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THE FACTORS THAT CONTRIBUTING FOR THE GROWTH OF INFORMAL TRADE IN ETHIOPIA

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Abstract

This study is designed to investigate the contributing factor that influences the growth of Informal trade in Ethiopia. The main objective of the study was to assess the contributing factor, transition intention, and constraints of the informal trade in Ethiopia. It also identifies the major cause and consequences of informal trade, the role of government in preventing the informal trade or formalizing it, and the mechanisms of transforming the informal trade into the formal sector in Ethiopia. The study is based on only the secondary data source. The study found that the main factors contributing to the informal trade are unable to fulfil the criteria of formal trade and lack of capital to start the formal business. The study that street vendors also have transition intention to formal trade. The study prevails that informal trade is the source of income for the poor or means of employment and also it is a base or formal trade. The study shows that the majority of the street vendor' constraints were a shortage of capital and low price for a product. As a recommendation, the government should give much emphasis on a rural job opportunity for youth and women to reduce rural to urban migration and to the factors that contribute to the informal trade. Also, provide financing opportunity to those who do not have the capital to start the formal business.

Keywords: Constraints, informal markets, lack of capitals, street vendors, and unemployment

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Acronyms and Abbreviations

CSA*----------*Central Statistics Agency

HLCLEP*----------*Higher Level Commission for Empowerment for the Poor

ILO*----------*International labor Office

MoLSA*----------*Ministry of Labor and Social Affair

UN*----------*United Nation

SSA*----------*Sub-Saharan Africa

GDP*----------*Growth domestic product

WIEGO*----------*Women in Informal Employment: Global and Organisational

EEPRI*----------*Ethiopian Economic Policy Research Institution

AfDB*----------*African Development Bank

WB*----------*World Bank

IMF*----------*International Monetary Fund

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Informal trade is a critical component of developing economies and it is also outside the scope of official statistical enumeration and government regulation as well as it is beyond the formal system of labour and social protection (ILO, 1993; Wiliems, 2006; Benjamin, 2014; Stuart, & Samman, et al., 2018).

The term "informal trade" is commonly used to refer to the segment of labour market in the developing countries that have retained a huge number of jobseekers characterized by the low level of capital, ability and low level of access to organized market and technology, low and unsteady earning as well as poor working conditions. Schnieder and Enste (2008) estimate that the informal economy presents up to 20% of global output in developed countries. It contributes even more substantively to the output of developing countries accounting for about 65% of the informal economy that controls 40% of GDP in most developing countries (Benjamin, 2014). In many developing countries especially in Sub-Saharan Africa, South Asia, and South America, the informal trade represents a critical source of livelihood to a majority of poor (Tilerman, 2012; Fox and Sohnesen, 2013; Samman and Hunt, 2018).

Informal trade in Ethiopia accounts for 35% to 40% of GDP and as much as 90% of a new job (Steel and Snodgrass (2008). Another reason the informal economy is important is that it absorbed a significant proportion of women and who have been evidence to face chronic inequalities disadvantages and marginalization. About 60% 0f working women in the developing world are in informal trade and in sub-Saharan Africa, about 84% of employed women are in the informal trade (Chen et al, 2005; Steel and Snodgrass, 2008; Adams & De Silva, et al., 2013).

The informal Trade generates an opportunity for a largely marginalized population continuously excluded from the formal trade and bypassed by mainstream policies of the public especially where there are no functional mechanisms for social protection and directly get to selling out the commodity on the street and other types of informal trade activities (Mbaye, and Benjamin, (2014).

Though informal trade is important for the socio-economic development in developing countries like Ethiopia, the sector is facing constraints such as legal impediments, inadequate capital and lack of appropriate skills to operate businesses, unfavourable government regulation, lack of access to finance and lack of training, poor urban land administration and bureaucratic rules and regulations (Beker, 2004; ILO, 2004; HLCLEP, 2006).

1.2 Statement of the problem

Informal trade is an important part of the economic life of most developing as well as some developed countries peoples. In countries with high rates of population growth or urbanization, informal trade tends to absorb most of the growing labour force (Molsa, 2013). In Africa, the informal trade is estimated to have accounted for almost 80% of non-agricultural employment, over 60% of urban employment, and over 90% of new jobs (Becker, 2004). Informal trade accounts percentage of official GDP in 2002/2003 in 96 developing countries. Also, the factors affecting the informal trade in the developed countries are minimal but in Africa, the informal trade is directly driven by the weak government regulation and the absence of a good working environment for conducting the formal trade Schneider (2006; 21).

The unfavourable climate of doing business in Ethiopia and the government policies in place are assumed to be the critical factors for business entry, growth, and development in Ethiopia (IFC, 2015). Reforms in the business climate and job creation that emanate from the existing policies of Ethiopia are increasingly resulting in unemployment and barriers to business entry (Tesfaye, 2015). These trends are seemingly perpetuating barriers and the growing involvement of the poor in the informal business sector is the result of these. The informal trade is growing in type and scope in Ethiopia, and women are increasingly related to these informal sector businesses which scholars categorize as survivalist and growth-oriented (Filmon, 2009).

The informal trade comes in the absence of government capacities and resources and works as a protection for families breaking down from poverty in Ethiopia (MoLSA, 2013). The informal trade in Ethiopia is estimated at 38.6 percent of GDP compared with an average of 38.4 Percent for SSA and 38 Percent for all low-income countries. The trade supports the life of many peoples especially those who are not accessed to a good working environment like

the shades and working the land, and those who have no any capital to start a good business even by cooperating under the job-creating organs those wants some saved capital from the job seeker to create a job for them but the reality is that the job seekers have no any capital rather they want to start a job by the zero saving or capital (IMF, 2013).

Detail study of the overall condition of the factors that contribute to the informal trade should be the first move required for reducing this gap. Therefore this study is to identify the driving factors of informal trade, to know how far informal trade operator's transition intention into the formal trade and to assess constraints facing informal trade operation in factors contributing to the informal trade in Ethiopia.

1.3 Objective of the study

1.3.1 General Objective

This study in general intended to assess the contributing factors, transition intention, and constraints of the informal trade.

1.3.2 Specific objectives

- To identify the contributing factors for the growth of informal trade in Ethiopia.
- To know how far do informal trade operator's transition intention into the formal trade.
- To assess the constraints facing the informal trade operation.

1.4. The research question

To narrow down and make more concise the above-stated problem, the researchers have raised the following question.

- ✓ What are the driving factors of informal trade engagement?
- ✓ What are the constraints facing informal trade operators?
- ✓ How far do informal trade operators have transition intention to the formal?

1.5 Significance of the study

The study would have the following significance. It aids to improve the researcher's skill in researching future studies. The outcome of this paper would be a decision tool for decision-makers in an area of informal trade. Since the government is responsible for issuing policies and regulations it may guide the socio-economic issue of a country. Hence the result of this research would enable government officials to formulate better policies and regulations regarding an informal economy in the country. Finally, this finding can serve as reference material for any interested body who will research the area of informal trade.

1.6. Scope of the study

The study assessed the contributing factors for the informal trade in Ethiopia. The study assessed the real conditions in country's regions and towns. The study deliminated its scope on identifying the problems pushs the peoples to informal trade in the country.

1.7. Research methodology

To understand the nature, causes, effects, and controversial issues surrounding the informal trade, a methodological framework made effective use of available secondary information. The study has reviewed various pieces of literature on the operation and development of informal trade and evaluated policy-oriented studies on poverty alleviation strategies and informal trade activities in Ethiopia.

1.7.1 Data source and data type

To achieve the general objective of the study, the researchers used secondary data Sources from books internet websites, and other published and unpublished materials and journal Articles data which are related to the factors affecting the informal trade.

CHAPTER: TWO

2. LITERATURE REVIEW

This paper provides an overview of the theoretical and the empirical review, the informal trade driving factors, transition intention and constraints, and conceptual framework as well as the implication for the study.

2.1 Operational definition of the key terms

In this study, the basic concepts are given operational definition working especially for this study.

Informal trade means; socially desirable economic activities that produce well and service which are considered in national account calculation but escape from the government observation, regulation, and taxation.

Transitional intention means; the inclination of the informal trade operators to join the sector in near the future.

Constraint means; all bottlenecks that disturb the current smooth functioning of formal trade operators.

2.2 Definition of informal trade

The informal trade means, activities, and income that is partially or fully outside government regulation, taxation, and observation. The main attraction of informal trade is financial. The activity allows employers, paid employees, and the self-employed to increase their take-home earnings or reduce their costs by escaping taxation and social contributions. It is a means for employees who cannot find a job in the formal activity. But, a loss in budget revenues by reducing taxes (Martha, 2002).

Its original formulation was attributed to an anthropologist, Keith hart, studying emerging urban labour markets in Africa for international labour organization (ILO) (Hart, 1973). Hart distinguished between wages employment in large firms or government agencies and self-

employment in his studies of the urban labour force, noting that were central to that of the livelihood strategies and economic life of the residents of urban residents in Africa. Small traders, food vendors, and sellers of goods and services from shoeshine to that haircuts are the familiar mainstays of the urban economies (Hart, 1973).

More recently, the assumption about the scope, location, and importance of informal work has come under scrutiny, since it has been recognized that informal work is neither unique to impoverished Third World countries nor necessarily diminishing in size or importance. Several developments in diverse areas of economic sociology, but all of them linked to global economic restructuring, have led to renewed interest in informal work a growing understanding that it is both more widespread and less understood than that of the previous accounts suggested (ILO, 2003).

An international statistical definition of the informal trade also defined: namely, all unregistered enterprises below a certain size, including micro-enterprises owned by informal employers who hire one or more employees on a continuingly and own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis. For simplification it is better to define informal trade based on characteristics, the known definition is given by ILO that the way of the activity characterized by easy entry means that not need much training, education, and capital. Depend on local resources; family ownership of enterprises; the small scale of operation; labour-intensive, skills acquired outside the formal school system; and not officially regulated and competitive markets (ILO, 2002).

The basic nature of the informal trade units can be summarized have little or no division between labor and capital, self-employed activities with the help of unpaid family members or a few hired workers with low wage than formal sector and without guarantees mean wage level and working condition is unprotected, consists of small scale, at a low level of organization and technology with the primary objective of as means of employment rather growing organization. (ILO, 1993&1998)

Street vendors fall within the informal activity and almost all definitions of informal trade defining it. Amin (2002) and ILO (2002:55) define informal trade by Employment Categories, “Informal employment comprises of both self-and wage-employment that are

usually not recognized, regulated, or protected by legal or regulatory frameworks. The informal trade is largely characterized by low entry requirements in terms of capital and professional qualifications, a small scale of operations, skills often acquired outside of formal education, and labour-intensive methods of production and adapted technology (Becker, 2004).

It has increasingly become clear that there are many interdependencies between the informal and the formal trades. Market links exist through the trade of goods, raw materials, tools, and equipment and acquisitions of skills and know-how. The Informal actors provide services to the formal actors on a sub-contracting basis. Also, individuals can participate in both formal and informal trades (Amin, 2002).

2.3 Theoretical perspective on informal trade

Over the years, the debate on the large and heterogeneous informal economy has crystallized into four dominant schools of thought regarding its nature and composition, as follows. The Dualist school sees the informal trade of the economy as comprising marginal activities distinct from and not related to the formal sector that provide income for the poor and a safety net in times of crisis. Also, this school argues that informal operators are excluded from modern economic opportunities due to imbalances between the growth rates of the population and modern industrial employment, and a mismatch between people's skills and the structure of modern economic opportunities (Hart 1973; ILO 1972).

They also subscribe to the notion that informal units and activities have few (if any) linkages to the formal economy but, rather, operates as a distinct separate sector of the economy and that the informal workforce assumed to be largely self-employed comprise the less advantaged sector of a dualistic or segmented labour market. They pay relatively little attention to the links between informal enterprises, and government regulations. But they recommend that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families (Sethuraman 1976; Tokman 1978).

The Structuralist school sees the informal trade as subordinated economic units (microenterprises) and workers that serve to reduce input and labour costs and, thereby,

increase the competitiveness of large capitalist firms (Moser 1978; Castells and Portes 1989). They also see the informal and formal trade as intrinsically linked. They see both informal enterprises and informal wage workers as subordinated to the interests of capitalist development, providing cheap goods and services. They argue that governments should address the unequal relationship between "big business" and subordinated producers and workers by regulating both commercial and Employment relationships (De Soto 1989, 2000).

The Voluntarist school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, does not blame the cumbersome registration procedures. Each school of thought subscribes to a different causal theory of what gives rise to the informal trade. The school pays relatively little attention to the economic linkages between informal and formal economic activity but subscribes to the notion that informal one creates unfair competition for formal trade because they avoid formal regulations, taxes, and other costs of production. They argue that informal trade should be brought under the formal regulatory environment to increase the tax base and reduce the unfair competition to formal business. (WIEGO, 2012:4-6).

The Legalists: argue that a hostile legal system leads the self-employed to operate informally with their informal extra-legal norms. The Legalists focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy per se. But they acknowledge that formal firms what De Soto calls "mercantilist" interests collude with the government to set the bureaucratic "rules of the game" and they argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets. The Legalist school sees the informal trade as comprised of "plucky" micro-entrepreneurs who choose to operate informally to avoid the costs, time, and effort of formal registration and who need property rights to convert their assets into legally recognized assets (De Soto 1989, 2000).

2.4 General Characteristics of Informal Sector

The informal economc activity is characterized by a large number of small-scale production and service activities that are individually or family-owned and use labor-intensive and simple technology (Toado and Stephen, 2003). Easy of entry, reliance on indigenous

resources, family ownership of enterprises or activity operated by the owner with few or no employees., the small scale of operation, labour incentive and adaptive technology, skills acquired outside the normal school system, have little or no access to organized markets, to credit institutions, unregulated and competitive markets. (ILO, 1972).

To begin with operation in the informal market depending on its scale of operation doesn't require formal education, procedures, and other requirements. Studies covering twenty-one African countries show that only a quarter of enterprise in the informal trade acquires their skills from formal school and training centers. (ILO, 1985). "Small-scale activities characterized by self-employment, mainly using self-labor and household laborers (usually less than ten), simple technology, low level of organization, and unfixed operation of premises and working hours. (ILO, 1992:2).

According to the CSA urban informal trade survey of 2003 has mainly engaged in marketed production, not registered as companies or co-operatives, no full written book of accounts, less than ten persons engaged in the activity, no license & fixes the time of operation, small-Scale operation and usually uses indigenous, local raw materials.

We can categorize the characteristics of an informal trade based on employment that the people engaged in the informal trade by the activities in the informal sector. Characteristics of the people engaged in the informal trade are Absence of official protection and recognition, Non-coverage by minimum wage legislation and social security system, Predominance of own-account and self-employment work, Absence of trade union organization, Low income and wages, Little job security, and No fringe benefits from institutional sources. Characteristics of the activities in the informal trade are Unregulated and competitive markets, Small scale operations with individual or family ownership, Ease of entry, Labor intensive and adopted technology and Absence of access to institutional credit or other supports and protections.

2.5 Elements Distinguishing Characteristics of the Informal trade

Informal trade has different characteristics depending on the following elements:

Employment: Characteristics of the people engaged in the informal trade are Absence of official protection and recognition, Non-coverage by minimum wage legislation and social

security system, Predominance of own-account and self-employment work, Absence of trade union organization, Low income and wages, Little job security and No fringe benefits from institutional sources.

Enterprise; Characteristics of the activities in the informal trade are Unregulated and competitive markets, Small scale operation with individual or family ownership, Ease of entry, Reliance on locally available resources, Family ownership of enterprises, Labor intensive and adapted technology, and Absence of access to institutional credit or other supports and protections.

Habitat; land and housing are unauthorized use of vacant public or private land, Illegal subdivision and/or rental of land, unauthorized construction of structures and buildings, Reliance on low cost and locally available scrap construction materials, Absence of restrictive standards and regulations, Reliance on family labour and artisanal techniques for construction and Non-availability of mortgage or any other subsidized finance.

Credit; Characteristics of informal credit markets are Unregulated and non-subsidized, Easy accessibility, Availability in very small size and for short terms, Low administrative and procedural costs, Little of no collateral requirements, Flexible interest rates (from very high to no interest at all) and Highly flexible transactions and repayments tailored to individual needs.

2.6 The contribution of informal trade to the national economy

According to a background paper for the 2005 world development report, informal trade is rampant and a possible source of employment and income for many urban labor forces. However, in most of the nations, not considered in national economic statistics. Informal trade has viewed undermines the healthy operations of the formal economy. Due to this perception conflict rise with urban government authorities over licensing, taxation, location of operation, sanitation, and working conditions. Economists do not understand the role of informal trade. Even local urban authorities who are collect revenue from this sector do not maintain records of the numbers and real contributions to an urban economy.

This negligence leads to failing to estimate the numbers of informal traders and the role they play in the sector in developing countries poverty is even growing due to the uncontrolled rapid population growth, which is not equal to the degree of economic growth. This resulted in serious social and economic hazards in which Ethiopia is part, in turn, bring rapid urban

population growth as a result of rural-urban migration. As a result, the number of unemployed people seems increasing. On the other hand, informal trade plays an important role in securing employment for a large number of women in Ethiopia not only accompany them with stuff but also provide them with necessary goods and services. So, informal trade provides a significant contribution to the local economic development about employment output in many African countries (ILO, 2002) & (Matthias, 2011). However, in Ethiopia, this sector has got marginalized and much less emphasis in general and in cities and zonal towns.

2.7 Problems and Constraints of Informal trade

As can be understood from the discussions in the preceding sections, attempts to deal with informal trade issues would require serious strategic thinking and a pragmatic approach. It may be vital to emphasize integrating the sector into mainstream development in a way that could be conducive for its operation and development. Such an approach would be a serious challenge to those concerned with informal trade issues in the development process.

Given the contribution of the informal sector to socio-economic development, an enabling legal and regulatory environment has to be created to prepare the ground for long-term opportunities to facilitate the transition from informal to formal ways of undertaking business activities. In this regard, the government needs to strategically define the role of the informal sector and play a coordinating role to effect the transformation process. Formulation of enlightened policies that can help to tap the growth potential of the informal sector and reinforce social and economic integration in the productive sectors of the economy is vitally important (Morris et al., p. 13).

The problems encountered and the constraints imposed on informal trade have adversely affected its growth and development. In developing countries, the sector encounters a range of problems and constraints such as legal impediments, inadequate capital, and lack of appropriate skills to operate businesses (Beker, 2004; ILO, 2004). According to some studies, informal trade respondents indicated that obstacles that hampered business start-ups in the sector were unfavourable government regulation, lack of access to finance, and lack of training. Other problem areas also include poor urban land administration, bureaucratic inefficiency, the tedious process and long procedures in issuing housing permits and the shortage of supply and high cost of construction materials, shortage and irregularities in the

supply of inputs combined with low demand for informal products and others such as bureaucratic rules and regulations, financial problems, access to land, family problems as well as socio-economic and cultural (HLCLEP, 2006).

A study on informal trade by HLCLEP in 2006 also identified the problems facing street vendors. According to HLCLEP, the major problems were exposition to rain and sun, traffic incidence, and police harassment, high house rent, lack of micro-credit and inadequacy of loans, and lack of access to training on basic bookkeeping principles and employable skills.

2.8 Current Status of Informal trade in Ethiopia

Like any developing socio-economic environment, the majority of Ethiopia's population (60%) lives in a state of absolute poverty. Ethiopia is characterized by a low level of economic growth, rapid population expansion, drought, and famine, and rural to urban migration, which has been experienced over the last couple of decades. The per capita GNP was about USD 110 in 1992 with an average growth rate of -1.9% since 1980 and The poor performance of the sector has resulted in rising unemployment and decline of real wages (Hayat Abdulahi, 1997, p. 173, as quoted from WDR 1994).

A study by HLCLEP in 2006 before a decade notes that the informal trade in Ethiopia has flourished due to economic recession, high rates of population growth and urbanization as well as structural adjustment policies. Therefore, a large number of peoples resorts to informal means to enhance employment and household income. HLCLEP referring to the CSA 1997-2003 data show employment in the urban informal trade was eight times higher than wage employment in the formal trade and the number of people engaged in urban informal sector activities has increased by approximately 37% during the period (HLCLEP, 2006). The Latest survey by MoLSA (2013) has indicated a significant decline in the working population in the informal trade from 72.8% in 1999 to 33.3% in 2010.

Despite the economic crisis and the problems of the structural adjustment programs that have adversely affected the economic development of poor countries, the informal trade has survived and supported a significant proportion of the impoverished population through employment creation to provide the means for their livelihood. In the Ethiopian situation, like other developing countries, the informal trade has come about as a result of the socio-

economic crisis created by local and external forces and as a response to the search for a means of earning a modest living (UNECA, 1993, p. 9).

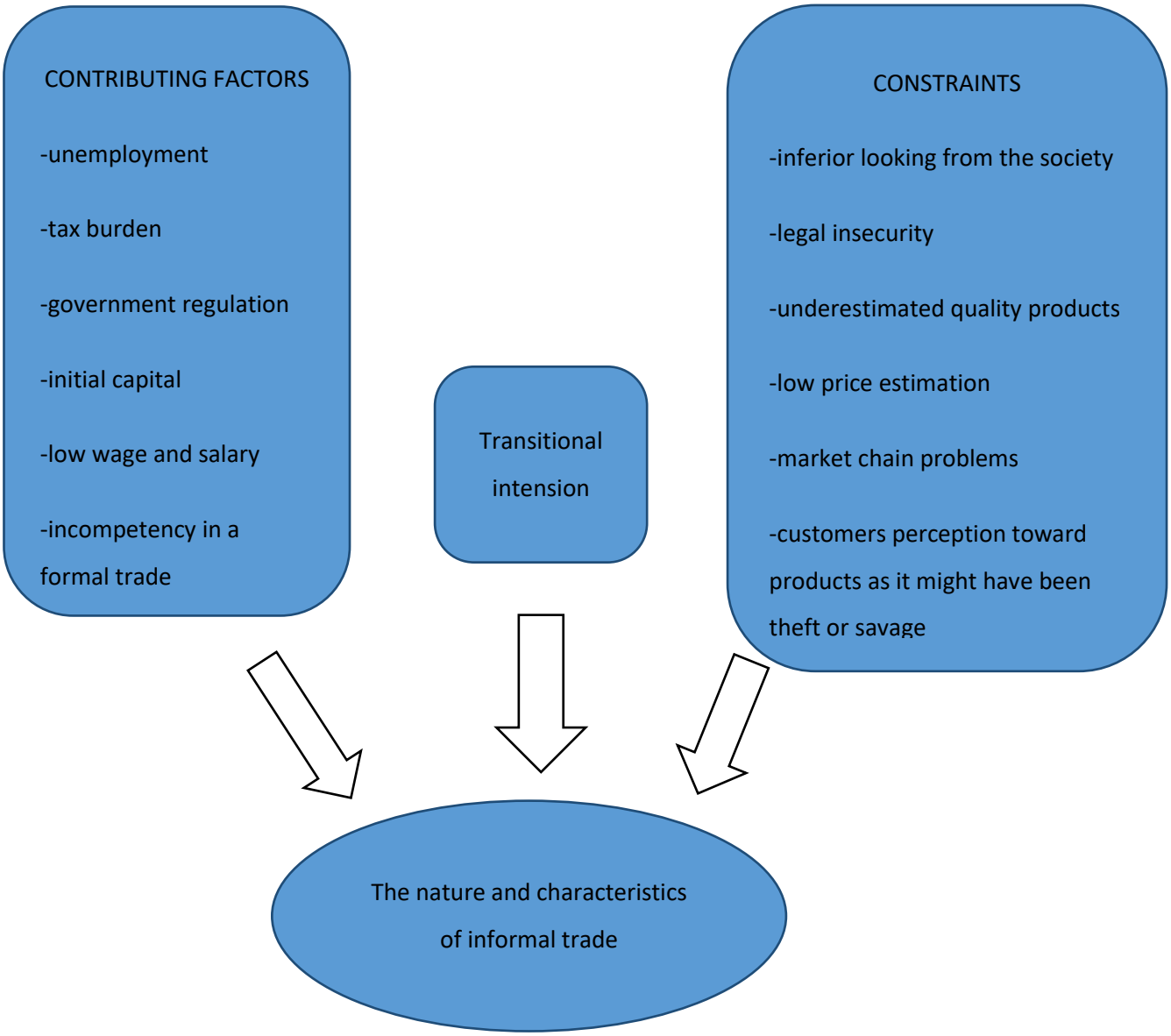
Another factor that helped in the expansion of the informal economic activity is the reaction against the government's regulation of the economy. The taxation systems, social legislation, health and environmental controls that are imposed on the activities of the business community, and the economic hardship during periods of the economic recession forced business people to go informal to operate outside of the regulatory framework (Portes et al, pp. 27-28).

However, despite the significant number of peoples has engaged in the informal trade and served as an alternative source of employment and income, its productivity is very limited. Explanations for the low productivity of the informal trade is partly found in the fact that it is dominated by several micro-enterprises operators who are in search of subsistence income, sell anything by the roadside, door to door, and open markets(CSA,1997).

2.9 Conceptual framework of the study

From the literature review, it is inferred that unemployment, tax burden, government regulation, lack of capital to start a new business, low salary payment from the government, incompetency informal market, and profitability of informal trade are contributing factors for informal trade prevalence. Thus, based on the reviewed literature the researcher developed a conceptual framework to assess the informal trade.

Figure 1.1 Conceptual framework of the informal trade



Source; (Andualem, 2018)

2.10 Empirical Literature Review

The existence of informal trade and its persistence over time has been explained by a variety of related causes. According to (Becker, 2004:9), "The limited capacity of agriculture and the formal economy to absorb surplus-labor, together with increasing numbers of job seekers, has boosted the size of the informal trade In countries with high rates of population growth or urbanization, the informal trade tends to absorb most of the growing labour force in the urban areas when the manufacturing industry and off-farm activities, in general, do not grow at the same pace." Barriers of entry into the formal trade: Excessive costs and government regulations as well as corruption in areas such as business start-up, granting of business permits, and land titles, according to scholars such as Hernando de Soto (a renowned Peruvian development economist), have forced people to remain informal. Many governments are unaware of the economic contributions of the informal trade and the problems found in it and have therefore found it unnecessary to intervene because of the belief that the informal trade would die out (Becker, 2004:9).

The informal trade has often been left unattended and has thus had few obstacles for its growth, Economic hardship, and poverty (Becker, 2004). As several researchers studied, The most frequently cited causes of informal trade engagement are Unemployment, tax burden, government regulation (Ogbuabor and Malaolu 2013); an increased burden of taxation and social security contributions and labor market regulation (Schneider, 2006); tight and unfair tax administration and regulations, and the corruption (Tunyan, 2006); Government, regulation, taxation, economic issues and social ethos (Jie et al, 2010); the burden of taxes and social security contributions, increased regulation in the official market, earlier retirement, unemployment, and the decline of civic virtue and loyalty towards public institutions, tax morale(Schneider and Enste, 2000); relatively fewer entry barriers, low capital, and flexibility (HLSLEP, 2006).

"Mainly because of the lack of appropriate mechanisms that would have contributed to the absorption of the labor force into the national economy, the bulk of new employment in recent years in many of the least developed countries has taken place in the informal economic activity. Moreover, all segments of the informal workforce – self-employed, casual, sub-contract, temporary and part-time workers and micro-entrepreneurs also appear to be growing" (Becker 2004:10).

The work of (Sim Wan Jie et al, 2010) on underground economy definition and causes define the underground economy as economic activities, whether legal or illegal, that escape from government observation, regulation, and taxation. They have also attempted to gather many factors that contribute to Underground Economy from empirical sources of literate and research findings which have been classified into five origin factors as follows: government regulation, taxation, economic issues, and social ethos. Ogbuabor and Malaolu 2013 examined the size, development, and causes of the Nigerian informal trade using the EMIMIC model. They found that since 1970 the size of the informal trade has hovered between 53.6 – 77.2% of GDP with the average size of the informal trade 64.6% of GDP. Furthermore, their results support a direct relationship between increasing unemployment and the size of the informal trade they also identified increased burden of taxation, increased government regulation of economic activities, and inflation as important drivers of the informal trade (Ogbuabor and Malaolu 2013).

Asaminew (2010) notes that there is a significant amount of economic activity (36% of the recorded economy) that is not reported and captured by the official statistics. He also stresses incentive structure towards the small and medium scale enterprises if these sectors are to be the deriving engines of Ethiopia's transformation. Mustafa (2012) examine the trends and characteristics of informal trade and concluded as a nation's wealth increases informality decreases. Mustafa also said that government and policymakers should develop new businesses, expand existing ones, promote self-employment to reduce unemployment, and achieve long-term benefits. This in turn contributes to the creation of the conditions to integrate the informal trade into the formal trade.

Ebisa (2012) assessed the status of women in the informal trade with particular emphasis in the southwestern Ethiopia Gomma district. He witnessed that women inhabit slum and squatter settlements with poor conditions of houses, electricity, and water and drainage systems. Yet according to Ebisa, Informal trade is the only hope for a large number of women who are not able to find employment in the formal sector.

Habtamu (2013) investigates various types of economic linkages between formal and informal economy-traders in Hawassa-Ethiopia. In his study, Habtamu identified backward, forward, consumption, and technological linkages between formal and informal trades. In terms of backward types of linkages, his study revealed that 56.1 percent of vendor

entrepreneurs obtained initial capital from formal trade units. Finally, Habtamu indicated that a much larger proportion of the entrepreneurs sold their goods or services to individual households implying that most informal traders dealt in goods or services consumed daily.
According to (Sebsib 2015:87) conducted on Women in The Informal trade: Retrospect's and Socioeconomic Response in Dessie Town, Ethiopia: The Case of Parallel Trading and he concluded that, causes for women and major factors that lead to the informal trade, sources of start-up capital, the sector socio-economic impact; employment extent, monthly income of women, housing situation, health care affordability and education accessibility and working conditions.

2.11 Implication of the review

While conducting the study the Researchers assess some findings done before by different experts. In Ethiopia the researchers found researches done previously on the area of the informal trade. According to Asmamew informal trade activities are closely linked with inadequate income generation activities to which government bodies are not yet prepared to deal with. The existence of the renewed interest in informal trade is reflected in the number of national and international initiatives study the sector.

Jan Fransen in his research suggests that Ethiopian cities play an increasingly important role in economic development, both in creating value-added per person and in providing a better quality of life. However, in a large part of the city, the informal trade performs much worse. The informal trade comprises those in exclusionary informality where the poor resort to informality as a last resort and that involuntary informality where businesses and households opt for informality based on a cost-benefit analysis. Most informality in Addis Ababa is exclusionary.

Yodit Abebe is also another researcher in this area states that the informal trade has a positive role to play for women in economic development in terms of job creation, income generation, and household support, and poverty reduction. Besides. Yodit, Mohammed Nuru in his study suggests three major challenges that constrained the operation and profitability of the informal trade. These were a lack of working capital, the difficulty of getting a good working place, and stiff competition from fellow traders. Hence, there is a need for the provision of

improved and accessible financial and infrastructural services to improve the performance of the sector.

Generally, the researchers reviewed the lesson and found that thr factors contributing for the informal trade and the role of informal trade in the economy of the country especially as we are a developing country the trade plays a significant role in reducing unemployment, women's work disadvantage and helps to reduce crime. Above all the sector helps to flourish the big cities and towns in the country even as it is obvious that there are the challenges and effect of the sector that have to be overcome by giving attention, favoring the way, and directing specialized control to the trade.

CHAPTER: THREE

CONCLUSION

The objective of this study was to explore the factors contributing to informal trade to be practiced widely in Ethiopia. The informal trade has an important contribution for urban poverty alleviation through creating jobs and reducing unemployment for those poor who lives in the city and for those who are migrated from the rural area especially for women and youth section of the society and this will help them to generate livelihood income.

Most of the informal trade operators involved in this business are because it is the only source of livelihood income and the income of those involved in the informal trade has increased after joining the informal trade. Moreover, the conditions of life for many of them have improved in a better way because they can support themselves and their family members economically. Being poor and an informal trade operator are positively correlated. The informal trade serves as a bridge to escape poverty for most women who are poor. The informal business activities are closely linked to inadequate income maintenance or income-generating activities and such an economy consists of sets of survival activities performed by destitute people on the migrants of the society.

The plans of most of the informal trade operators are to expand and transform the business into a formal business environment. This shows that the sector is a stepping stone to transform into the formal business environment and the informal sector helps those traders either to survive on one hand and to transform (growth) the business into formal trade on the other hand.

The numbers of people who are participating in the informal trade are increasing from time to time because of rural-urban migration and the absorption capacity of the formal trade is very low. Most women migrate from rural areas to search for a job and they found themselves in the informal trade. Managing the informal trade is a difficult thing for the country because these traders have no permanent place, unwillingness to register, and a cumbersome government bureaucracy to get trade license and the legal business environment is not attractive to bring peoples who are involved in the informal trade.

At the country, level to navigate the informal trade by policy different stakeholders working together and this policy aim to create a conducive working environment by providing accessible working area, loan services, by creating market linkage and information then transform the business into the formal sector by facilitating the registration processes, financing, and operating premises.

The informal trade operators face several challenges: first, when they start the business; second, during the operation of the business which will limit the potential for the growth and productivity of the sector. Some of the major challenges they face when they start the business are lack of start-up capital, lack of space, lack of encouraging government policy, etc. and some of the challenges during the operation of the businesses are like code enforcement police, shortage of working capital, no access for credit facilities, and lack of increasing demand for the items for sale.

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