

## Challenges faced by informal traders in Gondar City, Amhara Region, Ethiopia

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### Abstract

This paper examined the challenges faced by the informal traders in Gondar city. Data was collected from a total of 200 sample respondents drawn from informal traders in the city. Structured interview and observation were employed to collect the required data from the sample respondents. The findings of the study revealed that three major challenges constrained the operation and profitability of the informal traders. These were lack of working capital, difficulty of getting good working place, and stiff competition from fellow traders. Hence, there is a need for provision of improved and accessible financial and infrastructural services to improve the performance of the sector.

**Keywords:** Informal, trade, capital, working place, competition

### 1. Introduction

The term 'informal sector' is commonly used to refer to the segment of labour market in the developing countries that has retained huge number of jobseekers, mostly in self-employment and to workers in very small production units. Informal activities are often characterized by low levels of capital, abilities, access to organized markets and technology; low and unsteady earnings and poor and capricious working conditions. Informal activities are often outside the scope of official statistical enumeration and government regulations, and beyond formal systems of labor and social protection (ILO, 2000).

The informal sector is being a basic phenomenon. In many countries, it is the primary source of employment for workers, particularly for those who are relatively disadvantaged in the labor market such as unskilled or low skilled, female, impaired, and older workers. Available evidence suggests that the informal sector is bigger in sub-Saharan Africa than in other parts of the developing world, for the most part representing 60-80 percent of aggregate non-farming business (Charmes, 2000).

The informal sector in developing countries keeps on growing in both total and relative terms... Its perpetuation and growth has been largely due to the weak capacity of the formal private sector to produce sufficient job and earnings, in many nations, in the face of high rates of urbanization, labor-force growth, and rural-urban migration (Sethuraman, 1997). The limited capacity of the formal economy to absorb surplus labor, together with increasing number of job seekers, has increased the size of the informal sector. In countries with high rates of population growth or urbanization, the informal economy tends to absorb most of the growing labor force in the urban areas when the manufacturing industry and off-farm activities in general do not grow at the same pace.

The limited capacity of the formal sector in employment generation in Ethiopia, for instance, like in many other African countries, is forcing the job seekers to increasingly turn towards the informal sector. The informal sector plays a vital role through its contribution to employment creation, income

generation, skill formation, and stimulating the growth of other sectors and the provision of social services. This is evidenced by the fact that 50.6 percent of urban employed in Ethiopia were in the informal sector (CSA, 2003).

The most noticeable occupational groups in the informal sector are those who work on the streets or in the open air. City streets and village lanes in most developing countries are lined with barbers, cobblers, garbage collectors and vender of vegetables, fruit, meat, fish, snack foods or a myriad of non-perishable items from used clothing to locks and keys or soaps and cosmetics to electric goods (Martha *et al.*, 2004). In Ethiopia, the Central Statistical Authority (2003) classified the urban informal sector into different industrial groups such as agriculture, hunting, forestry and fishing; mining and quarrying; manufacturing; construction; trade, hotels and restaurants; transport; and community and personal services. The population for this study, however, only included informal traders, which was the second largest group of informal sector operators in Gondar city next to manufacturing. The informal traders in Gondar city included those who were involved in the trade of a variety of goods like fruits, vegetables, second hand clothes, and other numerous items of home and personal use. This group was selected due to the relative concentration of the poor in this activity. This can be mainly attributed to the low level of initial and working capital requirements for this activity, the high demand for these basic and cheap products especially by the majority of the low-income group of the population, and the lack of adequate skills for other alternative investment opportunities on the part of the informal sector operators.

Despite the importance of the informal sector in employment and poverty reduction; national policies, services and institutional support programmes are rarely accessible to the sector in Ethiopia. While it has the potentials to graduate to micro and small scale enterprises a number of constraints currently inhibit the development of the informal sector and its integration with other sectors of the Ethiopian economy. According to CSA (2003), the informal sector was largely ignored by official statistics in the past. Little need was felt to

collect data on its activities because development strategies were oriented towards modern medium and large scale enterprises. The informal sector was considered as a transient phenomenon that would decline in the future as more jobs were created during development.

Hence, there is lack of basic data on the nature, operation and the challenges faced by the sector in Ethiopia in general and in Gondar city in particular, since the studies on the informal sector were few and far between. Cognizant of this fact, this paper has examined the challenges faced by the informal traders in Gondar city with the aim of bridging the knowledge gap.

## 2. The Study Area

Ethiopia is sub-divided into nine regional states and two chartered city administrations. Amhara National Regional State is one of the nine regional states in the country. Gondar, a city in north Gondar Zone of Amhara region, was founded around the year 1635 by Emperor Fasiledes. The city has served as the capital of Ethiopia from 1635 to 1867. As a result, the city holds the remains of several royal castles for which it has been called the ‘Camelot of Africa’. Gondar is north of Lake Tana on the Lesser Angereb River and south west of the Semien Mountains. The city has a latitude and longitude of 12°40’N and 37°45’E. It is located at a distance of 731 km from the national capital Addis Ababa and 175 km north-west of the regional capital, Bahir Dar city. Based on the 2007 national census conducted by the Central Statistical Agency of Ethiopia (CSA), Gondar had a total population of 207,044, of whom 98,120 were men and 108,924 women.

Its climate is temperate ranging from 15 to 32°C throughout the year, and its average annual rainfall is 1800mm. Gondar city has a varied landscape dominantly covered with ragged hills and plateau formation. It is located at an altitude of 2207m in the heart of a mountain range that, from 4500m of altitude in north, goes down gradually towards the south banks of Lake Tana.

## 3. Research Methodology

The study was a cross-sectional descriptive research conducted in Gondar city with a reference year of 2008. The populations of this study were the informal traders in Gondar city. According to CSA (2003), there were 3102 informal traders in the city. The study sample was drawn using stratified random sampling method. The informal sector participants were divided into four strata: Bus station to Kidame Gebeya, Auto parko, Chechela, and Abuara (kebele 18) based on the areas of their operation. These four areas were selected because of the high concentration of informal traders in these areas so as to make the sample more representative. Then, 200 sample respondents were recruited from the four areas using systematic random sampling method.

The required data for the study was collected through structured interview and observation. The structured interview was conducted with the sample informal traders using a questionnaire. The questionnaire included both close-ended and open-ended questions and was pre-tested on informal sector participants in Kidame Gebeya area to verify whether the questionnaire was appropriate for obtaining adequate information. Besides the interview, observation of the working

conditions of the informal traders was another way of data collection employed in the study.

The collected quantitative data was analyzed using descriptive statistics. The data was easily analyzed using SPSS (Statistical Package for Social Sciences) version 16. The required frequency tables were produced using the software. The qualitative data, on the other hand, was summarized and organized into themes and used to support the findings of the quantitative data.

## 4. Results and Discussion

### 4.1 Demographic and Socioeconomic Background of Respondents

#### 4.1.1. Sex of the participants

Of the 200 informal traders who were interviewed 63.5% were female, while 36.5 % were male. See table 1 below.

**Table 1:** Distribution of respondents by sex

Sex	Frequency	Percentage
Male	73	36.5
Female	127	63.5
Total	200	100

Source: Own Survey, 2008

The number of women respondents was greater than male respondents due to the higher involvement of women in the informal sector than their male counterparts. As pointed out by Martha *et al* (2004) throughout the developing world, informal employment is generally a larger source of employment for women than formal employment and generally a larger source of employment for women than for men.

#### 4.1.2. Marital status of participants

As indicated in table 2 below, 41 % were single or never married, 34 % of the participants were married, and 18 % were divorced, while the remaining 7 percent were widowed.

**Table 2:** Distribution of respondents by marital status

Marital Status	Frequency	Percentage
Single or never married	82	41
Married	68	34
Divorced	36	18
Widowed	14	7
Total	200	100

Source: Own Survey, 2008

Majority of the respondents were single or never married (41%). Even if the number of single participants was the highest, the number of married participants was also significant constituting about 34 percent. The remaining 18% and 7% were divorced and widowed participants respectively. The divorced and widowed respondents might have been involved in the informal sector due to lack of other job opportunities which would enable them to support themselves and their children.

#### 4.1.3. Age distribution of the respondents

Among the 200 informal sector participants, 21% were found in the age of less than 14 years, 47% were in the age of 15-29, 24% in the age of 30-45 and the remaining 8% were in the age of 46-64, as shown in table 3 below.

**Table 3:** Distribution of the respondents by age

Age Group	Frequency	Percentage
Less than 14 years	42	21
15-29	94	47
30-45	48	24
46-64	16	8
Total	200	100

Source: Own Survey, 2008

As indicated in table 3, the majority of the informal traders were found in the productive age (15-64 years) constituting about 79 % of the respondents. Since the population structure of Ethiopia is youthful, in which about 53 percent of the population is found in the working age (15-64) or is productive, creating employment opportunities that matches with this productive population is a great challenge to the country. Therefore, due to the limited capacity of the formal sector to generate employment opportunities to the working population, they are forced to work in the informal sector in order to earn a means of livelihood or survival. The percentage of the respondents below the age of 14 years was 21 percent. These respondents might have participated in the informal sector either to assist their families or work independently to obtain an income to support their life. The remaining 8 percent of the participants were in the ages of 46-64, who has been working in the informal sector for several years.

#### 4.1.4. Education level of respondents

Fifty six percent of the participants were illiterate, 22% were between grades 1-4, 12% were between grades 5-8, 6% were between grades 9-12, while the remaining 4% had attended non- regular education. Table 4 provides the details.

**Table 4:** Distribution of the respondents by education level

Level of Education	Frequency	Percentage
Illiterate	112	56
Between Grade 1-4	44	22
Between Grade 5-8	24	12
Between Grade 9-12	12	6
Others	8	4
Total	200	100

Source: Own Survey, 2008

As the data in table 4 shows, most (56%) of the sample respondents were illiterate and even the literate ones had only attended non regular education or a primary education with a limited number of participants who attended some level of secondary education. Because of their illiteracy or lower level of education they were unable to find or compete for formal jobs and thus ended up in the informal sector. They developed the necessary skills to operate their business through learning by doing.

#### 4.1.5. Characteristics of the Trade Activity

The informal traders sell various types of goods such as food, fruit, and vegetables (potatoes, tomatoes, onion, cabbages), second hand or used clothes, pens, pencils, cigarettes, combs, spoons, sweets, biscuits, wallets, diaries, torches, note books, mirrors, locks, watches, clocks, tea cups, newspapers, belts, scissors, rulers, nail cutters, socks, perfumes, body lotions, and electrical appliances. Many of the assets of the informal traders were movable such as bench, plastic sheet, table,

cartons, bags, umbrella, and chair, while some of them have shades made from simple materials such as plastic, and wood. The types of trades in which the informal traders were involved in Gondar city do not require huge assets. This makes entry in to this sector very simple. It is possible to start at a lower level based on one's financial capacity and progress gradually.

#### 4.1.6. Period of involvement in the informal trade

Thirty one percent have been doing the trade activity for more than five years, 7% have been in the business from four to five years, and 36.5 percent have been in the business from two to four years. While 15 percent have been in the business from one to two years and 4 percent from six months to one year, the remaining 6.5 percent have joined the sector in the last six months. Table 5 below provides the details.

**Table 5:** Distribution of respondents by period of involvement in the informal trade

Period of involvement	Frequency	Percentage
Less than 6 months	13	6.5
6 months to 1 year	8	4
1 to 2 years	30	15
2 to 4 years	73	36.5
4 to 5 years	14	7
More than five years	62	31
Total	200	100

Source: Own Survey, 2008

Hence, three fourth of the respondents have been doing their trading activity for more than two years, while the rest one fourth of the respondents had stayed less than two years with the trading activity.

#### 4.1.7. Startup Capital

Two third (63%) of the respondents used a startup capital of up to 250 birr, 19 % used 251-500 birr, 10.5 % used 501-750 birr, and 4 percent used an initial capital of 751-1000 birr. The other 2 % of them had used an initial capital of 1001-2000 birr and while 1.5 % used a capital of more than 2000 birr in order to start their trade activity. Table 6 below provides details.

**Table 6:** Distribution of respondents by startup capital

Startup Capital (in birr)	Frequency	Percentage
Up to 250	126	63
251-500	38	19
501-750	21	10.5
751-1000	8	4
1001-2000	4	2
2000+	3	1.5
Total	200	100

Source: Own Survey, 2008

Most of the informal traders (82%) had, therefore, used a starting capital of up to 500 birr, while only two in ten (18%) used a starting capital of more than 500 birr to start their trade. Most of the informal traders, hence, began their trade activities with a small amount of money, due to lack of financing options since they cannot obtain loans from banks due to collateral related issues.

## 4.2 Challenges Faced by the Informal Traders

The sample respondents were asked to indicate the first, second, and third major problems that challenged the operation of their trade activities. The results are presented and discussed in the next sections.

### 4.2.1. Lack of Working Capital

Lack of working capital was indicated as the first major challenge by more than two third (71.5%) of the informal traders. The challenge of finding a good place to use for trade was reported by 7.5%, lack of market by 6%, and competition by 5% of the respondents as first major problems. The rest 4.5 percent, 3 percent and 2.5 percent indicted high wholesale prices, unsupportive government regulations and inadequate supply of goods as their first major problems. See Table 7 below.

**Table 7:** Distribution of respondents by first major challenge

First Challenge	Frequency	Percentage
Lack of working capital	143	71.5
Getting a good place for work	15	7.5
Lack of market	12	6
High competition	10	5
High wholesale prices	9	4.5
Unsupportive government regulation	6	3
Inadequate supply of goods	5	2.5
Total	200	100

Source: Own Survey, 2008

The majority of the informal traders were, thus, highly constrained by lack of working capital. The lack of adequate capital to run their trade activities would have an implication on profitability and amount of income that they could make from their activities.

### 4.2.2. Getting Good Place for Work

The respondents were asked to indicate the second major challenge for their trade activity. Accordingly, more than half (53%) of the respondents reported the problem of getting a good place for their trade as a second major challenge. About one in six (16.5%) mentioned lack of working capital, 8.5% indicated stiff competition, and 7% reported lack of market as second major challenge. The remaining 5.5 percent, 4 percent and 3.5 percent indicated high wholesale prices, unsupportive government regulations and inadequate supply of goods respectively as their second major challenge. Table 8 gives the details.

**Table 8:** Distribution of respondents by second major challenge

Second major challenge	Frequency	Percentage
Lack of working capital	33	16.5
Getting a good place for work	106	53
Lack of market	14	7
High competition	17	8.5
High wholesale prices	11	5.5
Unsupportive government regulations	8	4
Inadequate supply of goods	7	3.5
Others	4	2
Total	200	100

Source: Own survey

Getting a good place to use for trade activity was the second major challenge faced by more than half of the informal traders. Most of the informal traders perform their trade in an open air and along the road sides. Due to this fact, they are prone to the effects of changing weather conditions during summer and winter. Those participants who sell vegetables and fruits indicated that their goods easily perish due to constant exposure to difficult weather conditions. The changing weather conditions had also affected their health conditions. Moreover, there are situations where they will be obliged to collect their goods and leave their place of work by police and sometimes for letting vehicles pass in the road. The respondents had, therefore, mentioned inconveniences with their current working places and put the issue of getting a good working place as the second major challenge for their trade activity.

### 4.2.3. Stiff Competition and Lack of market

Stiff competition and lack of market appeared to be the third major challenges for informal traders to run their trade activities. Stiff competition was indicated by almost one third (29%) of the respondents, lack of market was, on the other hand, indicated by one fifth (21.5%) of the respondents as third major challenge. One in eight (13%) mentioned high wholesale prices, one in ten (11%) reported the issue of getting good place for work, and 9% indicated the lack of working capital as their third major problem. The rest 7% and 5.5% reported the unsupportive government regulations and inadequate supply of goods as their third major challenge. The details are presented in Table 9 below.

**Table 9:** Distribution of respondents by third major challenge

Third major challenge	Frequency	Percentage
Lack of working capital	18	9
Getting good place for work	22	11
Lack of market	43	21.5
High wholesale prices	27	13.5
Unsupportive government regulations	14	7
High competition	58	29
Inadequate supply of goods	11	5.5
Others	7	3.5
<b>Total</b>	<b>200</b>	<b>100</b>

Source: Own Survey, 2008

The third major challenge faced by the informal traders was, therefore, stiff competition from fellow traders. This would have an effect on profitability of the informal traders through reducing the price of goods. High competition also affects the extent of sale by each trader thereby leading to lack of market. Stiff competition and lack of market were, therefore, two intertwined challenges reported by the informal traders as third major challenges restricting the operation and growth of their trade activities.

In sum, the three major challenges faced by the informal traders in Gondar city were lack of working capital, getting a good place for work and stiff competition. These challenges, however, were not the only limitations faced by the informal traders. Lack of market, high wholesale prices, unsupportive government regulations and inadequate supply of goods were also indicated as challenges constraining the operation of their trade activities.

## 5. Conclusion

Most informal traders were found to be women who are found in the productive age of 15-64 years. They joined the informal sector mainly because of lack of opportunities for gainful formal employment resulting from their illiteracy and low level of education. The informal traders had been engaged in the trade of a variety of goods like fruits, vegetables, second hand clothes, and other numerous items of home and personal use. They entered into such types of trade activities owing to the lesser requirement for huge investment. Due to lack of adequate capital to start and run well established and profitable businesses, the informal traders preferred to engage in the aforementioned micro trade activities. Most of the traders had been in such a trade activity for two or more years. The operation and profitability of the trade activities of the informal traders in Gondar city has been, however, constrained by a number of challenges. Chief among them were lack of working capital, problem of getting a good place for work, and stiff competition. In addition to these major problems, other constraints like lack of market, high whole sale prices, and supportive government regulations also affected the operation of their trade activities.

Hence, the city administration and other concerned bodies need to consider the working conditions of the informal traders and take crucial measures to provide the key financial and infrastructural services required by the informal traders to be effective in their trade activities. In terms of finance, there is a need to revise the rules of the micro finance institutions to make loan and other related finance services easily accessible for the informal traders. Moreover, the provision of better infrastructures such as good working places and storage amenities would be vital to enhance the effectiveness of the informal traders in their trade activities.

I further recommend the adoption of the Indian practice of establishing self-help groups with the aim of resolving their financing problems. A self-help group (SHG) is a village-based financial intermediary committee normally consisting of 10–20 local women or men. Members make small regular savings over a couple of months until there is sufficient capital in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. The group members use collective wisdom and peer pressure to ensure proper utilization of credit and timely reimbursement. This system eliminates the need for collateral and is closely related to that of solidarity lending, which is commonly employed by micro finance institutions. Many SHGs in India are connected to banks for obtaining micro-credit services. The NGOs play an imperative role by acting as an intermediary between the self-help groups and the banks.

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