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Overview

Ethiopia is at a critical political juncture, and its stability and economic transformation depend on making economic growth more inclusive and private sector driven. As the COVID-19 pandemic unfolds, Ethiopia’s economic and political transformation faces dual headwinds that further threaten peace and stability. Much more than a health crisis, the pandemic poses critical socio-economic and democracy challenges that will have a lasting impact on how Ethiopia’s economy and society function. The economic tremors caused by the COVID-19 crisis have disproportionately affected marginal economic actors across the country. Sustaining business operations has been particularly difficult for micro and small-scale enterprises. Following the government’s state of emergency and lockdown of businesses, many workers are now unable to conduct business activities and cannot access their place of work, which has had drastic effects on their incomes and led to particularly dire circumstances for informal and casually employed workers.

Beginning in April, CIPE conducted an assessment of the marginal economic community, BMOs, and CSOs in four of Ethiopia’s regional states - Amhara, Oromia, Somali, and Benishangul-Gumuz - to assess local-level impacts and perceptions of COVID-19 response efforts. The assessment was conducted as part of a current, Swedish International Development Agency (Sida) funded project on engaging marginal economic actors in bottom-up reform for inclusive, private-sector led growth. Under the scope of this project marginal economic actors include women entrepreneurs, self-employed youth, and the informal business community. To carry out the assessment, CIPE initiated a stakeholder mapping exercise in each of the four assessment regions in which over 200 stakeholders representing a diverse coalition of government bureaus, BMOs, CSOs, and marginal economic actors were identified. The CIPE team then commissioned a series of virtual key informant interviews to obtain a holistic view of the local enterprise ecosystem of actors working on issues related to private sector development, inclusivity and the early impact of COVID-19. Leveraging CIPE’s broad network in the four regional states, the team was able to interview over 100 of the originally identified 200 stakeholders over a three-week period, despite the impediments of the declared state of emergency. Using two separate questionnaires developed to cover marginal economic actors and local business and civil society organizations, participants were surveyed on the general response to the pandemic, the early impacts on the marginal business community and the actions needed to return business to scale. The marginal economic actor questionnaire focused on issues pertaining to the pandemic’s impact on participants’ businesses and wellbeing as well as what responses, information, and policies are provided by the local and federal government to guide and support marginalized communities. The BMO and CSO questionnaires covered: the impact of COVID-19 on BMOs and CSOs, the response of BMOs and CSOs to the crisis and the impact on the business community, including the informal sector.

The following sections provide a description of the marginal economic actors subject to this report and the underlying socio-economic challenges they face followed by the main findings from the assessment. As detailed further within this report, the main findings of the assessment show that marginal economic actors in the four regions surveyed have been significantly impacted by the economic recession caused by COVID-19. As business activities have almost
completely stopped and incomes decline, marginal economic actors struggle to support their families and need financial support for basic goods and to pay rent. Respondents cautioned that the situation could escalate into conflict if the quarantine continues without adequate financial support from the government. When asked about what would be needed to return businesses to scale, respondents recommended the following measures to improve government response to the pandemic:

**In the short-term:**

- Strengthen current sanitation and hygiene practices; provide clean water tanks and continue to supply soap, hand sanitizers and masks
- Start re-opening the markets and businesses while using social distancing practices
- Continue collaboration with the private sector and BMOs to mobilize resources
- Provide healthcare coverage to the informal sector and increase provision of food items for an extended period to better support households of low socioeconomic status that have been most impacted by the pandemic

**In the mid-term:**

- Provide financial support to the poor and marginal economic actors to ensure peace and stability
- Provide access to credit (at low or 0 percent interest rates) to the business community, especially microbusinesses
- Provide subsidized rent for both business and residential premises
- Offer tax reduction for the next calendar year

COVID-19 recovery presents an opportunity to build stronger, resilient and more inclusive enterprise ecosystems at the local level. The assessments conducted conveyed several ways market access and opportunities for marginal economic actors can be improved in the context of the pandemic’s local impacts. For instance, respondents mentioned that current disruptions to imports have created an opening for local producers and entrepreneurs. Several respondents also praised the role of gender-based saving and credit cooperatives operating under the Women Entrepreneurial Associations (WEAs) for providing marginal economic actors with access to capital and financing. It was also stressed that there is a strong demand for income generating programs that could support unemployed and self-employed youth.
Marginal Economic Actors

**Regional Poverty and Human Development Trends:** While poverty has decreased remarkably in the last 10 years and human development index (HDI) values improved, Ethiopia still faces significant socio-economic challenges which disproportionately affect marginalized communities throughout the country.

![Figure 1: Trends in Regional Poverty](chart1.png) ![Figure 2: Trends in Human Development](chart2.png)

**Source:** National Planning Commission, 2017

**Source:** UNDP Ethiopian National Human Development Report, 2018

**Trends in Economic Marginalization and Inequality:** The global challenge of increasing inequality is an important concern for the regional development of Sub-Saharan Africa. Especially considering the jobless nature of Africa's recent growth, rising inequality poses significant challenges to achieving poverty reduction through national economic growth. In the case of Ethiopia, declines in absolute poverty rates over the past few decades can be attributed to the country’s economic growth rate rather than distribution of wealth; although Ethiopia’s income inequality indicators remain low, the upward trend of national inequality can constrain future poverty reduction.¹ Such trends suggest the need for more inclusive initiatives that can facilitate greater redistribution of national growth. The promotion and strengthening of labor market participation among Ethiopia’s marginal economic actors will be a key component in ensuring equitable income distribution. Informal sector actors, youth, and women entrepreneurs in particular are demographically important target groups operating in Ethiopia’s private sector.

**Informal Sector:** Much of Ethiopia’s poor are concentrated in what is classified as informal or self-employment sectors within the services sector. The informal sector is estimated to represent 38.6 percent of GDP² and employs a large number of people, the majority of which are women and youth. Informal businesses lack access to market opportunities and public services. As in many other low-income countries, registration of informal economic actors is low, and as a result, most of them remain outside the purview of government policies, especially with respect to labor and taxation. Weaknesses in the regulatory environment and institutional framework typically

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incentivize micro-businesses to keep their activities in the gray economy. Inability to pay taxes, regulations requiring working premises, and high costs of registration are also among the factors contributing to economic activities remaining informal. Creating routes to formality for these businesses is important in order to improve growth and ensure social protection of affiliated informal labor. Transitioning businesses into the formal sector allows for increased investment, revenues, profits, and employment.\(^3\) Efforts towards improving informal sector access to markets and participation in policy making are needed for both expanding economic opportunity and strengthening rule of law.

**Self-employed Youth:** Ethiopia’s rapidly shifting age structure combined with national challenges of job creation has left significant portions of working-age youth unemployed. Challenges to productive employment of Ethiopian youth include low education levels among rural youth, gender gaps in youth employment, and land shortages. The Government of Ethiopia has designed several strategies to improve job creation and the overall labor market environment for youth including the national Industrial Development Strategy (2011) and the 2004 Micro and Small Enterprise (MSEs) Development Strategy. However, these efforts to improve the employment opportunity landscape have fallen short of delivering significant change. The limited opportunities for securing gainful employment have led to increased migration within the youth population (migration in general has steadily increased since 2000 according to UNDESA data from 2015). The major destination countries for young Ethiopian men and women migrants in recent years have been South Africa and the oil rich gulf countries.\(^4\)

**Women Entrepreneurs:** Labor force participation among Ethiopian women has increased in recent decades, however, it remains low relative to Ethiopian men. Women continue to be overrepresented in Ethiopia’s informal sector where there is no assurance of safety conditions, social protection, or health benefits. The wage disparities and education gaps between men and women show gradual improvement but remain stark. Women entrepreneurs face gender-based constraints including limited access to financial services, land use rights, and increased vulnerability to crime and corruption; only 16.6 percent of registered Ethiopian businesses in 2014 were women-owned.\(^5\) A 2018 IMF Selected Issues paper assessing the impact of Ethiopia’s gender gap on economic output found that eliminating gender disparities in education and formal sector employment would increase national economic output by 24.1 percent. Recognizing the need for improving the economic environment for women as economic actors, the Ethiopian Government has recently developed a national Women, Development, and Change

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strategy that seeks to advance women’s economic empowerment through addressing issues of unemployment, informality, and food security.

In the context of doing business in Ethiopia, women entrepreneurs, self-employed youth and informal business operators often share interconnected identities, which create overlapping and interdependent systems of discrimination or disadvantage. Intersectionality, is a situation where a person may enjoy advantage or suffer disadvantage on the basis of multiple identities rather than just one (Chart 1). Generally, the common intersectionality exposes marginalized actors in Ethiopia to a compounded challenge. For instance, a youth with some form of disability who operates in the informal sector may face multiple challenges on either aspect of their identity. Similarly, given that most women entrepreneurs and self-employed youth are working in the informal sector, it is essential to understand the various intersectionalities and address the problems as comprehensively as possible.

Findings from the Stakeholder Engagement

Marginal Economic Actors
The sample of marginal economic actors surveyed during the baseline assessment included both formal and informal businesses operated by male and female owners. All businesses were domiciled in different woredas in the Oromia, Amhara, Benishangul-Gumuz and Somali regions. The groups of respondents self-identified as representing a marginalized group based on one or more of the following criteria: gender, age, income status and ethnicity. Most of the respondents were small retailers and street vendors, selling clothes, fruits, vegetables, food products and beverages. A small number operated in the agriculture sector and service sector. On average, the formal business owners in the sample had three more years of schooling than the respondents operating informal businesses (See Figure 3).

Impact of COVID-19
When asked about the impact of the COVID-19 pandemic on their local communities and businesses, marginal economic actors appeared highly concerned with the significant socio-economic impact on their wellbeing and livelihoods thus far. Respondents cautioned that if
unaddressed, the situation could escalate into violence, especially if the quarantine continues without adequate financial support from the government: “Government should prepare ahead of time to avoid possible conflicts that radically affect not only our businesses but also our safety and lives.” The majority of respondents felt COVID-19 has significantly impacted local businesses and the community (Figure 3 and Figure 4). A number of informal sector participants indicated that prior to COVID-19, they were making a comfortable livelihood through their activities despite some difficulties. As the crisis unfolded, many retail actors have completely halted operations due to government-imposed measures or suffered consequences resulting from reduced economic activity. Non-food retailers are experiencing complete income loss but continue to be faced with expenses. As the government maintains COVID-19 restrictions, both formal and informal traders feel the government should be doing more to support the business community.

Participants’ perceptions of the Government’s response to COVID-19 depicted government intervention as being mostly focused on awareness building, provision of personal protective equipment (PPE), and some resource mobilization. Most marginal economic actors surveyed shared that the government should intensify its resource mobilization efforts to protect the poor and vulnerable. Several respondents noted that many people in the community are struggling with food insecurity and that the local government should work to distribute food assistance.

Respondents indicated that in certain areas, local governments have taken steps to keep some formal merkatos (markets) open by designating temporary open spaces for vendors to sell goods while complying with social distancing measures. The temporary markets, however, are in remote areas with limited transportation options, imposing higher costs on suppliers, sellers, and customers alike. One respondent added:

“There was only one marketplace in the city, but now three marketplaces have been arranged to prevent the spread of the virus. While the government sets up those marketplaces, other basic services and logistical arrangements should be put in place as well. Necessary arrangements to
smoothly run the markets have not been made. For instance, transportation access to the new marketplaces is very limited. The tariff requested to transport goods by the Bajaj is so expensive and often more than the expected revenue. Day laborers who were carrying goods from the Bajaj to shops are no longer there because of COVID and the strict control of the government. All these challenges have resulted in less daily income and an extra workload.”

Some informal street vendors indicated that the government has been cracking down harder on informal traders, and they feel unfairly treated by law enforcement. A banana street vendor complained that the police chase them away from the streets and confiscate their goods. Respondents were understanding of the need to maintain sanitary standards and practice social distancing, but they also urged the government to start easing some restrictions on business operations: “Most marginal business actors are doing their businesses in rented shops. At this time because of COVID-19, we are not able to earn money and we can’t pay monthly rent to our landlords.”

The following recommendations were made to improve government response to the pandemic:

**In the short-term:**
- Strengthen current sanitation and hygiene practices; provide clean water tanks and continue to supply soap, hand sanitizers, and masks
- Start reopening the markets and businesses while using social distancing practices
- Continue collaboration with the private sector and BMOs to mobilize resources
- Increase provision of food items and provide healthcare coverage to the informal sector for an extended period to better support households of low socioeconomic status that have been most impacted by the pandemic

**In the mid-term:**
- Provide financial support to the poor and marginal economic actors to ensure peace and stability
- Provide access to credit (at low or 0 percent interest rates) to the business community, especially microbusinesses
- Provide subsidized rent for both business and residential premises
- Offer tax reduction for the next calendar year

In addition to the role of government during the pandemic, marginal economic actors acknowledged that the private sector has mobilized to provide food items, PPE, and financial resources in support of the community. About 70 percent of marginal actors were unaware of any specific actions taken by BMOs or CSOs in the regions. Marginal actors indicated that they rely on the local community for psychological and material support. The majority of respondents acknowledged the role of youth in distributing food, soap, and protective gear to the poor and vulnerable. In Benishangul-Gumuz and Somali region (Jijiga), youth are mobilizing and working as active distributors of in-kind support to vulnerable groups. In Benishangul-Gumuz, the Asosa Youth Association specifically has been playing a pivotal role in supporting the poor and elderly populations:
“The youth in the community are taking on impressive responsibilities to prevent the spread of the virus. They move door to door to check whether people need PPE or other kinds of support.”

The Business Environment for Marginal Economic Actors

The major challenges impeding the growth of microenterprises in the four regional states are lack of finance, working premises, technical support, and training (Figure 5 and Figure 6). Small-scale businesses face significant financial challenges; one respondent stated:

“We don’t have access to credit like larger businesses do. Most of us are doing our business on the street. We need financial support, working space and some sort of capacity building trainings to transform our businesses. The increasing rate of inflation in Ethiopia also means that small amounts of money cannot buy much, so additional seed capital is also needed to buy more inventory, diversify, and grow a business.”

With respect to access to working spaces, respondents indicated that managing rent expenses is unthinkable, especially at this time. Many informal business operators indicated that they continue to run their businesses in open markets or on the streets, which puts them and their families at greater risk of contracting COVID-19. Women entrepreneurs from Oromia and Benishangul-Gumuz also pointed out that peace and stability concerns are major factors hindering their ability to grow their business.

Some female respondents brought up the idea of obtaining working spaces by forming cooperatives and groups but feared they have little chances of success given existing high levels of unemployment and informality. A women entrepreneur from Amhara was able to secure a working space and a small micro loan through the cooperative she was a part of but
acknowledged that many others are not as lucky. In Benishangul-Gumuz, informal actors shared that the City Administration provides them with a temporary working space twice a week. A retailer from Somali region noted that although women dominate the markets in Jigjiga, women entrepreneurs struggle to find suitable workspaces.

Respondents noted that the financial sector has become more inclusive since the 2018 government transition. A woman entrepreneur in Somali region stated that, “the banking system in the region has become much more affordable in the last two years, but there are many poor women and youth who still don’t have access to banks.” The majority of marginal economic actors discussed demand for making small-scale loans available to small businesses. Credit from microfinance institutions or other providers who cater specifically to the needs of poor women and youth are the only available option for marginal economic actors.

The assessment uncovered that tension exists between formal and informal business owners. Formal businesses feel that they pay taxes and follow the law, while informal businesses have lower costs and create unfair competition. Surveyed informal actors shared that obtaining a license depends on their ability to find a working space which, as previously discussed, is difficult to achieve. Others cannot afford to pay taxes, pay the cost of a business license, or get access to start-up capital.

Out of the total respondents surveyed, only one was aware of any COVID-19 assistance programs or emergency loans in their region. Some MFIs in Amhara region are providing loan repayment extensions. For example, the Debre Markos Women Entrepreneurs Associations gave a one-month loan repayment extensions to its borrowers. There are also talks of MFI emergency loans becoming available for COVID-19 affected businesses.

**Membership to BMOs and CSOs**

Only a fifth of the surveyed business owners belong to a BMO. For those who aren’t members, the reasons stated are the limited information about BMOs in the community, the lack of perceived incentive or benefit for their business, and the issue of eligibility for those who are in the informal sector. In Amhara region, the Debre Markos Women Entrepreneurs Association (WEA) has a well-established network, and an MFI arm which provides saving and credit schemes to its members. Informal businesses in the Debre Markos woreda are well aware of the WEA and aspire to join the association. Members of other WEAs in Amhara expect more from their membership. The most expected benefits of the business owners surveyed included credit services, experience sharing, business-to-business (B2B) opportunities, training, and capacity building support.

| Figure: 7: Membership to BMOs | Figure 8: Membership by Region |
Participation in PPDs
A handful of respondents have experience participating in the public-private dialogue (PPD) process. Those who have some experience mentioned attending discussion forums organized by the trade bureau and tax authority on issues of business license renewal and taxation which led to actual policy change. Issues some marginal economic actors would like to see discussed in PPDs include:

- Access to finance
- Working premises
- Peace and stability
- Job creation and youth development
- Equal economic opportunities for all
- Women empowerment
- Corruption

A respondent expressed their interest to attend a PPD that centers on the issue of credit for women who engage in business activities: “The revenue office only comes to us once a year to collect taxes, which is very unfair. The government has to provide up-to-date information on the tax system and work on issues of formalizing business, or how to protect the formal businesses from the informal ones.” Another respondent from Somali region complained that businesses are asked to pay informal fees in addition to government taxes and hoped the government would intervene and hold groups involved in this behavior accountable.

On the importance of PPD, all participants agreed that it is critically important to engage the business community, especially vulnerable groups, in the policy reform process. Marginal economic actors shared that there should be more awareness building around the importance of dialogue forums. Respondents asked for technical support on how to get involved in the policy
reform process. Some urged that government officials need to be sensitized to the role of women and youth in the business community:

“When they understand our role, they will start to engage and hear our voices. More women are still at their homes. Government should assess and investigate their problems so that they will start working and contribute to the overall development of our region and our country.”

As dialogue forums are being planned and carried out, it is important to ensure entrepreneurs feel a basic sense of security in speaking out to government stakeholders without fear of retribution. A woman from Somali region was arrested and abused after speaking out at an event hosted under the previous ruling government:

“I participated in a discussion forum before the current reform (during Abdi Ele). I asked questions about women empowerment, and equitable distribution of resources and equal economic and business opportunity. Then I was arrested and physically abused.”

BMOs and CSOs

Response to COVID-19

Chambers and Associations are worried that the economic downturn resulting from the COVID-19 pandemic will hurt the ability of the business community to pay chamber and association membership fees in addition to paying taxes. BMOs consider the impact of COVID-19 to be significant on their organizations and members and even more so on marginal economic actors in their regions (Figure 8). When asked whether they play a role in supporting the local community by sharing information, coordinating initiatives, or fund-raising to support marginalized communities, the majority of BMOs responded that they were involved in some capacity (Figure 9).

Figure 8: Perceptions on the Level of Impact of COVID-19 (on a scale from 1 to 10)

Figure 9: Are you supporting the local community in response to COVID?
The type of support offered by BMOs to address COVID-19 varies widely among respondents. Some are actively involved in awareness creation and fund-raising for the local community, while others cited their limited capacity as an obstacle in providing assistance. Many associations work in coordination with the government and participate in the formed emergency committees and response command posts. Some associations act as coordinators in distributing soap, sanitizers, and water tanks.

Regional board and branch executives are actively participating in the emergency committee to mobilize resources from different parts of the community in their respective towns. The board president for the Waliso Chamber in Oromia is a member of the COVID-19 response command post and the chamber is actively involved in mobilizing financial and material resources for the poor and most affected businesses. The chamber notably donated ETB 30,000 in cash to procure sanitary materials. Also in Oromia, the Assela CCSA is actively working on awareness creation and resource mobilization; they raised ETB 800,000 and collected food items for marginalized communities. In Debre Birhan, the City Chamber noted that both BMOs and CSOs are taking part in the resource mobilization efforts; participating organizations include the chamber, women entrepreneurs association, youth association, and women association. In Motta Amhara, a task force of BMO representatives has been set up by the trade office to regularly monitor for unnecessary price hikes. The WAE in Amhara region has raised ETB 176,000 from contributions made by members and its head office. In Kelebe, the WEA branch in collaboration with the chamber mobilized ETB 48,000 for food items, face masks, and gloves for marginalized groups identified by the local administration.

The Debre Tabor Branch of AWEA has a strong presence in Amhara region as indicated by several marginal economic actors included in the survey. Recognizing that members were struggling financially due to the pandemic, the BMO extended its loan repayment period for members participating in its credit and saving services.

**BMOs and Marginal Economic Actors**

In the Amhara and Oromia regions, the majority of associations and chambers work on issues concerning the improvement of the business environment for marginalized members. Some are actively involved in the process of formalizing informal sector actors as they are not eligible to become members. BMOs employ different practices to formalize informal businesses. The Debre Tabor WEA for example, explained that they work with women who are struggling to sustain their businesses. The association helps members obtain working premises, get credit, participate in management trainings, and increase their exposure to B2B and networking opportunities, among other things. Through sharing those benefits, the Debre Tabor branch incentivizes informal businesses to join the formal sector. This approach has proven
effective for the association, as 67 percent of its members are low income, marginal groups. Similarly, AWEA’s Gondar branch has recruitment agents in every city. Their strategy is to approach both formal and informal businesses to become members of the association by explaining the advantages of association membership.

**Participation and PPD**

Gender-focused organizations appear to have more experience in advocating for policy changes and working with various government agencies and other stakeholders to increase access to credit opportunities, working spaces, and address taxation issues. The Debre Markos WEA shared their experience in organizing PPDs on issues related to the formation of women-based saving and credit cooperatives, access to working space, and women representation issues. Most organizations confirmed that the main challenge in better representing members and improving service quality is their limited technical and financial capacity. All members indicated that they urgently needed more financing to improve member recruitment processes, provide technical support, carry out business license renewals, help members on taxation issues, and obtain licenses for association saving and credit schemes.

PPD topics proposed by the surveyed BMOs are summarized below:

- Access to finance and workspaces - paving the way for street vendors and other informal sector actors to join the formal sector
- Securing seed money for association saving and credit schemes
- Entry of women entrepreneurs into the manufacturing, wholesale, and export sectors
- Tax issues
- Capacity building and market linkages for women involved in agro-processing
- The roles of women-based BMOs in economic growth and local development
- The challenges of government bureaucracy
- Formulating special lease policy for middle- and low-income businesses