

# **Challenges and Opportunities of the Urban Informal Business Sector: The case of Addis Ababa Nefas Silk Lafto Sub-city, Woreda 02**

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## **Abstract**

*Millions of poor people in developing nations depend on the urban Informal business Sector for employment and income. However, this sector often faces marginalization and neglect in urban policies and plans, resulting in various obstacles such as lack of access to finance, infrastructure, markets, skills, and social protection. Despite these challenges, the urban Informal business Sector also provides opportunities for creativity, adaptability, and inclusion in both the urban society and economy. This study investigates the challenges and opportunities faced by the urban Informal business Sector in Addis Ababa, specifically in the Nefas Silk Lafto Subcity Woreda 02. It uses a mixed-research approach that involves both quantitative and qualitative data. Due to the lack of formal records or registration of businesses in the informal sector, it was difficult to obtain a representative sample. Therefore, a purposive sampling technique was employed to target key informants who were knowledgeable about the selected business sectors and could provide valuable insights. A total of 120 questionnaires were distributed with a 20% reserve rate, resulting in a sample size of 108 usable responses. The data were mainly collected through structured questionnaires and interviews. The data analysis employed descriptive statistics mainly Mean and Standard deviation. The study focused on four key informal business sectors: street vending, food processing, tailoring, and shoemaking. The challenges included financial constraints, issues related to market premises, knowledge gaps, and regulatory hurdles. Despite these challenges, the Informal business Sector still offered prospects for job creation, entrepreneurship development, and flexible self-employment. Based on the findings, the study made recommendations to address the existing issues within the urban informal sector. These recommendations included addressing law enforcement harassment, enhancing access to finance and markets, investing in training, as well as establishing supportive policies and regulations.*

**Keywords:** *Informal Sector, Challenges, Opportunities*

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## **1. Background of the Study**

The Urban Informal business Sector contributes significantly to the local economy by providing residents with employment and goods and services. However, businesses in the Informal business Sector face a number of obstacles, including competition from formal businesses, government harassment and eviction, and limited access to credit and financing.

Addis Ababa, the active capital city of Ethiopia, is home to a vibrant and diverse Informal business Sector that plays a crucial role in the city's economy. According to a report by the International Labour Organization (ILO), the Informal business Sector in Ethiopia accounts for approximately 50.6 percent of urban employees Informal business Sector and generates around 33.5% of the GDP (Gabriella Rossetti, 2015). In Addis Ababa, this sector is particularly significant, providing livelihoods for a large number of people and contributing to the city's overall economic growth.

As of 2020, nearly one-sixth of Ethiopia's urban employment was in the Informal business Sector, likely higher today due to the COVID-19 pandemic. Factors such as rural-to-urban migration, limited access to credit and land, and high taxes on formal businesses drive this increase. For many young Ethiopians, informal work is a way to support themselves and meet basic needs, though it brings challenges like law enforcement harassment, insecurity, and lack of government support. Despite personal freedoms, informal sector workers face significant barriers and feel excluded from decision-making. Given high poverty and unemployment, the Informal business Sector remains crucial to Ethiopia's economic future (Helen A, & Getachew S, et al., 2021).

In this context, understanding the role and challenges of the urban Informal business Sector in Addis Ababa is critical for policymakers and stakeholders seeking to promote sustainable economic development and reduce poverty and inequality. This study aims to explore these issues in greater depth, drawing on the perspectives and experiences of key informants in the sector, including street vendors, food processors, auto repair workers, and shoe shiners. By identifying the specific challenges faced by these businesses, and developing actionable recommendations to address them, this study seeks to contribute to a more inclusive and equitable urban economy in Addis Ababa.

## **2. Statement of the Problem**

The informal business sector in Addis Ababa plays a crucial role in the city's economy, but these businesses face significant challenges that threaten their sustainability and growth. For instance, a study by the International Labour Organization (ILO) found that Informal business Sector in Ethiopia face difficulties accessing credit, which limits their ability to invest in their businesses and expand their operations. Additionally, these businesses frequently operate in unregulated settings, making them susceptible to authorities' harassment, eviction, and seizure of their merchandise and equipment (ILO, 2015). In addition, the Informal business Sectors face a significant obstacle to success due to the competition from larger and more formal businesses (Boughton, 2017).

These challenges have severe implications for the survival and growth of the Informal business Sector in Addis Ababa, making it crucial to explore and understand the underlying causes and potential solutions. Therefore, this research aims to identify the significant challenges faced by selected informal sectors (street vendors, food processors, tailors and shoe shiners) in Nefas Silk Lafto subcity Woreda 02.

By providing employment opportunities, essential goods, and services to the city's expanding population, the urban Informal business Sector in Addis Ababa contributes significantly to the city's economy. However, these businesses face a number of obstacles, including competition from larger, more formal businesses, access to credit, and lack of legal recognition. In spite of their contributions, businesses in the Informal business Sector continue to be overlooked and ignored when it comes to the formulation and implementation of policies. This research aims to fill this gap by exploring the challenges faced by different types of Informal business Sector in Addis Ababa, NSLSC and identifying actionable recommendations to support their growth and development.

Previous studies have explored various aspects of the Informal business Sector in Ethiopia. However, most of these studies have focused on the micro small and medium enterprises' contribution to the economy and employment, while neglecting the challenges faced by informal businesses. There is a research gap in the understanding of the unique challenges faced by different types of Informal business Sector in Addis Ababa (NSLSC).

Therefore, this research will contribute to understanding the challenges faced by the urban Informal business Sector in Addis Ababa, particularly in Nefas Silk Lafto subcity, Woreda 02 and provide actionable recommendations to support their growth and development.

### **3. Research Objectives**

The objective of this research is to explore the challenges and opportunities of the urban Informal business Sector in Addis Ababa Nefas Silk Lafto sub city (NSLSC), one of the largest and most populous sub-cities in the city.

Specifically, this study aims to answer the following research questions:

1. What are the key financial, regulatory, and training-related challenges faced by entrepreneurs in the Informal Business Sector (IBS) in Addis Ababa's NSLSC-W2?
2. How do marketplace access and competition with formal businesses impact the success and sustainability of IBS entrepreneurs in NSLSC-W2?
3. What is the role of the Informal Business Sector (IBS) in NSLSC-W2 in contributing to job creation, employment opportunities, and meeting consumer demand for basic goods?

## **4. Review of Related Literature**

### **4.1. Introduction**

The Urban Informal Business Sector is a vital source of employment and income for many people in developing countries, especially in the context of rapid urbanization and limited formal opportunities. However, the Informal business Sector also faces many challenges, such as low productivity, lack of social protection, poor working conditions, and regulatory barriers. This literature review aims to explore the challenges and opportunities of the urban Informal business Sector in Addis Ababa, Nefas Silk Lafto Woreda 02, one of the sub-cities with a high concentration of informal activities.

### **4.2. Challenges and Opportunities of the Informal Sector**

#### **4.2.1. Challenges of the Informal Sector**

**Limited Access to Finance and Resources:** Informal businesses typically face challenges in obtaining credit and financial services due to their unregistered status and lack of collateral. This limits their growth potential and ability to invest in improvements or expansion (Becker, 2019). Studies have shown that financial exclusion is a significant barrier for informal entrepreneurs, hindering their capacity to scale operations and integrate into the formal economy (Amin, 2020).

**Market Instability and Unpredictability:** Informal sector activities are highly susceptible to market fluctuations and economic downturns. Without formal contracts or stable demand, workers and businesses in this sector experience income volatility and financial insecurity (Williams & Gurtoo, 2018). Economic crises, such as the COVID-19 pandemic, have disproportionately affected the informal sector, exacerbating existing vulnerabilities and leading to widespread job losses (ILO, 2020).

**Lack of Formal Training Programs:** Informal workers and businesses often lack access to formal training programs due to the unregulated nature of the sector. This absence results in limited opportunities for skill development and professional growth (ILO, 2018). The majority of training initiatives are tailored to the formal sector, leaving informal workers without structured learning opportunities that could enhance their skills (Chen, 2018).

4. Police and Government Officials: Informal entrepreneurs often face harassment from police and government officials. This includes demands for bribes, arbitrary fines, and confiscation of goods (Chen, 2018). The lack of legal protection and formal registration makes informal entrepreneurs vulnerable to exploitation by authorities (ILO, 2019).

#### **4.2.2. Opportunities of the Informal Sector**

**Employment Generation:** The informal sector is a significant source of employment, particularly in economies with high unemployment rates. It provides livelihood opportunities for individuals who might otherwise be unemployed or underemployed (ILO, 2020). Informal employment serves as a crucial safety net, absorbing labor during economic downturns and providing income for vulnerable populations (Heintz & Pollin, 2018).

**Entrepreneurial Potential:** Informal businesses often serve as a breeding ground for entrepreneurship and innovation. With appropriate support, many informal businesses can transition to the formal economy, contributing to economic growth and diversity (Schneider, 2018). Informal sector entrepreneurs exhibit resilience and creativity, often developing innovative solutions to overcome resource constraints and market challenges (Bacchetta et al., 2019).

**Flexibility and Resilience:** The informal sector is characterized by its adaptability and resilience. Informal workers and businesses can quickly adjust to changing market conditions and consumer demands, demonstrating significant flexibility (Bacchetta et al., 2019). This sector's ability to

operate with low overhead costs and minimal bureaucratic constraints enables rapid response to economic opportunities (Chen, 2018).

**Social and Economic Inclusion:** The informal sector provides economic opportunities for marginalized groups, including women, youth, and rural populations. It serves as an entry point for these groups to engage in economic activities and improve their livelihoods (Chen, 2018). Informal employment can enhance social inclusion by providing income-generating opportunities in communities with limited formal job prospects (Williams & Youssef, 2018).

### **4.3. Review of Empirical Studies**

According to Jemal (2015), the urban Informal business Sector in Addis Ababa accounts for about 40% of the city's GDP and 70% of its employment. The Informal Business Sector includes activities such as urban agriculture, petty trade, handicrafts, and services. The author argues that the Informal business Sector plays a significant role in income generation, employment creation, and poverty reduction in the city. However, the Informal business Sector also suffers from low productivity, lack of social protection, poor working conditions, and regulatory barriers. The author suggests that the city administration should adopt comprehensive policies and strategies to improve the informal sector, such as regularization of informal settlements, provision of microfinance and training, and promotion of public-private partnerships.

Sibhat (2017) examines the causes and consequences of street vending in Addis Ababa, focusing on its prevalence within the city's informal business sector. Employing a descriptive research design, the study draws factors driving street vending, including population pressure, unemployment, poverty, low barriers to entry, high demand for goods, and limited alternative livelihood options. The author discusses both positive impacts, such as providing income and employment opportunities, fostering market competition, and enriching urban life, as well as negative effects, including congestion, pollution, reduced tax revenues, competition with formal businesses, regulatory conflicts, and public safety concerns.

Desta C G. (2019) study explores how the urban Informal business Sector helps the participants to improve their livelihoods in Hawassa city, Ethiopia. The study collects data from 182 Informal business Sector participants using a random sampling method and analyzes it using descriptive statistics and a logistic regression model. The study shows that most of the participants (67%)

think that the Informal business Sector has improved their livelihoods a lot. The study also finds some factors that affect livelihood improvement such as monthly income, savings, business duration, access to credit, working capital, and training opportunities.

The literature review has also suggested some possible interventions and policies that could improve the Informal Business Sector in the sub-city, such as the regularization of informal settlements, provision of microfinance and training, promotion of public-private partnerships, development of urban green infrastructure, and regulation of street vending.

#### 4.4. Conceptual framework

Some of the challenges faced by the urban Informal business Sector include shortage of capital, lack of access to formal credit, competition from formal traders, harassment by law enforcement officers, and poor infrastructure. Some of the opportunities for the urban Informal business Sector include the flexibility and adaptability to meet the changing demands of customers, the low entry barriers and start-up costs, the potential for innovation and entrepreneurship, and the contribution to urban development and poverty reduction.

Urban informal sector Challenges and Opportunities

<b>Challenges</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• Shortage of Market premises</li> <li>• Lack of Access to Formal credit</li> <li>• Competition From Formal Traders</li> <li>• Harassment By law enforcement officials</li> <li>• Lack of supportive policies &amp; regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Potential For Innovation &amp; Entrepreneurship</li> <li>• Flexibility &amp; Adaptability</li> </ul>

**Source:** *Literature review*

## 5. Methodology

### 5.1 Research Approach and Sampling Design

This research project used a mixed-methods approach, including surveys and interviews with concerned city administration officers, as well as secondary data sources. Specifically, we have conducted a survey of on Informal business Sector business owners. In addition, we conduct in-depth interviews with local government officials. Considering the nature of informants, the researcher tends to use purposive sampling techniques to obtain the information.

1. **Research approach:** This study used a mixed-methods research approach, which involves collecting and analyzing both quantitative and qualitative data. The study involved a survey of key informants and interviews.
2. **Sampling and sample size:** The determination of an appropriate sample size for a descriptive study depends on several factors such as the level of precision desired, the variability of the data, the desired level of confidence, and the size of the population. However, a common rule of thumb in social science research is to have a minimum sample size of 100 participants. One study that supports this recommendation is the article by Fusch and Ness (2015). They found that a sample size of 100 was commonly used in social science research as a minimum sample size for descriptive studies. Another study that supports the use of a minimum sample size of 100 in descriptive studies is "The Optimal Sample Size for Descriptive Studies" by Pirooska and Kramer (2013). They suggest that a sample size of at least 100 is necessary to obtain adequate precision in estimates of population parameters. According to the University of British Columbia (2012), "While sample size determination for a descriptive study depends on several factors, a minimum sample size of 100 is often recommended in social science research for descriptive studies.

Therefore, this study used a purposive sampling technique to participate in a minimum of 100 key informants from the four selected business sectors distributed a total of 120 questionnaires with 20 % reserve rate : 60 street vendors, 30 food processing, 10 tailors, and a 20 shoemaking businesses. Due to the lack of formal records or registration of businesses in the informal sector, it was difficult to obtain a representative sample. Therefore, a purposive sampling technique was employed to target key informants who were knowledgeable about the selected business sectors and could provide valuable insights. The four selected business sectors were chosen based on their



significance to the local economy and their potential to shed light on challenges faced by Informal business Sector businesses. A total of 120 questionnaires were distributed with a 20% reserve rate, resulting in a sample size of 108 usable responses. More than half of the sample consisted of street vendors who sell clothes, shoes, and basic goods, as they are exposed to a higher degree of challenges in the informal sector. Data were collected using a combination of surveys and interviews to achieve the research objectives.

## 5.2 Data collection

The Data were collected using methods surveys and interviews to achieve the research objectives.

- **Survey:** A structured survey was used to collect quantitative data from the key informants. The survey consist of Likert scale questions and open-ended questions to collect data on the role and challenges of the informal sector. The survey was administered in person to the key informants.
  - **Interviews:** In-depth interviews were conducted with a small sample of key informants from each sector officer. The interviews were conducted in the local language and were recorded. The interviews were used to gather detailed qualitative data on the role and challenges of the informal sector. Interviews conducted with groups of key informants from each sector, the sub city job creation & entrepreneurship officer, social legal experts, and trade and industry officers. The Interviews were used to gather qualitative data on the role and challenges of the informal sector.
4. **Data analysis:** Data analysis was conducted using both quantitative and qualitative methods.
- **Quantitative data analysis:** The quantitative data collected from the survey were analyzed using descriptive statistics to determine the frequency and mean and standard deviation was employed. The data was entered into a spreadsheet and analyzed using statistical software of SPSS 27.
  - **Qualitative data analysis:** The qualitative data collected from interviews was transcribed and translated into English. The data was analyzed using a thematic analysis approach, which involves identifying themes, patterns, and categories in the data.

## 6. Results and Discussion

<i>Category</i>	<i>Age group (%)</i>	<i>Gender1 (%)</i>	<i>Education1 (%)</i>	<i>Work Experience (%)</i>	<i>Business Sectors (%)</i>
<i>Under 18</i>	4.8	-	26.7	23.8	-
<i>19-29</i>	40.0	-	24.8	28.6	24.8
<i>30-39</i>	38.1	-	25.7	17.1	50.5
<i>40-49</i>	17.1	-	22.9	26.7	7.6
<i>Total</i>	100.0	-	100.0	100.0	100.0
<i>Female</i>	-	49.5	-	-	-
<i>Male</i>	-	50.5	-	-	-
<i>Primary School</i>	-	-	26.7	-	-
<i>Secondary School</i>	-	-	24.8	-	-
<i>TVET</i>	-	-	25.7	-	-
<i>Univ./College Degree</i>	-	-	22.9	-	-
<i>Food Processor</i>	-	-	-	-	24.8
<i>Shoe shiner</i>	-	-	-	-	17.1
<i>Street Vendor</i>	-	-	-	-	50.5
<i>Tailor</i>	-	-	-	-	7.6
<i>Total</i>	-	-	-	-	<b>100.0</b>

*Source: Survey, 2023*

The table presents descriptive statistics for the participants. The analysis reveals the following distribution:

- Participants under 18 years old accounted for 4.8% of the total sample.
- Those aged between 19 and 29 comprised 40.0% of the participants.
- The age group of 30 to 39 represented 38.1% of the participants.
- Participants aged between 40 and 49 constituted 17.1% of the total sample.

The gender distribution analysis reveals:

- Female participants comprised 49.5% of the total sample.
- Male participants constituted a slightly higher percentage at 50.5%.

The education distribution highlights the following key observations:

- Participants with a primary school education make up 26.7% of the total population.
- Individuals with a secondary school education represent 24.8% of participants.
- Participants who pursued Technical/Vocational Education and Training (TVET) account for 25.7% of the sample.

- Those with a University/College Degree constitute 22.9% of participants. These findings reflect a diverse educational background among the participants, with relatively balanced representation across different education categories.

The work experience distribution reveals:

- Participants with 1-3 years of work experience constitute 23.8% of the total sample.
- Individuals with 4-6 years of work experience represent 28.6% of participants.
- Participants who have worked for 7-10 years account for 17.1% of the sample.

Those with less than 1 year of work experience make up 3.8% of participants.

Participants with more than 10 years of work experience constitute 26.7% of the sample.

These findings emphasize the varied work experience backgrounds of participants within the urban informal sector.

The business sectors distribution reveals the following insights:

- Participants engaged in food processing make up 24.8% of the total sample.
- Individuals working as shoeshiners represent 17.1% of participants.
- Street vendors constitute the largest segment, accounting for 50.5% of the sample.
- Tailors comprise 7.6% of participants.
- A total of 108 participants were included in the analysis.

These findings underscore the diversity of business sectors within the urban informal sector.

## **6.1 Descriptive Statistics**

### **Challenges Faced by Urban Informal Business Sector Participants**

The challenges faced by participants within the urban Informal business Sector were assessed using a Likert scale, with responses ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

The descriptive statistics for these challenges are presented in the Table below.

The summary table of the descriptive study, including the grand mean of each factor, along with a discussion to provide context and interpretation:

## Summary of Descriptive Study: Factors Affecting Urban Informal Sector

Factor	Grand Mean	Interpretation
Loan Access Challenges	4.54	Participants faced challenges related to loan access, with a generally high degree of agreement. <i>These findings suggest that participants perceive significant challenges related to accessing loans, managing working capital, dealing with high interest rates, and meeting collateral requirements within the urban informal sector.</i>
Market Premises Challenges	4.34	<i>The results indicate that participants agreed that they face challenges related to suitable marketplaces, high rent costs, and the absence of specific marketplaces.</i>
Lack of Training Challenges	4.20	Participants highlighted challenges related to <i>training, encompassing skills, business management, and entrepreneurial training access.</i>
Harassment by Law enforcement personnel	4.09	Challenges due to harassment by local regulators were acknowledged by participants. The results indicate that participants agreed that they face challenges related to the existence of harassment on operations, worker vulnerability, and increased harassment frequency.
Competition Challenges	4.17	Challenges related to competition with formal business were observed, with participants agreeing on the influence of formal competition on sales and access to market their businesses.
License and Support Challenges	4.31	Participants faced challenges in obtaining licenses and support from local government, indicating the need for streamlined processes.
Potential Opportunities	3.94	Participants perceived potential opportunities, including <i>job creation, entrepreneurship, self-employment flexibility, and innovation</i>
Growth-Related Opportunities	4.05	Participants recognized growth-related opportunities such as <i>increased demand for basic goods, local production preferences, and adaptation to consumer needs</i>

Source: Survey, 2023

### 6.2 Discussion on the Descriptive Results

To make the analysis easy, the researcher used Al-Sayaad, Rabea and Samrah's (2006) proposed techniques of mean score ranges and summarized as below.

*Mean Score Range for Five Scale Likert's Response*

(1.00 - 1.80) Strongly Disagree

(1.80 - 2.60) Disagree

(2.60 - 3.40) Neutral

(3.40 - 4.20) Agree

(4.20 - 5.00) Strongly Agree

The high average score of 4.54 out of 5 indicates that participants widely acknowledge finance-related challenges as fundamental obstacles. This consensus highlights major barriers to financial stability and growth within the sector. The study investigates several factors, including the difficulties of securing credit, managing working capital, coping with high interest rates, and meeting collateral requirements. Informal businesses, which are often unregistered and lack collateral, commonly struggle to obtain credit and financial services. These challenges constrain their growth potential and limit their ability to invest in improvements or expand operations (Becker, 2019).

Examining the difficulties faced by businesses in the city's informal sector reveals significant issues with market space. Participants gave an average rating of 4.34 out of 5, indicating strong agreement on the challenges of finding and maintaining suitable markets for their businesses. These challenges include securing prime market spots, coping with high rent costs, and finding markets tailored to specific business needs. One major issue is the difficulty in locating markets that meet the unique needs of different businesses. Participants pointed out that the lack of available space in key areas poses a significant obstacle. These prime locations are crucial for attracting the right customers and ensuring business profitability, but they are often inaccessible to smaller or informal businesses. High rent costs present another major challenge for businesses attempting to secure and maintain desirable market spots. Small informal businesses frequently struggle with expensive rent, which consumes a large portion of their earnings. This financial strain leaves little for essential operations like restocking or marketing, potentially stunting business growth or leading to closure.

The urban informal sector faces notable obstacles related to training, as emphasized by participants. A major concern is the restricted access to skills training, business management

courses, and entrepreneurial education, which received an average rating of 4.20 out of 5. Participants underscored the necessity of acquiring new skills or enhancing existing ones to remain competitive and meet market demands. However, training opportunities are often limited, expensive, or fail to address the specific needs of informal sector participants. This lack of appropriate training restricts the ability of entrepreneurs and workers to increase productivity and improve the quality of their products or services. The study highlighted a significant gap in business management training. Essential elements such as financial literacy, marketing strategies, and customer service are crucial for business success. Nevertheless, suitable and affordable training options are scarce. As a result, entrepreneurs are poorly equipped to manage the complexities of business operations, leading to inefficiencies and a higher risk of failure. The finding is also supported by Chen, 2018. most training programs are designed for the formal sector, leaving informal workers without the structured learning opportunities needed to enhance their skills.

Police and law officers hassling people at work is a major problem in city informal jobs, rated 4.09 out of 5. This high score shows many workers feel worried and afraid of harassment. They feel harassed, treated badly, and hassled more and more often. Police interrupt their work, put them in danger of mistreatment, and bother them frequently. Harassment by law enforcement not only disrupts the day-to-day functioning of businesses in the informal sector but also creates an atmosphere of fear and instability. Informal entrepreneurs often face harassment from police and government officials. The lack of legal protection and formal registration makes informal entrepreneurs vulnerable to exploitation by authorities (ILO, 2019)

The urban informal sector faces challenges due to competition, with a consensus rating of 4.17 out of 5 among participants. Informal businesses typically operate with lower profit margins and less financial stability compared to formal businesses, which usually have better resources, access to larger markets, and can offer products and services at lower prices due to economies of scale. This competitive disadvantage makes it difficult for informal businesses to maintain their customer base and market share. Access to markets is another crucial area where informal sector businesses face challenges due to competition with formal businesses. Formal businesses generally enjoy greater access to prime market locations, online platforms, and distribution channels, which are often beyond the reach of

smaller, informal businesses. Moreover, formal businesses benefit from legal recognition, which further facilitates their market access and ability to engage with a wider customer base. In contrast, informal businesses may encounter legal and regulatory barriers that restrict their market access and limit opportunities for expansion. Informal sector activities are highly susceptible to market fluctuations and economic downturns. Without formal contracts or stable demand, workers and businesses in this sector experience income volatility and financial insecurity (Williams & Gurtoo, 2018).

The urban informal sector encounters difficulties in acquiring licenses and gaining approval from local authorities, as indicated by a rating of 4.31 out of 5. The agreement among participants underscores the importance of these obstacles, affecting not only the legality and operation of unregistered businesses but also their potential for expansion and integration into the formal economy. These businesses face challenges in acquiring licenses for informal businesses due to complex regulations, high costs, and lengthy procedures. Many people avoid getting a license because it is not easy to do, which puts them in danger of breaking the law and limits their growth. In addition to licensing challenges, the necessity for support from local government in terms of guidance, resources, and infrastructure is paramount for the sustainability of informal enterprises.

The informal business sector in urban areas offers promising prospects despite its challenges. Participants expressed optimism, with an average rating of 3.94 out of 5. The informal business sector plays a crucial role in job creation, particularly in urban settings where formal employment may be scarce. It serves as an important source of livelihood, absorbing labor and providing work opportunities for diverse groups like youth, women, and migrants. By offering employment to millions, the informal economy contributes to poverty reduction and social stability. Informal employment serves as a crucial safety net, absorbing labor during economic downturns and providing income for vulnerable populations (Heintz & Pollin, 2018).

The informal sector serves as a dynamic hub for entrepreneurial activity. Individuals frequently launch businesses in this sector out of necessity, aiming to create their own employment and leverage economic opportunities. This environment nurtures entrepreneurial skills, fostering creativity and innovation. Unlike the formal economy, the

informal sector presents fewer barriers to entry, enabling people to start and grow their businesses with limited resources. Informal businesses often act as a catalyst for entrepreneurship and innovation. With the right support, many of these businesses can transition to the formal economy, enhancing economic growth and diversity (Schneider, 2018).

A key feature of the informal sector is the flexibility it offers for self-employment. This allows people to customize their work hours, location, and operations to align with their personal circumstances and market demands. It empowers workers to adapt quickly to changing economic conditions and personal requirements. The informal business sector is also known for its innovative spirit, driven by the need to stand out and compete effectively. The informal sector is characterized by its adaptability and resilience. Informal workers and businesses can quickly adjust to changing market conditions and consumer demands, demonstrating significant flexibility (Bacchetta et al., 2019)

The rising demand for basic goods and services, fueled by urbanization and population growth, presents a significant opportunity for informal businesses deeply rooted in local communities. By providing affordable and accessible products, these businesses can attract a large customer base, ensuring a steady revenue stream and room for growth.

### **6.3 Interview Feedback**

Interview feedback from city government officials who participated in the Job creation, trade, law and social affairs process directorate on the challenges related to the Informal business Sector in Nefas Silk Lafto Woreda 02:

#### **Financial Challenges**

As a government agent, we are aware of the difficulties that the Informal Business Sector faces in obtaining loans from formal financial institutions. We understand that high interest rates and stringent collateral requirements are major hurdles. We are currently working on initiatives to enhance access to credit and funding opportunities for these businesses. This includes exploring options such as providing low-interest loans or creating a credit guarantee scheme that would reduce collateral requirements. We are also working with financial institutions like credit and loan association and the Development Bank of Ethiopia to develop financial products specifically tailored to the needs of Informal business Sector entrepreneurs.



### **Challenges in Finding Suitable Marketplaces**

We acknowledge that access to suitable marketplaces remains a challenge for Informal business Sector entrepreneurs. High rent costs and lack of specific marketplaces contribute to this issue. We are exploring partnerships with local authorities to identify viable solutions and provide entrepreneurs with better options for showcasing their products. This includes identifying vacant spaces that could be converted into marketplaces or creating pop-up markets in areas with high foot traffic.

### **Prevalence of Harassment**

We acknowledge the concerns regarding harassment faced by Informal business Sector entrepreneurs from law enforcement officers. This is a serious issue that we're actively addressing through workshops and sensitization programs. We are encouraging the Informal business Sector workers to fulfill the legal requirements to operate in this subcity.

### **Limited Access to Entrepreneurial Training**

We recognize that limited access to entrepreneurial training programs is a challenge. Skill development is crucial for business success, and we're collaborating with relevant institutions to increase the availability of training opportunities. Our goal is to empower entrepreneurs with the knowledge they need. We are working with relevant institutions to provide training opportunities tailored to the needs of Informal business Sector entrepreneurs. We are also providing subsidies or incentives to entrepreneurs who participate in training programs.

### **Competitive Landscape**

We realize the existence of competitive challenges that formal businesses pose to entrepreneurs in the informal business sector. To address this, we are developing business incubation centers, and networking opportunities to help informal businesses differentiate themselves and succeed in a competitive environment. These business incubation centers will provide entrepreneurs with essential resources and support to expand their operations. Additionally, networking events such as trade fairs and exhibitions will offer informal businesses the chance to showcase their products and connect with potential customers and partners.

## **Obtaining Government Licenses and Permits**

We're actively working on streamlining the process to reduce bureaucratic hurdles and minimize delays. Our aim is to simplify procedures while ensuring compliance with regulations to support Informal business Sector growth. We are simplifying procedures and reducing bureaucratic hurdles in business registration and licensing.

## **Contribution to Job Creation**

We recognize the significant role played by the urban Informal business Sector in Nefas Silk Lafto Woreda 02 in job creation. We're committed to fostering an enabling environment that encourages entrepreneurship and promotes job opportunities. Our initiatives aim to amplify this contribution further. We are also establishing partnerships with private sector companies to create job opportunities for Informal business Sector workers.

## **7. Conclusions and Recommendations**

### **7.1. Conclusions**

Several critical challenges were brought to light by the study participants. First, the informal business sector in the Woreda faced obstacles in loan access, managing working capital, and coming up with collateral requirements. Another significant challenge was the lack of appropriate marketplaces: this coupled with high rent costs without any specific market infrastructure further hampered business activities. On top of that, participants also struggled to access essential training that should cover skills development, business management, and entrepreneurial education. Moreover, concerns were raised about harassment by local regulators, affecting operational activities, worker vulnerability, and increasing frequency of such encounters. Moreover, challenges in obtaining licenses and support from local governments underscored the need for more efficient processes. On a more positive note, participants identified potential opportunities such as job creation, entrepreneurship, self-employment flexibility, and fostering innovation. They also recognized growth-related prospects such as increasing demand for basic goods, and adapting to evolving consumer needs.

## **7.2. Recommendations**

- To address the issue of harassment by law enforcement officials, the government should establish clear guidelines and regulations for law enforcement officials to follow when dealing with Informal business Sector businesses. Additionally, a complaint mechanism should be established to allow businesses to report any harassment or abuse they encounter.
- To promote and support the growth of the informal sector, the government should create policies and programs that provide access to credit, training, and markets. This could include establishing a dedicated fund for Informal business Sector businesses, providing tax incentives, and facilitating access to markets through partnerships with formal businesses.
- To address marketplace challenges, the government should establish designated marketplaces for informal businesses that are affordable and accessible. The government could also provide training and support to help businesses compete in the marketplace.
- To support the growth and development of Informal business Sector workers and entrepreneurs, the government should establish training programs that are tailored to their needs, including business management, financial management, and marketing. The government could also partner with formal businesses to provide mentorship opportunities.

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