

## THE ROLE OF INFORMAL SECTOR IN ALLEVIATING YOUTH UNEMPLOYMENT IN HAWASSA CITY, ETHIOPIA

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### ABSTRACT

Informal sector plays an important role in reducing urban unemployment, crime and violence, and serving as a breeding ground for new entrepreneurs. This study is aimed at assessing the role of informal sector in reducing youth unemployment. Data are gathered from a sample of 264 youth informal sector operators in Hawassa city. Ordinary logistic regression is used to determine the factors that can contribute to the livelihood improvement of the operators. Nearly, 90 percent of the operators have witnessed that their livelihood has improved after they joined the sectors. Operators who are more educated, natives to the city, more profitable, stayed longer in the activity, and have a culture of saving, have depicted better livelihood improvement vis-à-vis their counterparts. However, lack of working capital, working premises, adequate market and raw materials were reported as the major impediments for the operators. Given the immense contribution that the sector has, therefore, the government needs to consider the sector as one of the fundamental pillar to combat youth unemployment. Thus, operators should be encouraged to join the formal sector by lessening the bureaucracy to get license, minimizing entry cost such as lowering registration or licensing cost, and providing tax-holidays for sometimes.

Key words: Livelihood, ordinal logistic regression, operator.

### 1. Introduction

There are more than 1.2 billion youth people (15 to 24 years of age) in the world. Of which, about 90 percent are leaving in developing countries. The proportion of youth population in Sub-Saharan Africa is 14 percent UN (2011), in Ethiopia it is about 21 percent and 30 percent in the study area, Hawassa city CSA (2008). In 2011, nearly 75 million youth were unemployed around the world. Besides, youth were three times more likely to be unemployed than adults. The youth unemployment rate in Sub-Saharan Africa was 11.5 percent ILO (2012); and this figure was about 28 percent in Ethiopia, and 23 percent in Hawassa city CSA (2011). Thus, youth unemployment becomes a serious threat to the social, economic, and political stability of a nation ILO (2012).

Several factors aggravated the high youth unemployment rate in Africa. Among the factors high proportion of youths population (slightly more than 20 percent); underdevelopment of the economies which leads to low job creation; small private sectors to employ the growing youth population; low quality of education contributing mismatch of skills needed by the labour market; lack of general and job-related skills; and limited formal work experience are notable Semboja (2007); UNECA (2005). Unemployment has been driving many African youths to engage in violence and criminal activities, young women and girls into sex work, sexual violence, substance and drug abuse, victims of HIV/AIDS etc.

Informal sector plays an important role in urban poverty alleviation through creating jobs and reducing unemployment Reddy, Vijay and Manoranjan (2002). In urban areas of Africa, for example, the employment in informal sector is estimated to be 60 percent; this figure is about 37 percent in Ethiopia, and 26 percent in Hawassa city CSA (2011). The sector also provides a wide range of services, and produces a variety of basic goods that can be used by all classes of consumers, especially by the low income groups Asmamaw (2004). Besides, the sector can serve as a breeding ground for new entrepreneurs, and absorbs the labour force that is left out from the formal sector employment UNCHS (2006). In addition, the sector contributes a lot in reducing urban crime and violence Reddy, Vijay and Manoranjan (2002).

Poverty alleviation and its eventual elimination occupy an innermost position in the development agenda of many developing countries, including Africa Dhemba (1999). Now-a-days, it seems that developing countries are giving more emphasis on improving socio-economic status of underprivileged groups (including youth) of the society to open-up better opportunities for employment and income generation Asmamaw (2004). Development could be negatively affected if high rate of youth unemployment persist. Thus, many African countries are placing greater emphasis on youth development. It is well documented that informal sector is the major provider of job for the youth in Africa ILO (2012). For instance, about 38 percent of youths were engaged in informal sector businesses in Ethiopia CSA (2011). Thus, understanding the contribution of informal sector employment in reducing youth unemployment is crucial for the success of economic development policies and poverty reduction strategies. This study is, thus, aimed at assessing the role of informal sector in reducing youth unemployment in Hawassa city. Specifically, the study intended to identify the problems facing the youth informal sector operators, assess the improvements in livelihood of the operators after joining the sector, and suggest appropriate policy recommendations.

## 2. Methodology

### Sampling and Method of Data Collection

The study area, Hawassa city, is the capital of the SNNP region that is located about 275 kilometer South of Addis Ababa, the capital of Ethiopia. It is the main administrative, commercial, industrial and tourist center in the Southern region. The city is one of the fastest growing urban centers in the country. According to the 2007 Ethiopian Population and Housing Census, the youth population of Hawassa city was 23,116; of which 47.2 percent were males and 52.8 percent were females CSA (2008).

Multistage sampling method is employed to identify the informal sectors operated by youths. Hawassa city is subdivided into eight sub-cities (*kifle ketemas*). In the first stage eight clusters were formed using the eight sub-cities. Then using simple random sampling method, four of the sub-cities were selected. The selected sub-cities have twelve *kebeles* (the smallest political and administrative unit in Ethiopia). In the second stage, sample of nine *kebeles* were selected from the sub-cities using simple random sampling technique. Then a central position within a kebele is located and a random direction is then chosen by spinning a pen. Following, every fifth informal sector activities operated by youths were selected in that direction from the central position to the end of the *kebele*. The enterprise/business is informal if it does not have a license, and full written book of account that shows monthly income statement and balance sheet CSA (2011).

The sample size is determined using the formula Cochran (1977)

$$n = \left( \frac{z_{\alpha/2}}{e} \right)^2 p(1 - p)$$

where  $e$  is the level of precision (= 6%);  $\alpha$  is level of significance (= 5%);  $p$  is estimated proportion of youths in the informal sector. According to urban employment unemployment survey of Ethiopia, among currently employed youth population in the urban areas about 38 percent were employed in the informal sector CSA (2011). Hence,  $p = 0.38$  is used to calculate the sample size. By substituting the values in the above formula and adding 5 percent contingency, sample of size ( $n = 264$ ) informal sectors operated by youths were selected. Finally, data is gathered using structured questionnaire from April 11 – 24, 2011.

### Methods of Data Analysis

The proportional odds model is the widely used logistic regression model for ordinal response. The response variable of this study (improvement in livelihood) is ordinal, and has four categories: no, satisfactory, good, and very good improvement in livelihood. The proportional odds model compares the probability of unequal or smaller response,  $Y \leq j$ , to the probability of a large response,  $Y > j$ , that is

$$\log it[P(Y \leq j \setminus x)] = \log \frac{P(Y \leq j \setminus x)}{P(Y > j \setminus x)} = \log \frac{\pi_1(x) + \pi_2(x) + \dots + \pi_j(x)}{\pi_{j+1}(x) + \pi_{j+2}(x) + \dots + \pi_J(x)}$$

$$= \beta_{0j} + \beta_1 x_1 + \dots + \beta_{p-1} x_{p-1} \quad j = 1, 2, \dots, J - 1$$

Besides, the proportional odds assumption (parallel regression assumption) is checked by using likelihood ratio test (the chi-square statistic is found to be insignificant).

### 3. Results and discussion

#### Sample Characteristics

Majority of the operators, about 70 percent, are young adults (20-24 years), while the remaining 30 percent are teenagers (15-19 years). The mean and median ages of the respondents are 20.52 and 20 years respectively with a standard deviation of 2.4 years. Regarding the sex distribution, about 62 percent are males and the remaining are females. Of the total sample respondents, slightly higher than half of them have primary education, a quarter of them have secondary education, and a tenth of them have certificate and above level of education. This finding suggests that overwhelming majorities (almost 92 percent) of the respondents have basic literacy. This is due to the fact that youths with more education are entering in to the sector. As to the marital status of the operators, about 79 percent of them are never married and the remaining 21 percent are ever married. Regarding the religious affiliation, about 48 percent are Protestant, 40 percent Orthodox, 10 percent Muslim, and 2 percent belong to other creed followers. The migration status of respondents indicates that about 70 percent of the sampled operators are migrants to Hawassa city. Concerning the length of stay in the activity, about 60 percent of the operators stayed more than a year and the rest 40 percent stayed a year or less (see table 3.1).

Table 3.1: Background characteristics of sample of youth informal sector operators in Hawassa city, April 2011.

Characteristics	Respondents (n = 264)	
	Number	Percent
<b>Sex</b>		
Male	164	62.1
Female	100	37.9
<b>Age group</b>		
15-19	80	30.3
20-24	184	69.7
<b>Educational level</b>		
No education	21	8.0
Primary (1-8)	149	56.4
Secondary (9-10)	69	26.1
Certificate and above	25	9.5
<b>Marital status</b>		
Never married	209	79.2
Ever married	55	20.8
<b>Religion</b>		
Protestant	127	48.1
Orthodox	104	39.4
Muslim	27	10.2
Others	6	2.3
<b>Migration status</b>		
Migrant	185	70.1
Natives	79	29.9
<b>Length of stay in the activity</b>		
A year or below	106	40.2
More than a year	158	59.8

### Constraints and Challenges Facing the Operators

Informal sector operators are constrained by a myriad of challenges which deter and limit the potential for growth and productivity. The result shows that, about 72 percent of the operators have been struggling with impediments which hinder their activity. These are shortage of working capital that is affecting 63.3 percent of the operators, followed by lack of working places (55.3 percent), inadequate market (43.6 percent), and lack of raw materials (39.4 percent). In addition, the operators indicated that bureaucratic bottlenecks to obtain license, family responsibilities, problems with workers, social responsibilities, inadequate skill, health problems and government regulations are among the challenges the operators have been struggling with (see figure 3.1).

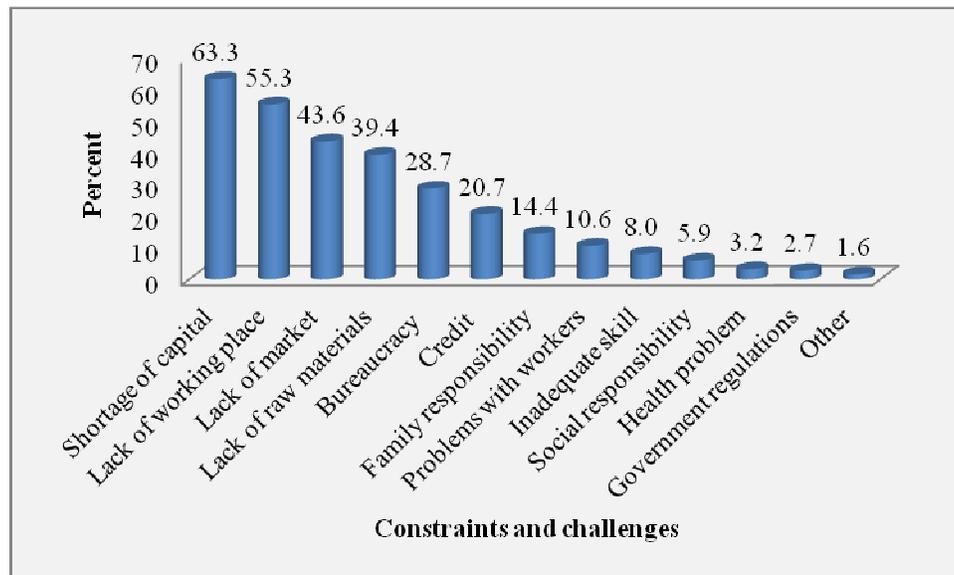


Figure 3.1: Constraints and challenges facing sample of youth informal sector operators in Hawassa city, April 2011.

### Improvements in Livelihood of Informal Sector Operators

The sampled operators were asked to rate their livelihood improvement after they joined the sector. Accordingly, 35.4 percent of them rated their livelihood improvement as satisfactory, 30.4 percent as good, 23.6 percent as very good, and the remaining 10.6 percent did not witness any change in their livelihood. In sum, about nine out of ten operators have witnessed that their livelihood improved in one way or another after they have joined the sector.

### Determinants of Improvements in Livelihood

Ordinal logistic regression analysis is used to identify the determinant factors of livelihood improvements of the youth informal sector operators. Among the variables included in the model, educational level, migration status, monthly profit, saving status, and length of stay in the activity are found to be statistically significant predictors of livelihood improvement as indicated in Table 3.2.

The finding indicates that the odds of attaining better livelihood improvement is 74 percent less for operators with no education, and 55 percent less for operators with primary education, than operators with certificate and above level of education. This result suggests that improvement in livelihood goes with the educational level of the operators. Education is more relevant to the modern world of work in which problem-solving and flexibility are required to go along with changing technologies, and to tackle the market competition. This finding also corroborates with Wamuthenya (2010) conclusions that earning increase is proportional with level of education in the informal sector.

Migrant operators are 54 percent less odds of livelihood improvement compared to the native operators of the city. This may be because migrants move to the city with high expectation of livelihood improvement. However, they are obviously confronted with a host of challenges and difficulties while struggling to adjust themselves with the city life style. Partly, also migrants might be treated partially when looking for working premises, and access to finance to expand their business.

The odds of gaining better improvement in livelihood is 79 percent and 59 percent lower for operators who earn an average monthly profit of less than Birr 350, and Birr 350 – 1100, respectively than those operators who earn an average monthly profit of more than 1100 Birr. This means operators who are generating higher profit are enjoying better improvement in their livelihood. It is obvious that improvement in livelihood is associated with more profit generating capacity. Saving can boost the odds of livelihood improvement by over 3 folds when the operators have a saving culture than when they do not have the culture. Saving helps people to plan for future expense, cope with stochastic crises and cover unanticipated expenses (Bamlaku 2006).

The longer the operators stayed in the business, the better the operators have improvement in their livelihood compared to the operators who stayed short in the business. Accordingly, those operators who stayed in the sector for a year or less have shown a chance of improvement in livelihood by 42 percent less than those operators who stayed in the sector for more than a year. This shows that longer stay in the business is associated with better improvement. With longer stay in the business, the operators familiarize themselves with the business environment and generate more profit which helps them to improve their livelihood.

Table 3.2: Ordinal logistic regression analysis of determinants of improvements in livelihood of youth informal sector operators in Hawassa city, April 2011.

Improvements	Odds Ratio	Standard error	95% Confidence Interval	
			Lower limit	Upper limit
<b>Level of Education</b>				
No education	0.26**	0.17	0.07	0.93
Primary	0.45*	0.21	0.18	1.12
Secondary	0.52	0.25	0.20	1.33
Certificate and above (ref)				
<b>Migration status</b>				
Migrant	0.46***	0.13	0.26	0.80
Native (ref)				
<b>Monthly profit (in Birr)</b>				
<350	0.21***	0.08	0.09	0.47
350-1100	0.41***	0.13	0.22	0.75
>1100 (ref)				
<b>Saving status</b>				
Savers	3.82***	1.16	2.11	6.92
Non savers (ref)				
<b>Length of stay in the activity</b>				
A year or less	0.58**	0.16	0.34	0.98
More than a year (ref)				
<b>LR chi2 (16)</b>		97.48		
<b>Prob &gt; chi2</b>		0.0000		

\*\*\*Significant at 1%; \*\*Significant at 5%; \*Significant at 10%; ref- indicates reference category; the significant LR statistics (Prob>chi2=0.000) shows that the overall model is significant. Non significant variables: sex, age, and initial capital.

#### 4. Conclusion

Informal sector plays a crucial role in urban poverty alleviation through creating jobs and reducing unemployment. Consequently, many developing countries are recognizing the sector's importance in their economy and trying to put appropriate policies in place to encourage the sector Reddy, Vijay and Manoranjan (2002). In view of its contribution to socio-economic development, an enabling environment has to be created for operators in order to facilitate the transition of the sector to formality Asmamaw (2004).

Shortage of working capital is the major impediment that the operators have indicated in the sector. In this respect, the policy makers need to design imperative measures to solve this hindrance factor, such as through providing access to microcredit and/or special credit services. Lack of working premises is the other challenge that the operators are confronted with, which deserves an immediate attention by the government. Similarly, it is also vital to tackle the problems of an inadequate market and a shortage of raw materials.

Better educated operators enjoyed improvement in livelihood, which in turn has a direct policy implication to improve and/or upgrade the educational level of the operators. Moreover, supporting the operators by providing business trainings may help them to generate better profit. It is essential to cultivate and beef up the culture of saving in order to improve the livelihood of the operators. On the other hand, migrants are not enjoying better livelihood improvement compared to their counterparts, because migrants are partially treated in terms of getting working premises, and financial assistance. The policy implication is that there is a need to give equal opportunities to the migrants, and to resolve the attitude of partiality towards them. To sum, the operators should be encouraged to join the formal sector by lessening the bureaucracy to get license, minimizing entry cost such as lowering registration or licensing cost, providing tax-holidays for sometimes etc.

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