



Opportunities and Gaps in Access to Finance: The Case of Informal Enterprises in Ethiopia

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■ Background

Informal businesses encompass production and transaction activities that operate outside government regulation and the formal sector. These enterprises are typically characterized by their small scale, lack of legal recognition, and limited access to formal financial services.

The definition of an informal business aligns with this broader characterization. According to the Ethiopian Central Statistics Agency (CSA, 1996 and 2002), the informal sector includes household-type establishments or activities primarily engaged in market-oriented production that is not registered, do not maintain full written book of accounts, employ less than ten individuals, and operate with no license.

The creation of informal businesses takes various forms. Some individuals, unable to secure formal employment, initiate enterprises to sustain themselves, while others establish informal businesses as a supplementary source of income alongside their formal jobs. Additionally, budgetary constraints, lack of opportunities in the formal sector, poorly run institutions, and excessive regulations on formal businesses can contribute to the rise of informal businesses. Informal enterprises typically have lower barriers to entry and greater flexibility to adapt across different sectors and markets.

The scopes and types of informal businesses vary widely based on factors such as location, industry, and local regulations. In certain cases, informal businesses may consist of solo entrepreneurs operating from their homes or on the streets. In other instances, they may employ multiple workers and have a more established presence within their communities.

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Informal businesses operate in various sectors, including retail, recreation, hospitality, construction, transportation, manufacturing, and agriculture. They play a crucial role in providing essential goods and services to local communities and significantly contribute to the overall economy, particularly in terms of employment and income generation.

Although informal enterprises are common and vital to the economy, they face numerous challenges. These include limited access to finance, a lack of business skills and capacity, minimal government support due to their legal status, restricted market information and networks, and inadequate infrastructure and working premises.

■ Informal Enterprises in Ethiopia

Ethiopia, like many other developing countries, has a significant presence of informal enterprises within its economy. These enterprises play a crucial role in providing employment, generation income, and creating economic opportunities, particularly for the poor and marginalized segments of the population.

According to the International Monetary Fund's (IMF) 2018 World Economics Report, the informal sector is estimated to represent 33.5% of Ethiopia's economy, which amounts to \$149 billion based on gross domestic product adjusted for purchasing power parity (GDP PPP). This share is notably larger in many developing countries like Ethiopia.

Various projects have been implemented in Ethiopia to support informal enterprises and promote their growth and resilience. First Consult has significant experience in designing and implementing some of these initiatives. Some of the projects that First Consult has directly or indirectly executed to support informal enterprises include:

- **Micro and Small Enterprises (MSE) Resilience Facility:** Part of the COVID-19 Response and Recovery Program (CRRP), this facility was designed to rescue enterprises and jobs by providing financial assistance in the form of grants and soft loans. The COVID-19 pandemic quickly transformed into a health crisis that significantly impacted the economic and business environment, threatening livelihoods and business operations. In response to this shock, the facility has supported 2,000 informal enterprises with grants of ETB 12,000 each to help them cope with the effects of the pandemic, build resilience, and retain their employees.
- **Micro, Small and Medium Enterprise Recovery and Resilience (“MESMER”) Program:** Launched in October 2022, this program provides recovery grants, psychosocial and life skills support (PSS), as well as business development services (BDS) to predominantly women-owned informal enterprises, which make up 95% of the beneficiaries. Grant is administrated by partner banks to improve the bankability of these enterprises. The MESMER programme plans to reach 14,000 informal enterprises by providing ETB 15,000 each, along with PSS, across all regions of Ethiopia, with a focus on conflict-affected areas.
- **ILO's Improving the Conditions of Informal Employment (ICIE) Project:** Implemented by the International Labour Organization (ILO), this project focuses on improving the working conditions, productivity, and livelihoods of workers in the informal economy in Ethiopia. It provides training, supports organizing and advocacy efforts, and facilitates access to finance and social protection for informal workers.
- **Entrepreneurship Development Project for the Urban Informal Sector (EDP-UIS):** Implemented by the Ethiopian Ministry of Urban Development and Construction, this project aims to enhance the skills, productivity, and competitiveness of informal businesses in urban areas. It provides training, access to credit, business development services, and infrastructure improvements to support the growth of informal enterprises.

There are few studies on informal enterprises and their contribution to the economy of Ethiopia. Some research on informal sector has focused on the policy and structural challenges, particularly related to the impediments to becoming formal enterprises. In 2023, BRIDGES, a program funded by the Mastercard Foundation and implemented by First Consult, conducted an assessment titled “Why Do Informal Enterprises Stay Informal?”. The assessment revealed that:

- Informal enterprises recognize the benefits of obtaining a business license including access to credit, freedom of work, opportunity to participate in exhibitions, and eligibility for government subsidies.
- Despite the benefits, the perceived cost of getting a business license often outweighs the benefits of getting one.
- Many have returned their business licenses, citing challenges of settling taxes and lengthy process of returning licenses.
- Additionally, numerous informal enterprises have never tried to register for a business for reasons such as lack of stable and profitable operations, tax avoidance, and unwillingness to disclose revenue and costs to external entities.

▪ International Perspectives

Recent research by the IMF aims to shed new light on informal enterprises by examining how to measure informality, analyzing its drivers and economic consequences, and discussing possible policy responses.

A large majority of informal enterprises operate under poor hygiene and sanitation conditions. For instance, informal open markets lack food safety standards in how food is stored, prepared, and traded. Informal workers are largely excluded from formal social safety nets, earning low incomes and limited buffers such as savings or access to government support programs. A World Bank study in 2020 indicated that the informal sector accounts for approximately one-third of GDP and over 70 percent of employment in developing economies. Self-employment constitutes more than half of the total employment in the informal sector.

Historically, the World Bank has acknowledged that informal enterprises play a vital role in providing employment and income to a significant portion of the population in developing countries. Informal enterprises are well known for contributing to poverty reduction, economic growth, and social inclusion. They also serve as a safety net for the poor during economic downturns and periods of limited formal job opportunities.

Informal enterprises are found throughout the world. The most common ones are:

- **Street Vendors in India:** India has a large informal economy, with street vending as a significant component. Street vendors operate in public spaces, selling a variety of goods and services, ranging from food and beverages to clothing and household items.
- **Informal Manufacturing in China:** China has a vast informal sector that includes small-scale manufacturing enterprises. These enterprises often operate in unregulated or semi-regulated environments, focusing on labor-intensive production processes.
- **Informal Transportation in Kenya:** In Kenya, informal enterprises play a crucial role in the transportation sector. Privately owned minibuses, known as Matatus, serve as the primary mode of public transportation in urban areas.
- **Informal Market Traders in Nigeria:** Nigeria has a vibrant informal economy, with many market traders operating in open-air markets across the country. These traders sell a wide range of goods, including food, clothing, electronics, and household items.

- **Informal Service Sector in Brazil:** Brazil has a significant informal sector, particularly in the service industry. Informal workers, including domestic workers, street performers, and independent contractors, make up a substantial part of the labor force.

Based on an IMF study in 2018, the share of informal sector is higher for developing countries than in developed countries. According to the study, the informal sector accounts for 34% of the Ethiopian GDP.

A study by the World Bank has highlighted the challenges associated with the informal sector, including limited productivity, lack of access to credit, vulnerability to shocks, inadequate working conditions, and limited access to public services such as education and healthcare. The World Bank has emphasized the need for policies and interventions to improve the productivity and living conditions of informal enterprises while promoting their transition to formal enterprises.

▪ African Countries

Nearly 83% of employment in Africa and 85% in Sub-Saharan Africa is informal (UNDP, 2022). The informal sector represents a substantial portion of economic activity in many African countries, such as Nigeria and Kenya, where it plays a crucial role in generating employment, contributing to the GDP, and driving local economic development.

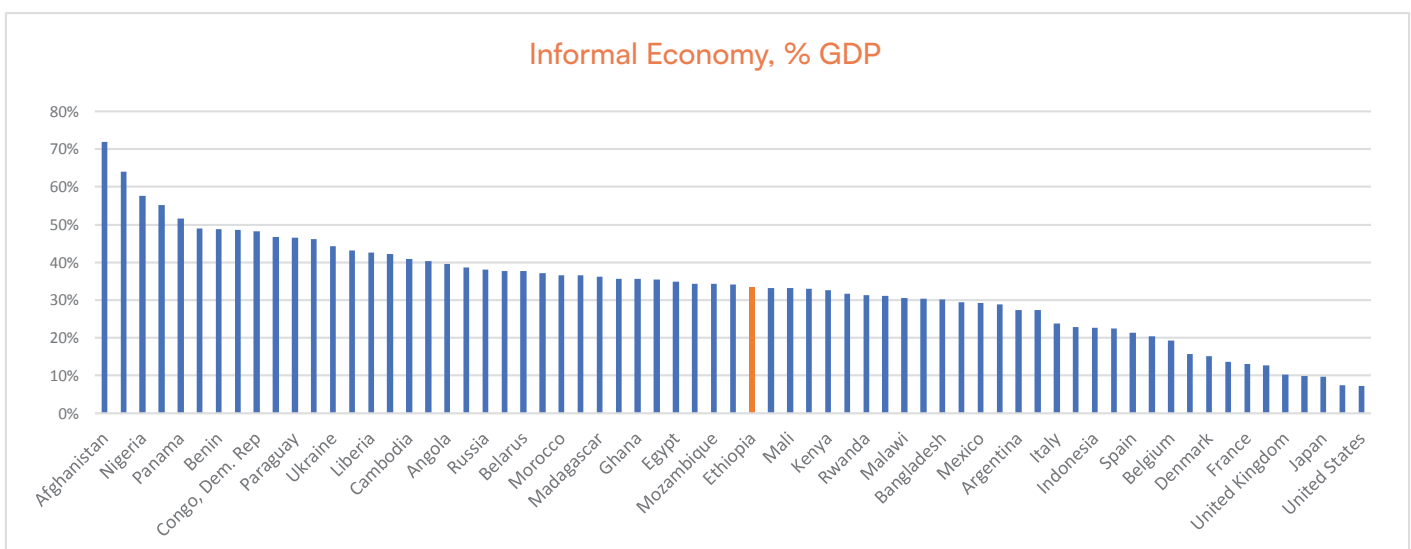


Figure 1: IMF 2018 Study, Informal Economy Share.

▪ Opportunities of Informal Enterprises on Accessing Finance

This sector encompasses a wide range of activities, including street vending, small-scale manufacturing, and services. The United Nations Development Programme (UNDP) estimates that the informal sector contributes around 65% to Nigeria's GDP and approximately 35% to 45% of Kenya's GDP, which is higher than the IMF's estimates.

The informal economy represented approximately 75% of the non-agricultural employment and 72% of all employment in African countries South of Sahara excluding South Africa (Verick. S. 2006). Furthermore, the study revealed that 93% of the new jobs in Sub-Saharan Africa in the 1990s were in the informal economy. This trend is attributed to, among other factors, to a decline in the formal sector with growing difficulty starting and managing formal businesses.

Despite their informality, informal enterprises make significant contributions to African economies. They play a vital role in local economic development and fostering inclusive growth. Primarily comprised of young people and women, these enterprises can contribute to income generation and opportunities for poverty reduction.

▪ Policy Considerations and Interventions

Recognizing the importance of informal enterprises, governments in various countries implement policies to support their development. Most policy considerations and interventions focus on improving access to credit, providing training, and offering business development services. Governments are also exploring strategies to formalize and integrate the informal sector into the mainstream economy, fostering sustainable and inclusive economic growth. According to a 2008 study by the African Union (AU) on the informal sector in Africa, several successful initiatives include providing access to microfinance and credit facilities, improving business registration processes, enhancing market access, and promoting skills training and entrepreneurship programs.

Access to finance refers to the ability of individuals and businesses to obtain financial services, such as credit, deposits, payments, insurance, investment banking, and asset management. Those who have limited or no access to financial services are referred to as the unbanked or underbanked, respectively. Access to finance is crucial for individuals and businesses because it helps them to:

- Start and grow businesses
- Manage their finances and reduce poverty
- Protect against financial shocks

Ethiopia has a large informal economy, with over 80% of the workforce employed in the informal sector. While informal enterprises play an important role in the Ethiopian economy, they often face challenges in accessing finance. Some informal enterprises that have access to finance do so because they have personal saving accounts with banks or Microfinance Institutions (MFIs). Several factors contribute to the difficulty informal enterprises face in accessing finance. These include:

- **Lack of collateral to get a loan:** Informal enterprises often lack the collateral required to qualify for loans from financial institutions. Banks and MFIs, which are the most common financial service providers in Ethiopia, usually request for collateral to provide any type of loan.
- **Limited financial literacy:** Many owners of informal enterprises lack a solid understanding of financial services or how to access them. Most are unaware of the financial services available to them.
- **High costs of lending:** Banks in Ethiopia often avoid lending to informal enterprises due to high perceived costs. They consider informal enterprises to be high risk because they lack legal documentation. Additionally, banks have not developed new products that are efficient and accessible for informal enterprises.

- **Distance to financial institutions:** Financial institutions are often located in urban areas, far from where many informal businesses operate. Although most towns in Ethiopia now have banks or Microfinance Institutions (MFIs), many rural areas still lack access to financial services or have institutions that are inaccessible.
- **Discriminatory lending practices:** Informal businesses may face discrimination from financial institutions based on their size, operation, sector, or ownership structure.

Among the financial services, securing a loan is the greatest challenge for many enterprises in Ethiopia. Some of the available options include:

Group lending is a popular form of lending in developing countries, often used to provide access to finance for informal businesses and low-income households. In this model, a group of borrowers jointly apply for and receive a loan. The group is collectively responsible for repaying the loan, and each member is liable for the loan if another member defaults. In Ethiopia many MFIs offer group lending services to their members.

MFIs are specialized financial entities that provide loans, savings and other financial services to low-income individuals and enterprises. They offer loan options for informal enterprises and small farmers, which can be used for business development, education, and agriculture. Institutions such as Oromia Credit and Saving Society (OCSS), Amhara Credit and Saving Institutions (ACSI), and Omo Microfinance have been successful in reaching rural areas.

However, the effect of group lending in Ethiopia has sometimes been successful and failed other times. One of the main challenges of group lending is the high rate of default. This is often due to several factors, including lack of financial literacy, poor business management skills, and unforeseen economic shocks. Another challenge is that group lending can be time-consuming and complicated to manage. Organizing and managing can be a particular challenge for groups that are operating in rural areas or large groups. Despite these challenges, there have been several successful group lending programs in Ethiopia.

These programs have helped to improve access to finance for millions of people and have contributed to the growth of the Ethiopian economy.

Digital Lending is another option that can provide informal enterprises with access to loans using only a mobile phone and without collateral. Most of the digital finance in Ethiopia has so far been solely centered around transactions and payment, not financing MSMEs. However, in recent years, banks and telecommunication companies are developing and providing digital lending services to enterprises and individuals with little criteria. With the regulation changes that were introduced by the National Bank over the last three years, effectively allowing the non-traditional financial technology companies to engage in payment issuance and processing, a significant amount of investment is currently pouring into the fintech sector.

The development in the digital finance sector enabled new product development of digital loans. Micro loans that are growing provided through digital means can be helpful for informal enterprises to cover money shortages for working capital for short period of time. Digital loans typically have high-interest rates and short repayment periods, which have made them less attractive for small and informal enterprises.

Nevertheless, there are different digital lending products developed and supported by different programs and projects. Kifiya and Cooperative Bank of Oromia launched Michu, a digital lending platform that uses traditional and non-traditional parameters to develop a credit score for applicants. Michu is providing an uncollateralized micro loan to roadside traders and informal enterprises with a loan repayment period of one month and a loan ceiling of ETB 30,000. Amole, a digital banking system by Dashen Bank has also partnered with Kidame Mart, a social enterprise that supports female entrepreneurs, to disburse micro-loans for their women agents in rural Ethiopia. The women agents are informal enterprises that own small retail shops, and they have accounts that enable them to access the loan. Safaricom, a Kenyan telecom provider, introduced M-Shwari, a mobile-based financial service that provides micro-savings and micro-credit options through its mobile money platform known as M-Pesa.

These kinds of lending options make access to loans easier for informal enterprises. Nevertheless, lack of credit history, high-interest rates, high requirement from the financial institutions or companies, and complex application processes make group lending and digital lending inaccessible for many small informal enterprises known as *Gulit*, small retail trading mostly owned by women.

▪ Traditional and Membership-Based Financial Institutions: Access to Finance for Informal Enterprises

Saving and Credit Cooperative Organizations (SACCOs): SACCO's play an important role in providing credit to informal enterprises. These financial institutions are owned and operated by their members. They typically offer lower interest rates and more flexible repayment terms than commercial banks, making them an attractive option for informal enterprises that may not qualify for bank loans. Sacco's can provide loans to:

- Small business owners to purchase new equipment or inventory.
- Farmers to purchase seeds or fertilizers.
- Artisans to expand their workshops.
- Street vendors to start a new business.

Saccos have increasingly played an important role in supporting informal enterprises in developing countries worldwide. As the informal sector continues to grow, saccos are well-positioned to provide financial services and support their need to succeed.

Rotating Savings and Credit Associations (ROSCAs): ROSCAs are a type of informal financial institution in which members contribute a regular amount of money to a common pool. The pool is then distributed to members on a rotating basis, typically by lottery or bidding.

These kinds of saving and credit associations give several advantages such as:

- **Access to finance:** ROSCAs provide access to finance without a collateral and credit history. Sometimes there might be service charges for the ROSCAs leaders.

- **Flexibility:** members can choose the frequency of their contributions, the size of the pool, and the method of distribution.
- **Affordability:** members' contributions are usually small and can be made on a weekly or monthly basis.
- **Social support:** ROSCAs provide members with social support and networking opportunities.

Equb (a traditional saving group): *Equb* is a social financial establishment that provides financial access to individuals, informal businesses, and formal enterprises. As a type of rotating savings and credit association, *Equb* has made a significant contribution to the development of many informal enterprises in Ethiopia. The amount of frequent contribution is collectively determined by the *Equb* members. Most informal enterprise owners participate in *Equbs* that are established by similar business owners living in the same area.

▪ Research Focus

The main research questions assessed are:

- What opportunities can informal enterprises leverage in Ethiopia?
- What are the primary barriers and challenges faced by informal enterprises in accessing financial services in Ethiopia?
- How does the lack of financial literacy and awareness impact the ability of informal enterprises in Ethiopia to access finance?
- What strategies do Informal enterprises employ to sustain themselves?

▪ Scope and Method

For the assessment, data was collected from 10 regions: Addis Ababa, Amhara, Oromia, South Ethiopia, Central Ethiopia, Benishangul Gumuz, Dire Dawa, Harar, Sidama, and Southwest Ethiopia.

MESMER collected 91% data of the initial target, conducting 291 interviews out of a sample of 320. Both qualitative and quantitative data were collected using semi structured questionnaires. The collected data provided a comprehensive view of opportunities, and the gaps faced by informal enterprises in accessing finance across various indicators and measuring topics.

The assessment employed stratified sampling, with 81% of the randomly selected enterprises owned by women. The subjects were divided into subgroups based on the regions where MESMER program began implementation. However, the assessment did not consider any informal enterprises that are participating in or benefiting from the grant or other program components.

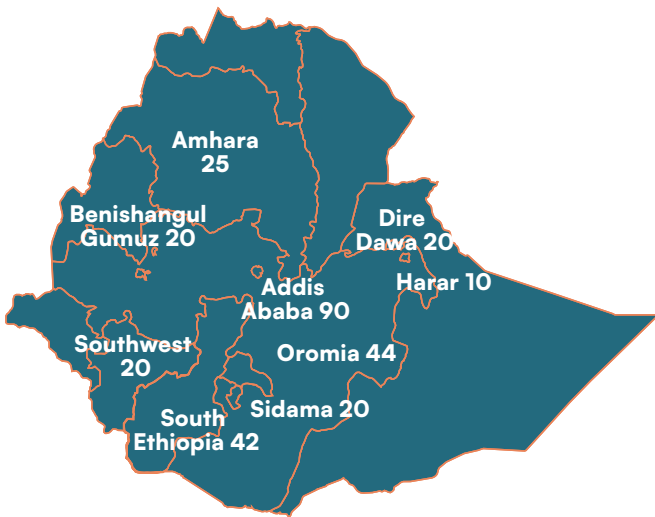


Figure 2: Sample Distribution of Interviewees by Region.

The interviewees were randomly selected from informal enterprises and were not participants in MESMER Grant to avoid response bias. If interviewees are grant participants, they are likely inclined to respond inaccurately or falsely to questions. For instance, during the quarterly surveys, most informal enterprises that received grants through MESMER identified working capacity and premises as major challenges preventing them from becoming formal. However, there is a common perception that most informal enterprises want to avoid taxes and related bureaucracy. This assessment verified and provided evidence for the assumptions and findings of a few studies on informal enterprises.

Analysis and Findings

Informal Enterprise Owners

Informal enterprise owners are primarily young businesspeople who have completed grade 8 or 12 and have started their businesses within the last four years.

Most business owners have completed education up to the eighth grade (Grades 1-8), representing the largest group with 119 from 291 (41%). This indicates that they are literate, able to differentiate between their expenses and revenue, and capable of utilizing the financial services provided by banks or MFIs, as well as digital services.

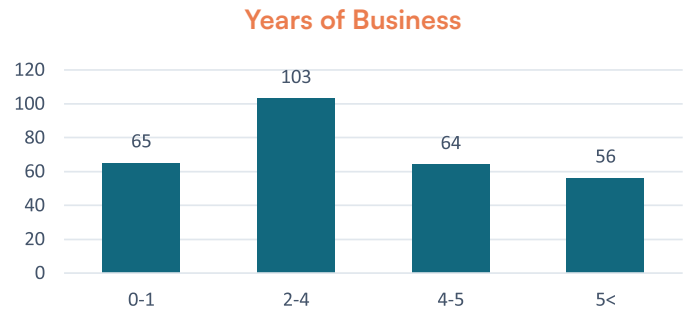


Figure 3: Number of Enterprises by Years in Business Operation

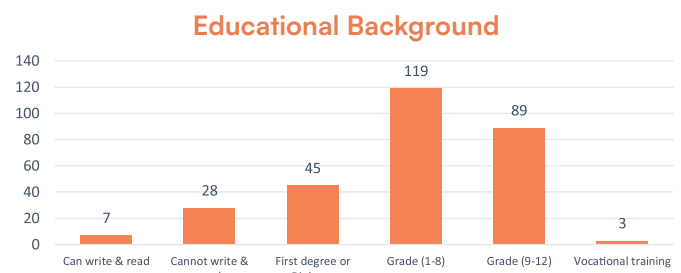


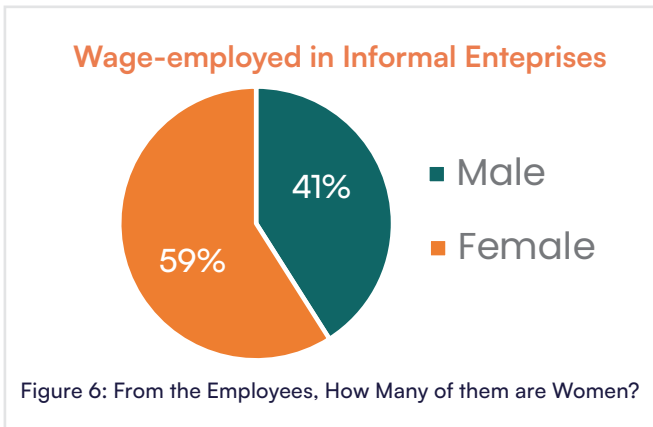
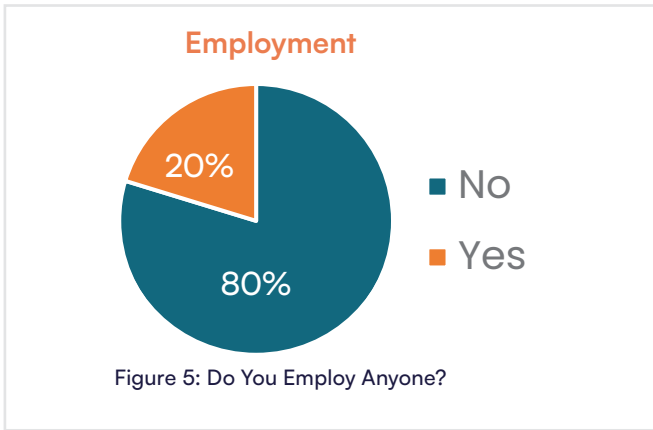
Figure 4: Number of Enterprises Owners by Level of Education

Most businesses surveyed were established within the past two to four years, with approximately 22% starting operations within the last year. Additionally, 19% (or 55 businesses) have been operating for five years. Overall, informal business activities are considered alternatives for those who have discontinued their education. Nevertheless, informal enterprise owners possess the literacy skills necessary to evaluate their business. If provided with the right resources, owners can develop financial literacy and access various financial products, such as innovative loans.

Employment

Informal enterprises are a key source of self-employment, particularly for women in Ethiopia.

Most informal businesses are run by a single owner, primarily providing self-employment opportunities. However, a small number of these businesses also create jobs for others; only 20% of respondents indicated they employ one or more people.



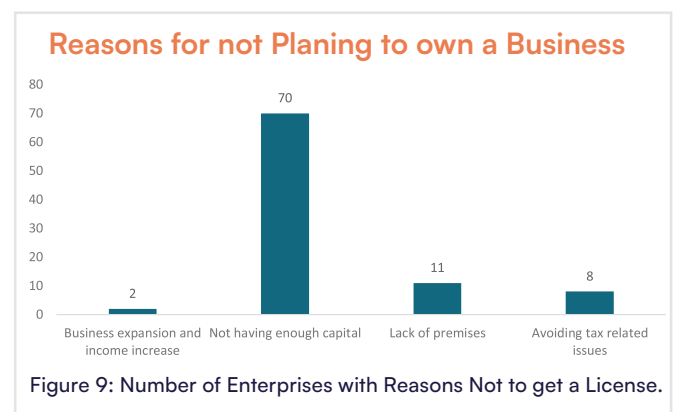
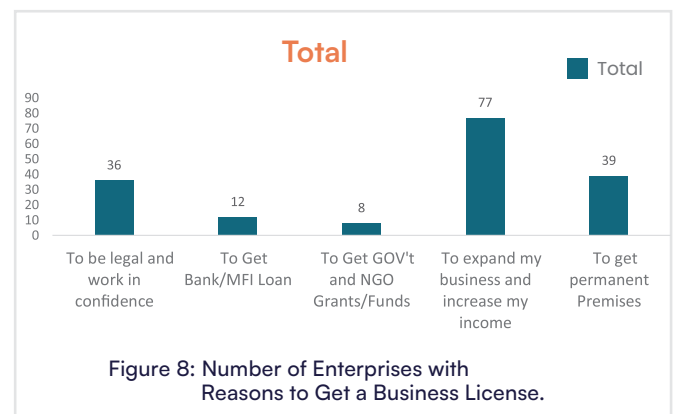
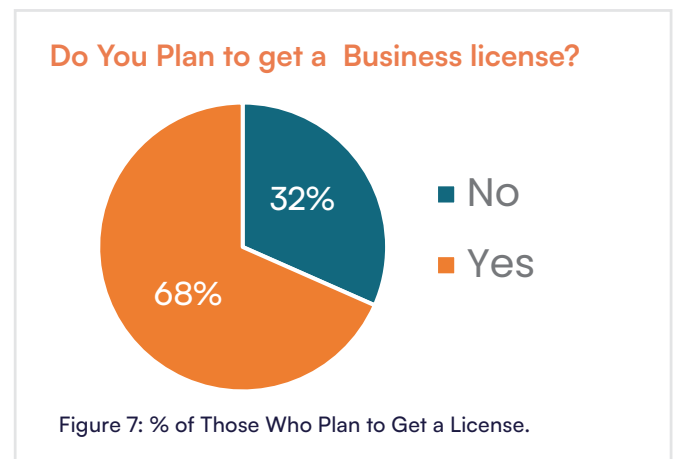
Among the jobs created (wage employment), 59% of the respondents from the informal enterprises are women. Various studies have shown that there are more women in the informal sector than men, while men dominate the formal sector. In the MESMER programme’s grant component, it was relatively easy to target women, exceeding the programme’s 90% target. While the grant specifically targeted women, a diverse range of informal women-owned enterprises emerged, including retail shops, Gulit traders, local coffeeshops, and livestock dairy producers registered across the country. When MESMER began credit disbursement, 35% of the applicant MSMEs were women-owned. While it is still early to assess the programme’s overall impact on women through credit disbursement, experiences from CRRP and BRIDGES programmes indicated challenges in meeting women participation targets. These programmes achieved 49% and 56% female participation, respectively, highlighting potential difficulties.

This assessment did not consider formal enterprises, nor were comparisons made. However, the randomly selected informal enterprises revealed gender disparity in the informal sector, confirming the assumption that more women are involved.

▪ **Business License**

Most informal enterprises view themselves as too small to formalize.

The data collected shows that, on average, 68% of informal enterprise owners plan to obtain a license in the future, while 32% intend to continue operating without one. However, many find it challenging to realize this plan due to a perceived lack of capital and suitable working premises. While being formal might not be a priority for informal enterprises, many expressed a desire to be formal when asked. Having a business license and being a taxpayer are the two main indicators for formal enterprises. Some enterprises that do not seek licenses indicated that they want to avoid taxes and associated bureaucracy.

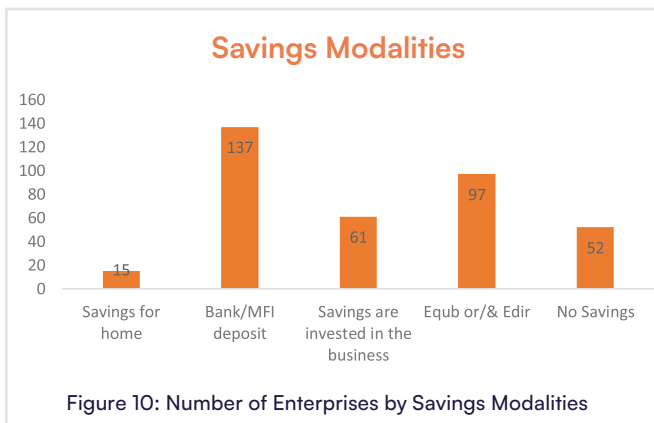


The findings highlight the importance of effective laws and administration, sufficient capital, and the desire for growth and stability as motivators for businesses to obtain a license. To encourage the growth and transformation of enterprises, it is important to address challenges related to working capital, taxes and suitable working premises by creating appropriate strategies and support systems.

▪ **Revenue and Expenses**

Informal enterprises are profitable, with margins that are favorable.

Based on the information gathered, most business owners earn more money than they spend, indicating their businesses are profitable. The average monthly revenue is ETB 6,397, while the average monthly cost is ETB 3,930, resulting in a profit margin of 39%.

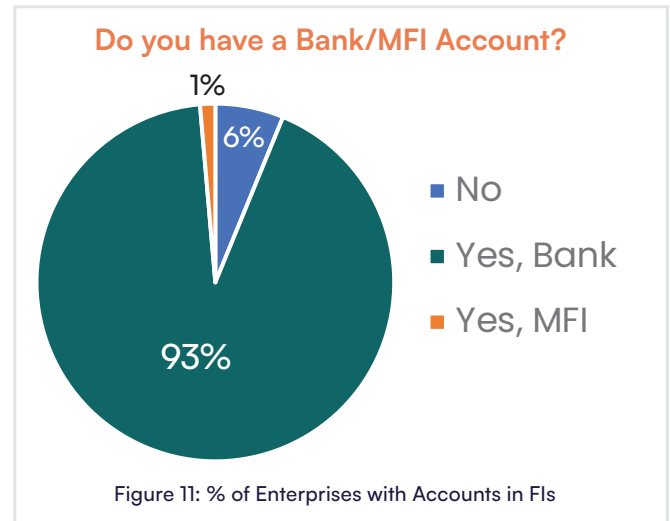


What do informal enterprises do with the profit they make? Most informal enterprise owners make a living from their business, which is to earn enough money to provide for their family’s necessities. An informal enterprise owner uses a combination of saving methods like banks, Equbs and keeping cash at home to manage their businesses and households. The data gathered shows that 63% of the respondents choose to save their money in banks or microfinance institutions whereas 44% also use Equb and Edir traditional saving schemes.

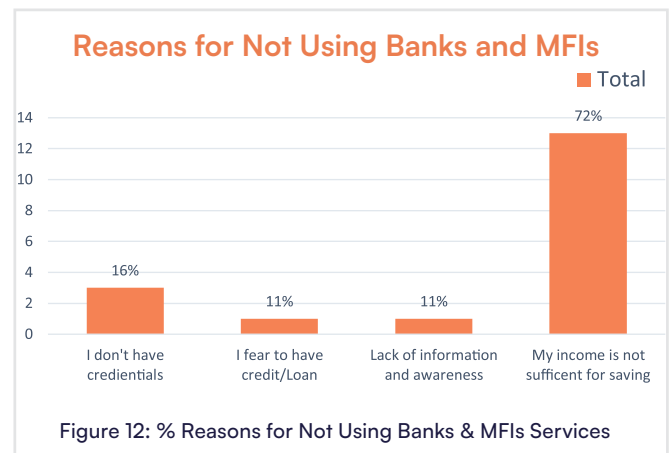
▪ **Bankability**

Informal enterprises are bankable, but their experience is limited to a few services, focused mainly on savings accounts.

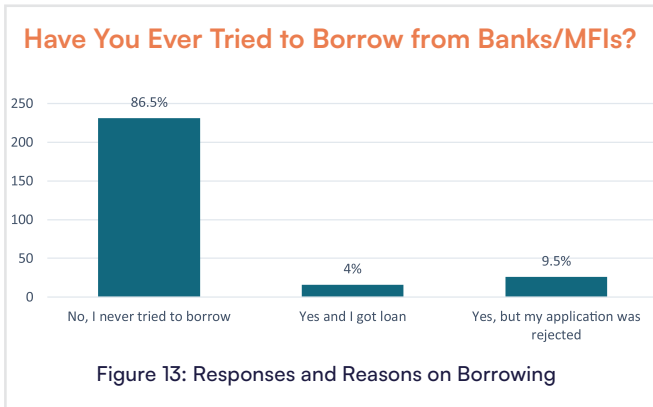
Most informal enterprises surveyed are bankable, with 94% utilizing either banks or microfinance institutions (MFIs).



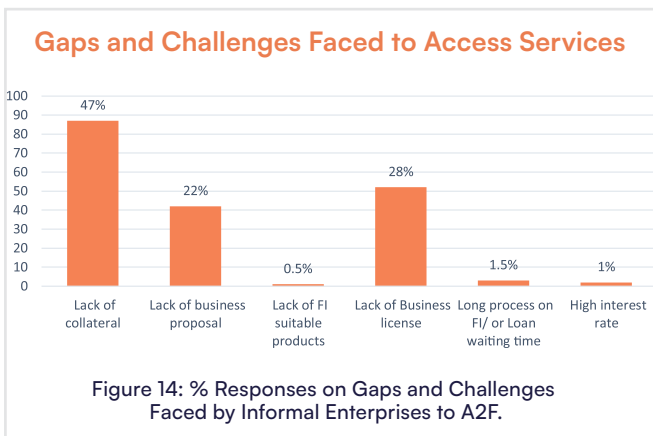
As banks become a mandatory transaction means and the preferred method for storing money, many informal enterprises are using banks and MFIs. Out of the surveyed enterprises, 6% remain unbanked because most consider their income to be low, deterring them from saving any money in a bank. Among the unbanked, 72% of businesses lack bank accounts due to insufficient income to save or open an account.



Moreover, the absence of necessary documentation, such as a kebele ID (a form of government issued identification), poses a significant barrier to opening a bank account. Some business owners lack awareness of banking services, including their benefits, operations, and functions for personal or savings purposes. Misconceptions about banking also contribute to this reluctance to adopt banking services. Informal businesses are essential for owners to cover their daily living expenses. Most do not consider taking loans and reconditioning profit to expand their businesses.



The assessment revealed that only 4% of enterprises have accessed credit, indicating that the number of enterprises accessing loans is lower than anticipated and that 9.5% of respondents applied for loans and were rejected. The high rejection rate points to a limitation in the financial products, which are not conducive to lending to informal enterprises. Notably, 13.5% (4+9.5) of the informal enterprises that wanted to get loans are aware of the potential benefits of credit to grow their businesses. However, 86.5% of enterprises have not attempted to borrow before. Various barriers and challenges hinder enterprises from accessing loans; but the main challenges identified in this assessment are a lack of collateral, the absence of business licenses, and the absence of business proposals or plans.



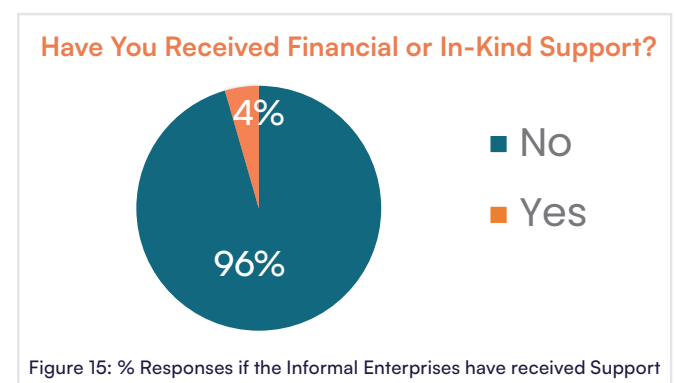
Both the 9.5% rejected and the 86.5% not attempted enterprises raised similar barriers, with the lack of collateral being a major requirement from the financial institutions mentioned repeatedly. A collateral, an asset pledged as security for a loan, acts as a risk-sharing mechanism between the borrower and the lender. However, acquiring collateral can be particularly challenging for many businesses, hindering their access to credit. Informal enterprises face significant difficulties in obtaining the fixed assets that lenders often request as security for loans.

For rejected enterprises, the lack of adequate collateral often leads to loan denials. Lenders may deem the proposed collateral insufficient to cover the potential losses in case of default. This can be especially true for startups or smaller informal enterprises, with most renting working premises and having little possessions.

Similarly, non-attempting enterprises may be discouraged from even applying for loans due to the anticipated collateral requirements. The perceived difficulty in securing suitable collateral can deter them from pursuing financing altogether. For both rejected and not attempted enterprises lack of collateral took 47% of the barrier.

The absence of a business license poses a significant challenge for 28% of enterprises seeking loans. A business license serves as a legal endorsement of a business's existence and formal operations, making it a prerequisite for accessing credit products offered by financial institutions. Informal enterprises, lacking this formal recognition, are often excluded from the eligibility criteria for business loans. A business license is also associated with taxes, especially a TIN certificate. Tax clearance is among the requirements for acquiring loans in most financial institutions.

The absence of business plans shows informal enterprises lack awareness on how to use the money they want to borrow. The lack of awareness among 22% of enterprises poses a significant impediment to reaching informal enterprise owners. The awareness-raising efforts undertaken thus far have been ineffective in bridging the gap between formal financial institutions and informal enterprises. This lack of awareness contributes to the persistent exclusion of informal enterprises from the formal financial system. The lack of suitable products for the informal sector and high interest are also among the challenges identified.



▪ **Supporting Informal Enterprises**

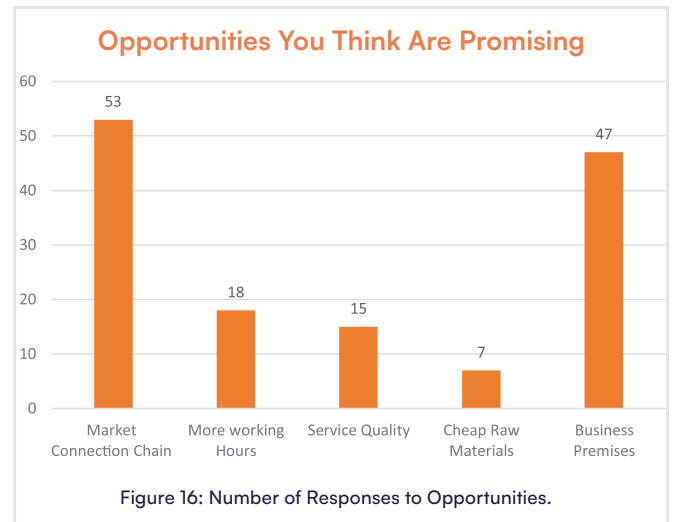
Informal enterprises receive little or no support from stakeholders.

Among those assessed, 4% of the informal enterprises have received support in the form of grants (69%) or in-kind contributions (31%). 54% of the support comes from non-governmental organizations (NGOs) and 46% from government organizations (GOs). However, a staggering 96% of enterprises have not received any financial or in-kind support from any organizations. This highlights the significant challenges faced by informal enterprises in accessing holistic support from various stakeholders, and this is mainly related to the perception that we can't track informal enterprises, they don't last long, or they are unaccountable and illegal. The perception in turn designs small projects or interventions with limited results.

▪ **Inclusivity and Opportunities**

Informal enterprises are more inclusive (women, youth, people with disabilities PWD and internally displaced people IDPs).

Informal enterprises are serving the lower income population, and they reach communities across the rural and remote areas of Ethiopia. As an opportunity for the informal sector their market connections, which are existing customers, will help push them to boost their products and services on the market.



The assessment identified opportunities that are raised by the enterprises, and they indicated the market linkage they created in their communities, working premises that some possess, and the flexibility to work more hours. Few (2.5% of respondents) considered cheap raw materials an opportunity in the country. Increasing the cost of inputs or raw materials are among the challenges repeatedly raised by many informal enterprises.

Informal enterprises need finance more than any other support.

Among the list of supports, 45% of the informal enterprises interviewed indicated they need financial support. 20% of the respondents also preferred support on information and awareness on how to grow their business, while 9% preferred support to acquire working premises.

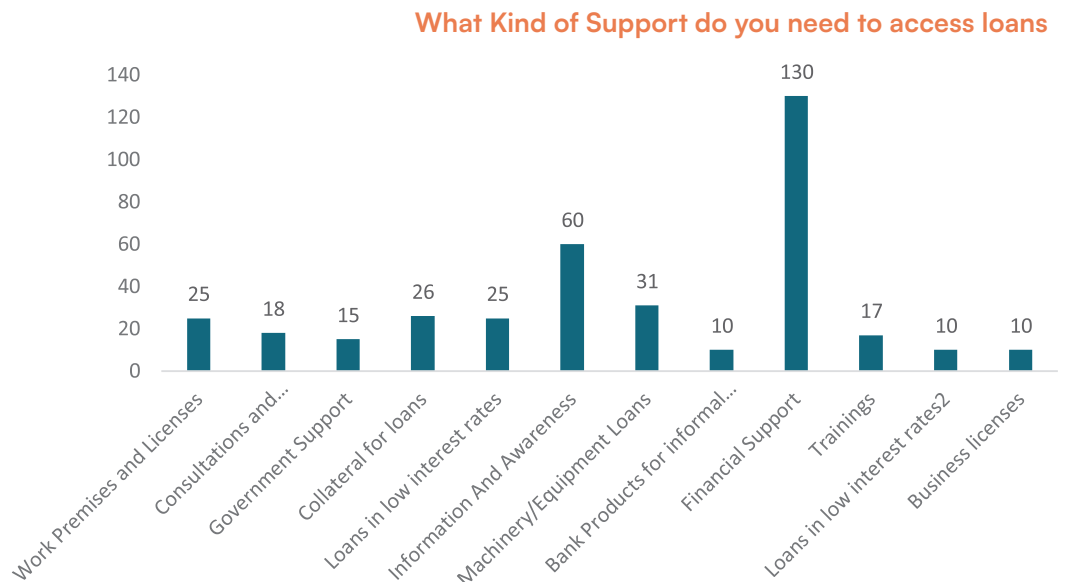
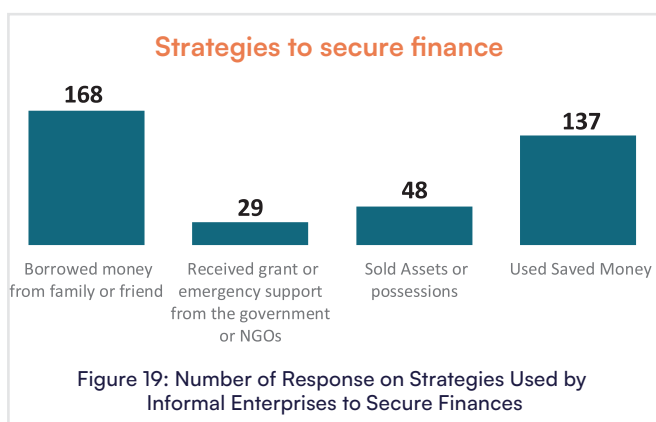
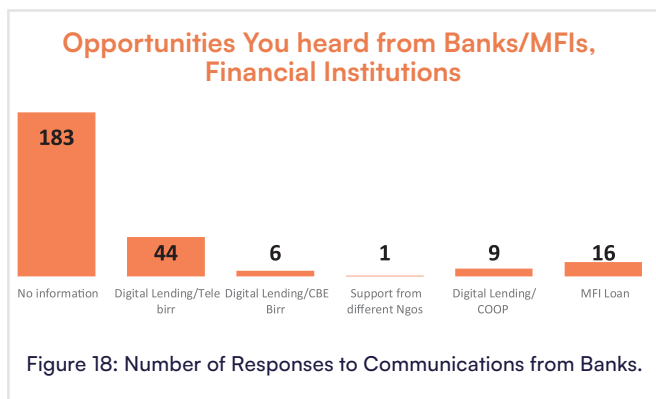


Figure 17: Number of Responses to Type of Support Needed.

Informal enterprises consider support to access finance necessary to sustain and grow their businesses. Due to their lower revenue and limited capital compared to formal businesses, informal enterprises need to enhance their market value to attract financial support. Information and awareness are crucial for informal enterprises to effectively navigate the financial landscape. Providing information and creating awareness will make them closer to accessing the finance they need.

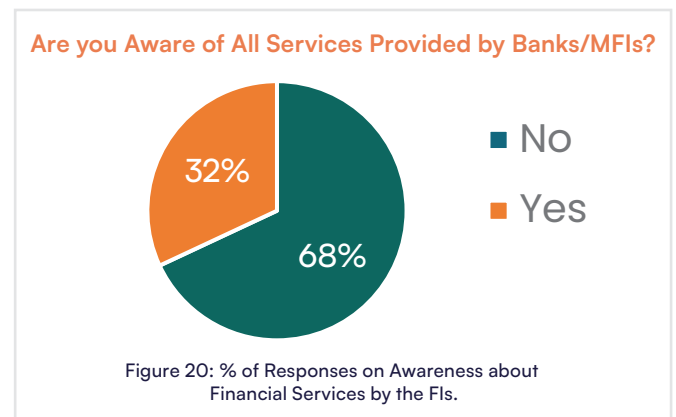
Financial institutions did not reach out to the informal enterprises.

Even though, the informal sector plays a big role in the Ethiopian economy (about 35% of GDP), banks especially did very little to communicate, design financial products and support the informal enterprises. 63% of the respondents confirmed this by indicating they have not acquired any information from the banks or MFIs on the opportunities or services that can access.



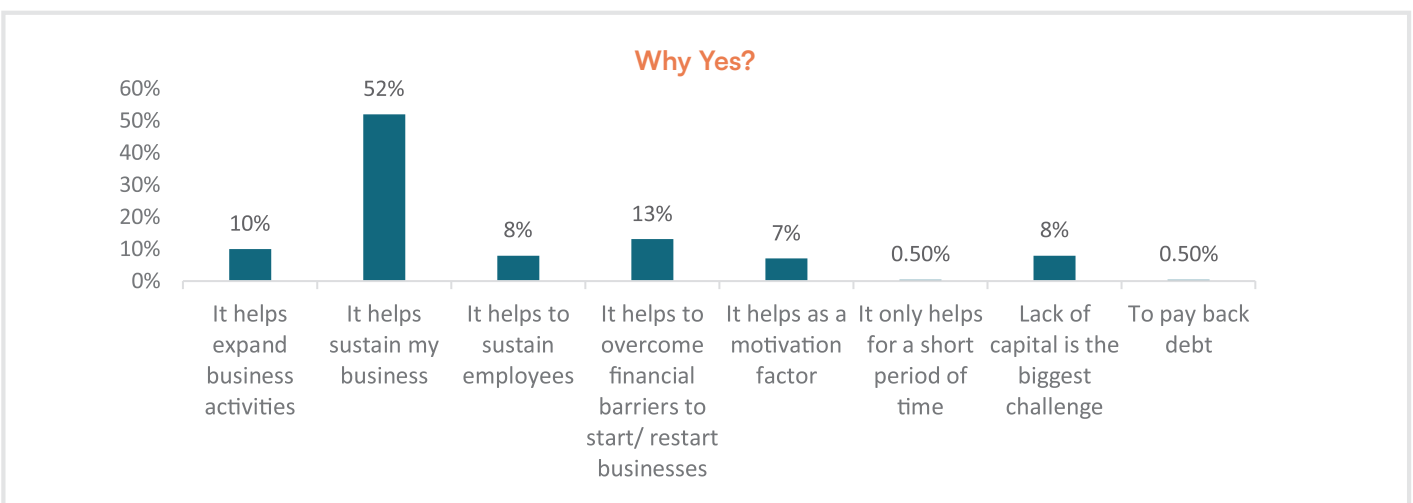
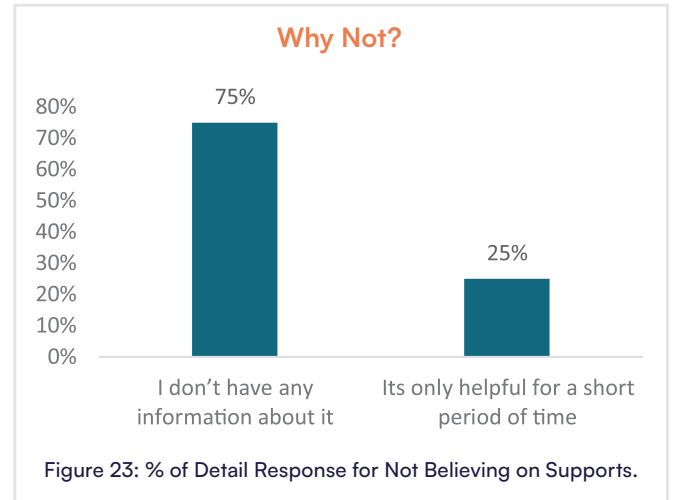
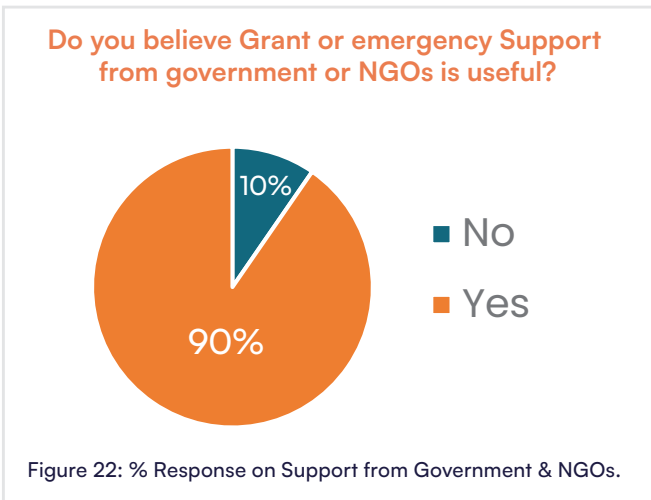
With growing digital finance, 44 (15%) enterprises access digital financial services. The assessment indicated that Tele birr, a mobile payment platform, was the primary method for most. This showed digital products are better accessible for informal enterprises.

To identify the challenges more, during the assessment follow-up questions found out that 68% are not aware of all the financial services provided by Banks/MFIs, which is parallel to the findings above on acquiring any information from the banks and MFIs. The informal enterprises secure their finances 44% by borrowing money from family or friends whereas 36% used their saved-up money to sustain their business.



Grant and financial support are vital to sustain businesses and build resilience.

Grant funding and emergency support provided by governments and non-governmental organizations (NGOs) play a crucial role in addressing various social, economic, and natural challenges faced by enterprises. The results from the analysis of the assessment shows that 90% stated that grant support from different organization and institutions is useful, as the fund will sustain the businesses (51%), overcome financial barriers, and help to start a new or additional business (23%). 10% of the respondents do not believe grant and similar supports are useful, indicating funding do not last enough to sustain businesses.



Conclusion

The assessment on informal enterprises' access to finance showed that there is a high demand for finance, which is not being reached with financial products and institutions in Ethiopia. An informal enterprise has a bigger role in the country as is the case for most developing countries. The enterprises are the basis of self-employment, especially for women. Informal enterprises are more inclusive than formal enterprises. The assessment evidenced informal enterprises in the country are mostly owned by young people who are literate and started their businesses within the last four years. The proportion of women, youth, people with disability, and returnees involved in the informal sector is big, mainly because entry to informal business is relatively easy as it requires less starting capital and legalization.

Among the gaps, the fact that most informal enterprises consider themselves too small to be formal plays a significant role. This confirms the finding of other assessments that one of the major constraints for the transition from an informal to a formal enterprise is their perceived smaller size. Lack of capital and working premises are among the factors that affect this belief. Other factors such as the difficulty in bureaucracy to acquire and work with business licenses and taxes contribute to the limited transition of informal enterprises.

Informal enterprises are profitable and bankable, but their experience is limited to a few financial services, mainly savings. The analysis shows that the use of loans and other banking services for informal enterprises is very low.

A vast majority of finance to their day-to-day operations and investment in their business is through sources such as internal funds, moneylenders, family, and traditional member-based groups like Equbs. Most informal firm owners would like their businesses to become formal but do not do so as it would require them to have working premises and pay taxes. Informal enterprises receive little or no support from stakeholders, especially financial support. The assessment identified that despite the high demand and growing trend of using digital finance, financial institutions did little to design and communicate new products and to provide tailored financial services to informal enterprises.

The assessment confirmed that the informal enterprises require financial support more than any other form of assistance. Grants and financial support are vital to sustain businesses and build resilience. However, the enterprises that are supported financially or through other means are little, and thus there are few that are growing and transitioning to formal enterprises. Projects and programs like CRRP and EDP-UIS proved that if informal enterprises are supported through access to finance and provided with skills training to improve their business, they can grow to reinforce the economic development of Ethiopia sustaining livelihood for many and transforming into formal enterprises to bring economic prosperity.

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MESMER is a 5-year program launched in October 2022 to support 72,200 enterprises and 410,800 jobs by creating access to finance for micro, small and medium enterprises to realize their growth prospects and resilience. MESMER will also work to provide support to enterprises through business development support, psychosocial services, and technical assistance to financial institutions. MESMER is a countrywide program implemented by First Consult in partnership with the Mastercard Foundation as part of the Foundation's Young Africa Works strategy and will strive to create dignified and fulfilling work for the youth, the majority of them women. The FDRE Ministry of Labour and Skills is the main government counterpart for the program. Other partners include financial institutions (banks, microfinance institutions, and digital financial service providers), BDS, and psychosocial support providers.

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