



PENN IUR SERIES ON INFORMALITY

Is Formalizing Working for Rural Migrants in Addis Ababa?

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Photo by M.R. Hasan

BACKGROUND

In rapidly urbanizing cities like Addis Ababa, the informal sector plays an important role in providing employment for the urban labor force. The informal sector in Addis Ababa mainly includes street-based jobs such as lottery selling and street vending as well as domestic service providers. With 58% of the average growth of the city coming from migration, most of the individuals involved in the urban informal sector are rural migrants (World Bank, 2015). Many migrants to cities often find themselves working in the informal sector (which is expanding faster in secondary cities compared to Addis). 90% of these rural migrants join the informal economy in Ethiopian cities (CSA, 2003). This shouldn't come as a surprise because the informal sector provides rural migrants with an easier path to employment compared to the formal sector which requires specialized skills, education, and capital. This is crucial considering most of the migrants are young adults with little social and financial capital coming to the city in search of better economic opportunities. The three largest sectors of employment for migrants are trade, domestic work, and hotels and restaurants; migrants in Addis are slightly less likely than non-migrants to be found in self-employment (World Bank, 2015).

CURRENT POLICIES

There isn't one single policy at play when it comes to formalization in Addis, but the city administration, the trade bureau, and several other government bodies have initiated efforts to formalize the informal sector. Some policies are less controversial like providing low-cost microfinance while other policies include forcefully moving street vendors off the streets and into formal working premises within the city center as well as involuntary registration. Local urban governments have established policies to facilitate the transition of informal firms through skills training and relocation to business premises, while policies like the Commercial Registration and Business Licensing Proclamation (passed in January 2011) lay out severe penalties for those engaging in unlawful (which may include informal) economic activities.

SHORTCOMINGS

These policies ignore the aspects that attracted rural migrants to the informal sector in the first place. They are focused on forcing formality instead of creating inclusive models. There are also very little incentives for these workers like street vendors to move to a working premise that does not guarantee the foot traffic of customers they need to earn a living. More importantly, registering a business in Addis Ababa is an expensive, time consuming, and difficult process for a rural migrant. This is because starting and operating a business in Ethiopia is one of the most difficult in the world. Particularly, Ethiopia is ranked 159th among 190 economies in the ease of doing business, according to the latest World Bank annual ratings.

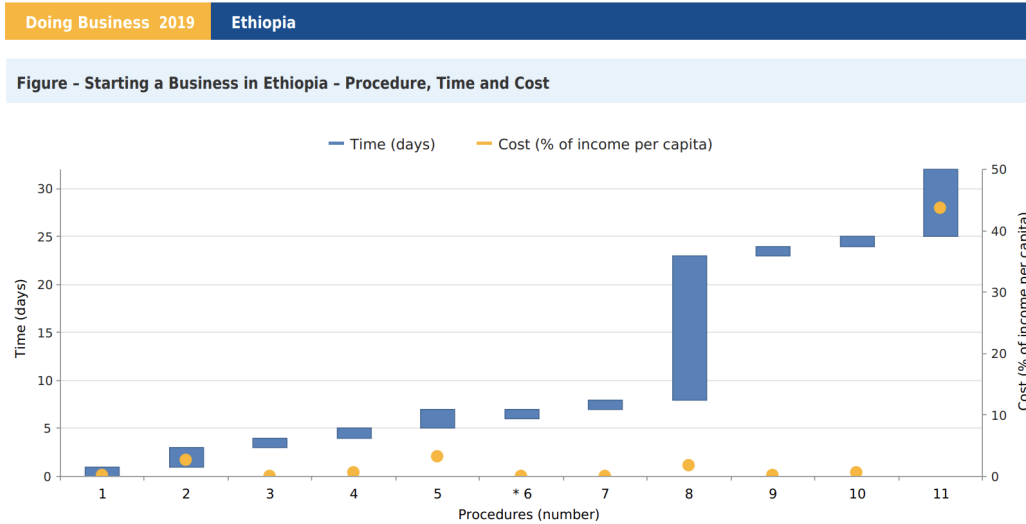
Some of the procedures from the above figure and the associated costs include:

1. Business name verification or reservation which costs approximately \$1
2. Authentication of the company documents and the lease agreement at the Documents Authentication and Registration Office which costs approximately \$15
3. Registering the company and obtaining the commercial registration certificate which costs approximately \$20

In total there are 11 procedures to register a business in Ethiopia that in total cost approximately \$200. With most rural migrants already living below the poverty line, spending time and money on registration only increases the challenges they face.

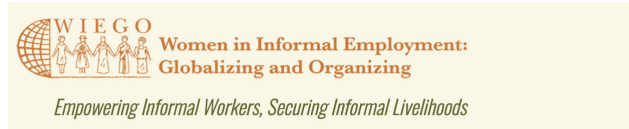
FIGURE 1:

Starting a business in Ethiopia, World Bank 2019



*This symbol is shown beside procedure numbers that take place simultaneously with the previous procedure.

Note: Online procedures account for 0.5 days in the total time calculation. For economies that have a different procedure list for men and women, the graph shows the time for women. For more information on methodology, see the *Doing Business* website (<http://doingbusiness.org/en/methodology>). For details on the procedures reflected here, see the summary below.



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RESULTS

The involuntary registration combined with stiff tax and enforcement measures have caused a rapid reduction in the proportion of informal sector employment in Addis Ababa. According to 2015 data from the Central Statistical Agency of Ethiopia, the nationwide share of the urban informal sector had gone down to 27.8% in 2015 from a high of 50.6% in 2003, implying an overall decrease in the socio-economic importance of Addis's informal economy. 2015 data for Addis also shows that the total share of urban informal employment is about



13%; much lower than the national average. This sharp drop in the share of the informal sector raises very important questions. How did this happen? Are informal workers (especially rural migrants) doing better, or did this sharp drop in the informal sector leave them more vulnerable?

RECOMMENDATIONS

1. Policies that aim to help workers in the informal sector should also include the incentives that attracted them to the informal sector in the first place. For example, in Bhubaneswar, India, city authorities worked with the street vendors' organization to develop an inclusive model creating 54 dedicated vending zones and approximately 2,600 kiosks for informal street vendors to operate from (Randhir, 2012). Under this arrangement, city residents can continue benefiting from street vendor activities, while the vendors can operate in designated zones without the risk of harassment or confiscation.
2. It was difficult to find data that shows if formalization has had positive effects on income levels and providing stable, sustainable sources of employment. The Addis Ababa city administration needs to collect data on the results of their formalization efforts before further decreasing the share of the informal sector.

Without additional data and testing inclusive policies, we can't understand if Addis' formalization policies truly help rural migrants find sustainable employment.

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