to survive and to have access to basic income-generating activities. The informal economy is marked by acute decent work deficits and a disproportionate share of the working poor. Research has shown that workers in the informal economy face serious challenges than those in the formal economy. No wonder, therefore, today governments, are paying attention to supporting players in the informal to transition to the formal economy. The ILO has been at the forefront of the debate on formalization of the informal economy as part of its so-called "decent work" agenda.

Despite such challenges, harnessing the benefits of the youth bulge and promoting inclusive development through entrepreneurship programs has become a priority area since 1990s. Although progresses have been made, entrepreneurship programs are unable to reach the unemployed youth and those engaged in informal sector. Although progresses have been made, entrepreneurship programs are unable to reach the unemployed youth and those engaged in informal sector. So, it is a need to transform informal to formal economy (Williams, 2022).

#### 4.7. The Concept of Formalization

In the literature, the term "formalization" of the informal economy is used interchangeably to refer to the "transition from the informal to the formal economy". As Chen (2012) guides, different observers have different notions of what formalization of the informal economy means. To some, it means shifting informal workers to formal wage jobs – but this requires creating more formal wage jobs. To others, it means registering and taxing informal enterprises. For informal workers and operators, many of whom already pay taxes (such as VAT) or fees of various kinds (e.g. license fees to operate and/or site fees to operate in specific locations) or are willing to pay taxes or fees in return for benefits, it means gaining access to legal and social protection as well as support services (e.g. skills or business training) and being allowed to organize and to be represented in relevant rule-setting, policymaking, and collective bargaining processes.

Similarly, formalization has different meanings and implications for different categories of informal workers. Hitherto, the formalization debate has focused primarily on the self-employed in informal enterprises as well as on informal entrepreneurs who employ others. At a minimum, however, the formalization debate must distinguish between wage workers in informal jobs and self-employed in informal enterprises. Ideally, it should further

distinguish between different segments of the self-employed and wage employed in the informal economy: as each segment has its particular needs and constraints (Ibid).

Consistent with the above, formalization of the informal economy must bear a comprehensive in approach and be context-specific both in design and practice.

#### **4.7.1. The Challenges to Formalization**

Achieving a transition from an informal to a formal economy is not easy. It is fraught with challenges as discussed below (Linde & Petrova, 2018).

**Absence of visible benefits:** The most commonly mentioned factor that affects the success of formalization is the lack of benefits. Economic agents in general, and businesses in particular, expect, in exchange for formalization to make more money, to receive better services, better protection, better access to credit and training, among other benefits. If these benefits are not forthcoming, the economic agents will opt to remain informal even after reforms. The costs of entering or exiting the formal market might be high, but if the benefits of registering exceed that cost, formalization will be the preferred option. On the other hand, even if the costs of formalization are minimal, but they are not accompanied by tangible benefits, the economic agents will choose to remain informal. In most cases, the lack of benefits is so profound that the agents do not have any option but to be informal. This is particularly true when the informal market is larger than the formal one, when public services provided by the government are poor, when there is no access to credit or training in the formal sector, when there is no protection to their rights under formality, etc. In the circumstances, not even the low cost of formalization will convince the economic agents to formalize. Consequently, reforms that seek to promote formalization must look both at costs reduction and benefits maximization in equal measure (Narula, 2020).

**Partial or piecemeal formalization reforms:** One of the obstacles to formalization is the implementation of incomplete reforms. This may be in form of partial reduction of costs or piecemeal introduction of formalization reforms. In the former case, the government may reduce some costs of formalization in order to attract economic agents but leave other costs. For example, the costs of incorporating a business might be reduced, but unnecessary steps required to operate might remain. This will not convince economic agents to go in for formalization.

In the latter case, reforms related to the incorporation of a business that are not accompanied by reforms relating to the termination of a business can be a hindrance to formalization. Economic agents want to know that they can enter and exit the market freely. They want to be able to separate assets from one business and allocate them to another. Similarly, creditors want to be able to collect debts through the liquidation of the debtor's assets. When that is not possible, businesses will not be interested in formalization in spite of reduction of costs and unnecessary steps to incorporate, even in spite of the existence of a business opportunity. For this reason, the implementation of modern and viable bankruptcy laws is also necessary. Entrepreneurs need to have a framework that guarantees easy entry, operation and exit from the formal market.

**Knowledge gaps:** In many countries, informal economic operators may lack knowledge of the advantages of formality and/ or of the steps necessary to become formal. Governments may introduce significant measures aimed at eliminating obstacles to formalization and at promoting benefits. However, economic agents may not be aware of these reforms and will therefore remain under informality and will continue to assume that it is very difficult and costly to become formal. Thus, an important deterrent of formalization reforms is lack of awareness among the informal economic agents. This challenge can be addressed through information campaigns and rights education on formalization (Pasquier-Dourner *et al.*, 2017).

**Non-tailored reforms:** A major obstacle to formalization relates to reforms that are not aimed or tailored at specific targets in the informal economy because not all the informal economy operators are similar. As noted earlier, the informal sector is heterogeneous and must be treated as such. Policies that promote formalization in urban areas might not function in rural areas. Equally, what works for example for microenterprises in the furniture industry might not work for a self-employed person in the agriculture sector? Consequently, formalization policies must be tailored to the realities of the specific informal sector while productivity is increased and working conditions are improved, and regulations and restrictions when necessary are kept at a minimum (Brown, 2015).

**Lack of readiness of the informal businesses to formalization:** It may be wrong to assume that all enterprises in the informal economy will jump at the opportunity to join the formal economy. Many will not be ready for this. They may require handholding in form of coaching in order to be fully incorporated into the formal economy. Market customs, ways of doing business, tastes and demands of customers, issues of standards, etc. can be challenging to informal businesses. They might not have the capability and resources to respond to the requirements of the formal market in terms of time, quantity and quality. In some countries, programs are promoted to foster cooperation and creation of clusters of informal businesses while costs of incorporation are reduced and benefits are increased. But a sudden incorporation of informal businesses into the formal economy might be traumatic and create a sense among others that still remain under informality that the formal sector is not worth the sacrifice (Prasetyo, 2022).

**Ignoring the existing traditional order:** In many countries the informal sector has created its own order. It is usually fed from tradition and seems to work relatively well in the absence of any other option. For instance,

contracts are undertaken orally or written in a non-harmonized way. Businesses exist and conduct transactions with relative success in spite of the lack of limited liability provisions, or absence of business information records, and/or division between labor and management. Any attempts to formalize that fail to take into account the existing order, the customary rules, or way of doing things in such environments, are likely not to succeed (Garcia-Bolivar, 2006).

It is worth understanding, however, that the traditional forms might work well at some level, within a small community where everybody knows everybody. But when there is need to interact with other communities of informal agents, the business norms of one community might not work well in the other. The norms might not be harmonized and centralized information on businesses and individuals might be lacking. In those cases, the solution is not easy and is not unique. However, to ignore the existing customary, traditional order might not be a good recipe for success. To work with the existing order might be much more useful. For example, to perfect, harmonize and standardize the business forms used by the informal sector and incorporate them in the formal sector might be a better way to integrate both sectors (Singh et al., 2020).

#### 4.8. The Benefits of Formalization

Formalization is associated with a number of potential benefits for the economy in general (Unni, 2018). It can reduce poverty, create larger and stronger economies, and afford rights to those who need them the most. For governments, formalization of informality is thus essential and urgent to support inclusive economic development and reduce poverty. Having fewer workers outside the formal economy can support sustainable development. Informal firms do not contribute to the tax base and tend to remain small, with low productivity and limited access to finance. Consequently, one of the most compelling factors for government's interest in formalization is the expansion of the tax base by bringing in more taxpayers in the tax bracket and thereby being able to collect more tax revenues to finance the provision of public services.

For the self-employed, formalization is not just obtaining registering their business and obtaining a license and thereby being able to operate formally. More specifically, formalization brings to the self-employed such benefits as: enforceable commercial contracts, legal ownership of their place of business and means of production, tax breaks and incentive packages to increase their competitiveness, membership in trade associations, protection against creditors and clear bankruptcy rules, and social protection. For informal wage workers, the benefits of formalization include: obtaining a formal wage job (or formalizing their current job) with a secure contract, worker benefits, membership in a formal trade union, and employer contributions to their social protection (Chen, 2012).

#### 4.9. Challenges and constraints of the informal economy

Although the informal economy is a source of livelihood for the majority of the people, several challenges impede its ability to grow and to contribute towards the reduction of poverty and to overall economic development of the countries. We examine the challenges from two perspectives: (a) the informal entrepreneurs, and (b) the informal workers (Otope, 2017).

From the point of view of informal entrepreneurs, informality in these countries has the following main challenges:

**The state of the economy:** The success or failure of all entrepreneurial activity is a function of the state of the economy and its performance. In particular, growth was slow, tax revenues were falling, inflation was rising, and foreign direct investment was on the decline. All these developments have had a negative impact on business activity. For example, a rise in inflation affected the cost of doing business by increasing the prices of inputs and overhead costs. Small businesses were most affected as inflation rate into their small profit margins. Besides, the high prices arising from inflationary pressures also affected consumer demand for goods and services. This hurt the small businesses as they could not find market for their merchandise. In an attempt to raise revenue, governments tended to increase taxes. This affected the small businesses in the country (Joshi et al., 2013).

**Lack of start-up and working capital:** This is one of the key challenges faced by informal economy operators. Informal economy operators need finances to start their activities, to meet liquidity needs, etc. Often they have to depend on personal savings, loans from friends and relatives, etc. They find it quite difficult to borrow from banks because of their inability to meet the loan requirements – such as collateral (security) to back their loan applications, the cost of borrowing (interest rates) 10, etc. Banks find them risky because they do not keep records/books of account, they have high transaction costs per service, most of them lack transparency in their operations, and a whole range of others. The ILO (2013) estimates that only one percent of informal economy operators use start-up finance from micro-finance institutions or banks in Zambia. The large majority use their own savings or money from family or friends because financial institutions are reluctant to lend while the microfinance industry is not well developed in Zambia. The situation may not be different in the other 6 countries.

**Lack of skills and business experience:** A significant proportion of informal economy operators in all these countries suffer from lack of skills and business experience. Most of them start their trades with little or no knowledge about the functional areas of the businesses for their survival and success. A vast majority of informal economy operators lack technical or business knowledge. Majority of them have low levels of formal education

and do not have any formal training relevant to the activities they operate in. Some of them have basic entrepreneurial skills such as innovativeness, problem-solving skills, risk-taking, customer care, selling (counting, adding and subtracting – sorting out change), confidence and communication skills. More than half do not keep records, and about three quarters do not know how to get a loan. While many of them are willing to improve their skills, they are unable to do so due to limited access to existing skills development opportunities and resource constraints. Majority of those with good skills, (including indigenous skills) are either self-taught or learned through observing or copying/ imitating their parents, relatives, peers and other entrepreneurs (Palmer, 2008).

**Access to markets:** Informal economy operators also face limited access to markets and value chains for most informal sector producers to expand their business. Chikani (2018) for example, cites the informal furniture producers in Kalingalinga Township in Lusaka, Zambia. This semi- informal area of the capital city is a hive of small-scale manufacturing activities of a large majority of the youth. Informal operators in this township produce a variety of household furniture, metal fabrication, crafts and so much more. The area attracts many people from many parts of the city and beyond due to the good quality of the products. However, access to larger markets is limited due to poor branding and marketing (Kundt, 2017).

**Vulnerability and low earnings:** Informal economy operators are quite vulnerable and earn low incomes. A study by the ILO (2018) found that informal workers in Zambia, for example, are socio-economically vulnerable and worse off than their counterparts in the formal economy. Almost 60% of them live in households with a per capita consumption of less than \$1.90/day (5% for formal workers), and they spend a much larger share of their household income on food, in particular in rural areas (56% vs. 36% for formal workers). According to the Zambia Labor Force Survey of 2010, only about 6.3% of all the self-employed earn above the minimum wage.

Most of the informal workers in the seven countries, regardless of the sector, earn below minimum wage. In part this is attributed to the fact that most employers in the informal sector do not abide by the minimum wage law. Yet, due to the high levels of unemployment, most people are willing to work regardless of the low wages. Furthermore, there is a distinct wage difference for workers in rural areas, where those in the formal employment earn a median wage 7 times larger than for those informally employed. The wage differences between formal and informal work vary across sectors, with a ratio of formal to informal median wages ranging from 1.1 in mining to 5.6 in ICT. The majority of informal workers with wages in the top 40% of the wage distribution work in trade, mining and transportation, while the informal workers with wages in the lowest 40% of the distribution work in agriculture and trade.

**Job and income insecurity:** The deregulation of the economy in most of these countries increased job/ income insecurity for informal workers in the informal economy. Informal workers are not protected against arbitrary dismissal and exploitation in the workplace. Majority of them do not have written contracts and may be terminated at the employer's will. At the same time, such income insecurity exists is dictated by seasonal variations in sales returns. Enterprises that employ more than one worker tend to significantly reduce the number of informal workers during the slow months compared to employment in the busiest months. Instead, firms resort to casual workers and unpaid workers to facilitate production (McGahan, 2012).

**Lack of social protection:** Social protection is understood to refer to the set of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income (ADB, 2003). They have no chance of forming and belonging to trade unions, for example. Most informal jobs are casual and there is a high degree of outsourcing predominantly by large firms in both rural and urban areas of the country.

## 5. Conclusion and Way Forward

### 5.1. Conclusion

Despite the fact that informal economy contributes at large to the livelihood of urban poor and service to the communities, informal economy has several challenges during operation and governance by urban authorities. So far, it is elaborated that informal sector/economy plays a crucial role in urban poverty alleviation through creating jobs and reducing unemployment serving as a means of livelihood for the urban poor. Consequently, many developing countries are recognizing the sector's significance in their economy and trying to put appropriate policies in place to encourage the sector. In view of its contribution to socio-economic development, an enabling environment has to be created for operators in order to facilitate the transition of the sector to formality. It provides the poor people a chance to be aware that they are valuable something and they can effectively take action to sustain themselves and their families. They do their best in order to survive and even sometimes to accumulate capital asset. Their reliance on their own capacity to do better things should be appreciated and provided with support from the concerned bodies. Majority of the productive working poor in the town are forced to join and fight poverty from streets due to lack of access formal jobs, sense of independency and lack of other options as a means of income generation.

## 5.2. Way Forward to Transform Informal Economy

- ✚ The government has to facilitate and support existing businesses looking to operate legally by designating areas for informal businesses to operate and addressing service gaps that prevent formal business operations.
- ✚ Improving access to financing. Access to finance is crucial for investment and production.
- ✚ Before mandating that informal actors legalize, city administrations first arrange a convenient place for businesses to operate.
- ✚ Young people ought to focus on organizing themselves into groups with a common vision to maximize the impact of government engagement with the informal sector and public service delivery.
- ✚ Youth migration from rural to urban areas should be reduced & further steps to address unemployment should be taken by creating jobs to the rural youths.
- ✚ This can also be done by creating more conducive environment in the rural areas.
- ✚ Initiate dialogue with participants in the informal economy. Government should seek to initiate dialogue with representatives of the informal economy in order to understand their constraints (including resistance to formalization) and to generate buy-in.
- ✚ Simplify tax administration. Tax administration is more often cited as a problem than tax rates.

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