The informal sector and the potential role of microfinance institutions in Ethiopia

Bachelor thesis
Minor Field Study in Ethiopia
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Abstract

In Ethiopia, the economic dilemmas facing the country have had various effects on the society at large. Given this situation, the high rates of urbanization and unemployment has resulted in that more and more people end up in small-scale economic activities within the informal economy. Although the informal sector has become increasingly noticeable in Addis Ababa in particular, it is however commonly neglected and separated from the formal economy. In the light of the contemporary Ethiopian society, this study has nonetheless argued that the wide range of economic activities found within the informal sector is indispensable and should rather be integrated with the formal economy. Instead of perceiving the informal sector as an economic malfunction, this study has aimed to explore its future potential through the help of microfinance institutions. It has also looked into how the informal sector can be defined and its main characteristics. To gain an increased understanding of how informal workers perceive their own life situation, semi-structured interviews have been carried out with informal workers from the Meklit Microfinance Institution. The theoretical framework of Friedmann’s “Whole Economy Model” and “Disempowerment Model” was moreover applied in recognizing the role of the household as well as to which extent MFIs could be said to have increased the social power of the informal sector.

The main conclusions of this essay are that there are highly diverse features of informal workers and their businesses, which accordingly implies that MFIs need to reflect this diversity in their general operations. Although MFIs were recognized as carrying a future potential for the development of informal activities, there were some identified obstacles in for example their organizational structure which consequently affected the profitability of their clients’ businesses. The role of Community-Based Organizations (CBOs) was also recognized as having the possibility to develop into a new type of labour union as to empower the informal sector and gradually lead to a natural continuation of the formal economy.

Key words: Informal sector, Microfinance Institutions (MFIs), MMFI (Meklit Microfinance Institution)

Abbreviations: CBO (Community-based organizations), RUFIP (The Rural Financial Intermediation Program)
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1. Introduction

1.1 Background
Like many developing countries, Ethiopia has experienced many economic difficulties having multiple consequences for all aspects of the society. Although efforts are made to expand both the industrial and agricultural sectors, issues such as insufficient technology in agriculture, drought and external debts can be said to have hindered the overall development (Bissrat, 1994). At the same time, Ethiopia’s population is constantly increasing whereas the majority of people are living on the countryside struggling for survival.

As a result, there has been an ever-increasing flow of rural habitants coming to look for greener pastures in the urban areas, with a large concentration in the slums of the capital Addis Ababa in particular (Utrikespolitiska Institutet, 2009).

This situation becomes especially clear when studying the phenomenon of the “urban poor”, which can be said to have enhanced over the years as a result of the underlying conditions of urbanization and high unemployment. Most people thus end up working in the informal sector, selling items on the street or starting a small-scale family-owned enterprise for example.

Although this process is becoming increasingly manifest, the informal sector is still commonly neglected and has gone unregistered in official records. This could perhaps be due to the fact that it operates outside the traditional legal, administrative, legal and economic structures of a country (Bissrat, 1994). Consequently, the emphasis has usually been more on how to enhance the formal sector rather than encouraging the economical activity and creativity that is actually taking place informally. Due to the lack of support, people within this sector can be said to generally have a limited access of basic necessities and are not sure of attaining a stable income, hence making them more vulnerable than the formal sector (Todaro, p.333, 2009).

Given this situation, the problem identified is thus the common standpoint that the informal sector should be transferred to the formal sector, as opposed to acknowledging its potential as a natural continuation of the formal sector. One way of modifying this approach could therefore be to intensify the support to the informal sector.

In order to achieve this, there is obviously an urgent need of for example microfinance institutions to help out in issues of development to improve the conditions of the informal sector. Microfinance institutions can hence be said to carry great potential in promoting and expanding activities within the informal sector. Considering the economical and political
problems that the weak state-system of Ethiopia is already facing, the role of non-state actors can further be argued to be crucial in supporting people through their implementation policies at the grass-root level. Likewise, governmental actors are needed as to enhance further development on a national level.

Microfinance institutions could moreover become vital in empowering the informal sector, as the self-employed workers usually have little formal education and lack access to financial capital, consequently having a lower worker productivity and monetary income than the formal sector (Todaro, p.336, 2009). As the informal economy is at the same time linked to the rural sector in terms of for example trade, it is important to recognize the need of improving the social and economic conditions in the rural areas as well. By doing so, it is more likely to achieve a decrease in the massive urbanization and to deal with the already established urban density (Ibid, p.340).

All in all, it is clear that the issues facing both the rural and the informal sector may need to be dealt with by increased integration and development rather than further separation and rejection. The current bipolarity of “the informal versus the informal sector” as well as “the urban versus the rural sector”, is consequently what represents the main dilemma of interest for this study. Instead of the informal sector being commonly viewed as an abnormality, the study thus aims to reflect upon its importance.

1.2 Purpose
By pursuing this study, the aim is to achieve an increased understanding of the role and potential of the informal sector as found primarily in the urban areas of Addis Ababa. My goal is hence to highlight their activities and look into how the informal economy could be integrated into the formal economy through enhanced development.

I will thus avoid taking the common approach of looking at the informal sector as an economical malfunction, but rather to take a point of departure where I will view it as a persistent phenomenon in the society that is indispensable in the light of the contemporary situation of Ethiopia. Instead of stressing the need of transferring people to the formal sector, I will look at how to promote and improve this sector from a developmental perspective with the help of microfinance institutions (MFIs). I will then examine the role of MFIs as an incentive to expand economic activities and their future potential in developing the informal sector. The objective is hence to estimate to which extent microfinance institutions such as Meklit can be said to have increased the prospects for the informal sector, and what they have been able to contribute to the formal and household economy.
1.3 Delimitations
In this study, it should be noted that the functions of microfinance institutions is essentially limited to the role and impact of the Meklit Micro Finance Institution (MMFI) in Ethiopia. The research can thus not be said to represent the general impact of all MFIs in Addis Ababa, as it has its base in the interviews carried out in cooperation with the Meklit Micro Finance Institution. This is however not to say that the study is losing its reliability given that the main focus is on the people involved in informal activities and not the MFIs as such.

1.4 Question formulation

- How can the informal sector be defined and what are its main characteristics?

- To which extent can the informal economy be said to carry a future potential and what is the role of micro-finance institutions in developing the informal sector?
2. Methodology

2.1 Methodological design: The interview structure

The aim of this project will be achieved through personal interviews with people working informally in order to demonstrate their own perceptions of their reality not only from an economic aspect, but from a broader societal perspective.

I will carry out these interviews through the help of the Meklit Microfinance Institution, from where I will base my research concerning the role of microfinance institutions. Given that it is a qualitative study, the aim is to reach a level of saturation through semi-structured interviews. In this way, the study aims to increase the understanding and attain the deeper reasonings of how people perceive their own life situation. Semi-structured designed interviews here implies that they will be open to let the people speak freely and avoid constrained answers as to create more dynamic interviews (Hoepfl, 1997) The questions posed will only be structured in the sense that it is dealing with the common areas as defined by the researcher (Aspers, 2007, p.137).

In order for the informants to highlight their own perspective to a larger extent, the research may also entail a shift to more open-ended interviews in order to reach even deeper reasonings. In this way, the researcher allows the informants to bring up the topics they deem necessary, trying to increase the confidence between the researcher and the interviewed. By avoiding posing questions within a rigid structure, the aim is then to be able to identify and analyze the main ideas expressed during the interviews. This will hence lead to a state of saturation, whereby the researcher feels that the initial enquiries have been fully reciprocated and the general themes have been defined to the point where further research are no longer needed (Ibid, p.137ff).

Looking at the interviews, I will further use the method of abduction as explained by Danemark (2003). According to Danemark (2003, p.181), abduction could be classified as a “reconstruction” or “reconceptualising” which goes beyond the logical, although rigid framework of deduction. In comparison to deduction, abduction accordingly demonstrates how a certain phenomenon could be, instead of how it is. It is also a way of reasoning and thinking which attempts to perceive and describe a certain aspect from a wider perspective (Ibid, p.184). The aim is thus to put each separate phenomenon in a wider context.
2.2 Conceptual framework: The idea of an “alternative development”

In this study, I will apply the theoretical framework of Friedmann’s “Whole Economy Model” and “Disempowerment Model”. These two models offer the possibility to describe the informal sector’s role from a holistic perspective and have a more territorial, alternative approach to development (Friedmann, 1992, p.38). Taking a point of departure outside the mainstream economics, the emphasis will be on the informally organized production and the role of the household in achieving a more successful alternative development that includes all levels of society (Ibid, p.43).

In the methodological outline of Friedmann, the concept of an “alternative development” is seen as a way of improving the living conditions for the people “inhabiting” the informal sector. The concept is therefore moving away from the classic indicator of growth, namely GDP per capita, which Friedmann describes as misleading by creating a false conception of the economy. It is for example argued that the common use of national income accounts due to its lack of affiliation to reality may demonstrate an illusion of wellbeing in a country, thus incapable of giving a more relative outlook on the economy as a whole. Instead, Friedmann stresses the need of perceiving economical relationships differently in striving towards an alternative development. Thus, productive activities within subsistence agriculture, the informal sector and the household economy should be included as to give a more representative view. For an alternative development to take place, the production of life and livelihood within the informal economy as well as the role of nonmarket relations are viewed as playing a key role (Ibid, p.38ff).

In order to understand how the informal sector can develop and expand its economic operations and resources, the Whole Economy Model and the Disempowerment Model will hence be used as to better acknowledge the potential of the informal sector and its interrelation to the formal and household economy.

2.2.1 The Whole Economy Model

As to the Whole Economy Model, I will further consider the relationship between the economy of capital accumulation and that of subsistence, where the informal economy could be seen as overlapping and together constitute the tree major sources of monetary income for the household (Ibid, p.48). When applying this model in my analytical approach, I aim to demonstrate the household as central to the production of people’s livelihood and its linkages to the social, economical and political sphere. In the production of a households’ livelihood, in-kind distribution from domestic and communal work will also be recognized. It will
likewise include the various forms of investment for the household, such as the need for investment in what Friedmann calls “the capacities and skills of individual household members” (human resources). Once household investment in for example human resources increases, economical activities linked to the formal economy are said to prosper while marginal economic activities are likely to be abandoned (Ibid). Moreover, I will look into which productive activities of the household that could be identified, as well as investigate the potential of any indicators for alternative development in the sense that Friedmann is proposing (Ibid, p.52ff). For instance, it could be explored whether the assistance of MFIs are perceived as a means out of disempowerment and has increased productivity among the people in the informal sector.

2.2.2 Poverty and the Disempowerment Model
The generally rigid and negative perception of poverty is further being reconsidered in Friedmann’s outline of the Disempowerment Model, which tries to create a better understanding of the multifaceted phenomenon of poverty and its general implications. Poverty is here described as a situation of disempowerment, whereby development is recognized as a more inclusive concept than just economical growth. Instead of perceiving poor people as incapable of controlling their own lives, the Disempowerment Model thus tries to look at the cause of disempowerment and what is needed to fulfil their “basic needs” (Friedmann, 1992, p.61ff).

In assessing these needs, the Disempowerment Model may be used to identify and satisfy the needs as recognized by disadvantaged peoples themselves. In this model, the basis lies in the assumption that poor households lack the social power to improve the living conditions of their members. Social power here implies the power associated with the civil society, which may be determined by the different degree of access to the eight different bases of social power, which Friedmann defines. These bases are thus seen as the primary means to enhance social power of a household economy, and include the following:

- **Defensible life space**
  Defensible life space refers to the territorial base of the household economy. Apart from the physical space, it may also include the immediate neighbourhood where for example social activities take place, but also access to land.
- **Surplus time**
  Surplus time here implies the time available for the household economy above what is
needed to survive. It may for instance contain the time spent on travelling to work and the ease of which basic necessities such as food, water and firewood can be obtained. The idea is thus that the aspect of “surplus time” could be invested in other activities than what is required for pure survival, hence being able to expand their access to the bases of social power. Without access to surplus time, the options for households are thus greatly limited.

- **Knowledge and skills**
Knowledge and skills refers to both the educational level as well as the competence of specific skills which members of the household economy may have. To increase the economical opportunities in the long term, education and technical training are recognized as essential for members of poor households. As a result, households may invest in human resources.

- **Appropriate information**
Appropriate and accurate information may positively influence the household in the struggle for subsistence, including matters such as improved sanitation practices and chances for wage-paying work. Without a constant access to relevant information, knowledge and skills are practically useless as a resource for self-development.

- **Social organization**
Social organization includes both formal and informal organizations of which household members may belong to. Churches, peasant associations and credit circles are some examples. Apart from connecting the household to the wider society, they are also a source of mutual support, collective action and useful information.

- **Social networks**
Social networks are recognized as vital for actions of self-reliance based on mutuality. Households may have both horizontal and vertical networks, giving it the chance to access various forms of power.

- **Instruments of work and livelihood**
Instruments of work and livelihood basically imply the tools available for household production. It may for example include physical strength or access to water and productive land (the latter especially for farmers). Likewise, it may comprise of tools used in informal activities within the household, such as bicycles, stoves and kitchen equipment.

- **Financial resources**
Financial resources here refer to the net monetary income of the household as well as
formal and informal credit arrangements (Ibid, p.66ff).

All in all, the eight bases of social power are recognized as dissimilar, yet interdependent of each other. The relative access moreover evaluates to which extent households demand these basic resources. Although there are various ways of gaining greater access, it is clear that all households must have some access in order to survive at all. Generally, it can be said that an increased access to any of the bases will improve the condition of a household’s livelihood, thus representing a measure towards genuine development (Ibid, p.69).

Acting in cooperation with others in for example social networks that is beyond the states’ reach can further be said to increase the chances of gaining access to the remaining bases of social power. Consequently, the Disempowerment Model can be seen as a model of collective self-empowerment. This is as it is not only demonstrating the issue of poverty, but also how it can be overcome and how real development can be promoted. The model thus helps to give a better insight of poverty from the perspective of those struggling to make ends meet, which is likewise what this study aims to achieve (Ibid, p.71).

It is moreover possible to look into whether the economical support of the MFIs could be said to have increased the capacity of the household in terms of social power as well as the
instruments of work and livelihood, while at the same time recognizing the role of social values and basic needs.

As to the references used, the collected data will mainly be based on the primary sources of the personal interviews, from which I will draw valid conclusions about the informal sector and the role of micro-finance institutions, in this case the Meklit Microfinance Institution. It will also be important to consider my own interpretations and pre-understanding of the phenomenon, leading to a new understanding as a result of the study.

2.3 Research process

2.3.1 Collection of data
In this study, the research material is mainly based on interviews from the clients of the Meklit Microfinance institution, carried out in the regional branches of Ledeta, Kolfe and Mexico in Addis Ababa.

Although the study is concentrated on the informal activities found in the urban areas, the study also includes material collected from rural parts of southern Ethiopia, namely from the small community of Emdibir where one of Meklits’ regional offices operate. Even if this was not intended initially, the comparison of informal activities in rural versus urban areas can be said to present a more holistic perspective on the informal sector. Likewise, the interviews carried out in the regional branch of the town Nazareth have also been included as to gain one more point of reference.

Nevertheless, the material collected in other areas of Ethiopia should rightfully be considered as a minor contribution considering that the majority of interviews have been carried out in Addis Ababa. All in all, 34 interviews have been conducted.

2.3.2 The contribution of material from Addis Ababa University
Apart from the primary data collected from interviews and the analytical framework of Friedmann, secondary data from domestic sources in Ethiopia have also played a significant role in this study. During several occasions when local, unfamiliar terms occurred that required a definition, the general assistance from Addis Ababa University greatly facilitated this research. This support involved access to secondary material explaining local expressions or functions of society such as the role of the community-based organizations (CBOs) or the general implication of a kebele

1 A kebele is the lowest governmental administrative unit in Ethiopia
The university material from the Institute of Development Research and other thesis papers has thus helped to gain a deeper understanding of the empirical findings. It has further contributed to produce a more comprehensive study concerning informal activities found in the country and how MFI\textsuperscript{s} operate in the background of the Ethiopian society. This becomes evident in for example evaluating the information attained from the National Proclamation on the Micro Financing Business as well as the structure of Ethiopian MFI\textsuperscript{s} in terms of ownership and basic procedure of registration. The findings from this material can thus be said to have had further implications in the final analysis, as it has helped to discover certain patterns and domestic issues which would have otherwise remained implicit.

2.4 Practical procedure: Planning, performance and criticism

2.4.1 The procedure of selecting the interviewees

Due to Meklit\textsuperscript{s}’ lack of organizational structure and regular communication with their clients, it firstly proved to be very difficult for the staff to inform people about the research. Most of the clients lived far away from the office and typically lacked any means of communication, thus only visiting the Meklit office when repaying their loans or seeking additional support. As a result, most of the people interviewed were usually asked to participate when passing by the office or when visiting their neighbourhood and workplaces. Given that the majority were thus unprepared, some consequently had limited time to spare for the interview. Nevertheless, the majority of interviews can be said to have been carried out in a satisfactory manner for both parties.

In the interviews, efforts were made to include both men and women as equally as possible, as well as both individual and group clients. Despite the strategic selection of interviewees, it is evident that the people interviewed are also from various social and economical backgrounds, ages and run different levels of businesses.

In the procedure of carrying out the interviews, the dialogues were all taken down in a notebook after being translated by my translator. In the cases where the interviewee approved, a recorder was also used.

2.4.2 The adjustment of interview techniques

When evaluating the primary material as such, it is clear that some of the initial interviews are shorter and less descriptive than others. In order to cover the recurrent themes identified in that specific social environment, it was found necessary to add or formulate questions
differently than the initial approach. One of these enquiries concerned for example the role of social groups or the so-called community based organizations (CBOs), which turned out to be one of the most decisive factors in for example the rationale for forming a loan group or in obtaining funds outside the formal sector. Thus, the original guide was found to be insufficient as to cover the themes identified in the cultural, social and economical reality of Ethiopia.

2.4.3 Communication difficulties
As stated earlier, the initial plan was basically to carry out open-ended interviews where the interviewee can speak more freely as to create more dynamic dialogues. Not long after carrying out the first interview however, it was evident that this type of method was not working as satisfying as expected due to several reasons. First of all, the language barrier was an impediment in almost all of the interviews and enquiries carried out with the informal workers as well as with the staff at Meklit. Given that the level of English is typically very low in Ethiopia, nearly all of the interviews required a translator to interpret from Amharic (the national language) to English. To find a translator who know and understand sufficiently good English is however not an easy task in a country where the majority of the “common” people do not know how to read or speak sufficient English. After extensive searching, the broken English of the translator finally used was simply deemed as the best person available considering the circumstances. As a result, occasional misunderstandings arose due to translation difficulties. During instances when the interviewee had expressed a certain issue at length, it was also obvious that the translator only interpreted back what she deemed most necessary, which might have led to that certain topics were overlooked.

During the interviews, efforts were always taken to simplify my English so that the translator will fully comprehend. Likewise, it took time before I could fully understand their local expressions and further analyse the answers given. As time went by however, the verbal communication clearly improved as I became more acquainted with the language and other cultural aspects such as the common greetings.

Another cultural aspect that created quite a lot of misunderstanding and confusion is further the Ethiopian time system, where the “12-hour clock” is commonly used. According to this system, the first cycle starts with “one” at 7 am and goes on to “twelve” at 6 pm. The second cycle starts at 7 pm, with "one" and goes on to 6 am at "twelve". When making appointments, one thus had to always confirm twice which time system that was referred to.
The total dependency on the translator and the lack of direct verbal communication with the interviewee could however be said to have been the main impediment of the research. Yet, I deem the information attained during the interviews as satisfying in overall.

2.4.4. The issue of confidentiality
Although it was initially pointed out that the nature of the interview was confidential and that the person can choose to be anonymous, it is possible that some of the interviewees initially felt frightened or suspicious, especially when my mission as a researcher was not always understood due to translation difficulties.
The fact that the credit officer of Meklit often accompanied us to the different homes of the interviewees might have added to this problem. Given that most of the interviews took place at the homes or workplaces of the clients, the credit officer of MMFI always had to direct us and consequently attend the interview. As soon as this problem became apparent, the credit officer was however asked to leave or wait outside. Yet, it is possible that the presence of the credit officer might sometimes have constrained the answers due to the fear of that their comments would be passed on to Meklit.
The environment where the interview takes place is likewise important to consider. For instance, those interviews carried out in the offices of Meklit might sometimes have led to that the interviewee spoke less freely, possibly suspecting that they are under the supervision of the Meklit staff. During several occasions when visiting the interviewed person at their workplace, the interviewee further had no possibility to leave or take a break from work. Some interviews were thus carried out in public while the person was actively working, which might be have interfered with the confidentiality of the interview and led to further distraction.
Nevertheless, I do not deem that these issues have affected the dynamic of the interviews to any large extent. Given that the majority of the people interviewed still more than openly expressed their feelings about Meklit, it was obvious that they did not feel bothered by the lack of privacy. In addition, most of the people interviewed at their workplaces did openly state that they did not lose concentration or felt bothered by the occasional interruption.

2.4.5 The credibility of the research
As a researcher one must obviously assume that what the interviewees state are true, as long as it is not totally unreasonable or evidently false. In some few cases, it was however evident that the person was expecting certain personal gains from the interview or having other hidden agendas. This was especially the case when it came to questions about the efficiency
of Meklit and their services, as some seemed to expect that the research would indirectly help to solve their economic problems or other issues related to the organizational structure of Meklit. During these occasions, the feedback given from my Ethiopian translator was especially helpful in confirming personal doubts or in giving direct advice on how to handle the situation.

When attaining basic information about Meklit and their organizational structure, the general communication with the staff members also proved to be a problem during several occasions. Due to general unawareness and lack of verbal understanding, I was given different information from different employees of Meklit. Many of the staff members themselves were evidently unaware about their own organization and were thus unable to answer questions concerning for example the financial construction. Consequently, the information applied in this essay has been confirmed and verified by several sources as to ascertain its correctness.
3. Conceptual framework
This area represents the different aspects of the research area which will help to support the empirical findings. The main focus lies on the role and concept of the informal sector and the household, together constituting the core of this study.

3.1 The informal sector – Definitions and Features
Mapping the informal sector so as to grasp its composition, size and development has proved to be an exceptionally difficult task. The primary cause for this is the diverse definitions that have been used and the fact that statistical information has been collected on an irregular basis, while the reliability of data is still inconsistent. As the economical activities within the informal sector are thus not consistent or precise, there accordingly exists no acknowledged definition of what the informal sector really is (International Labour Office, 2002). Friedmann (1992) however broadly defines the activities carried out in the informal sector as work which takes place without the state's knowledge, having either an illegal or legal character.  
There are further some general acknowledged descriptions of the informal sector, the most important one perhaps being the definition used by the International Labour Organization (ILO) (International Labour Office, 2002).

3.1.2 The ILO and the informal sector
The term and concept of the “informal sector” was initially employed by the ILO in the 1970s'. During that time, the expression was primarily used when referring to subsistence activities of those working within the marginal segments of the economy. In the 1991 Report of the Director-General to the International Labour Conference, the informal sector was described as:

“Very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it (International Labour Office, Annex, 2002).”

The ILO-sponsored and organized Kenya employment mission in 1972 have also presented a more positive and innovative outlook of the informal sector in its first stages. The report
named “Employment, Incomes and Equality” especially played a significant role in defining the phrase and concept of the informal sector. Some of the most noteworthy statements go as follows:

“The popular view of informal sector activities is that they are primarily those of petty traders, street hawkers, shoeshine boys and other groups ‘underemployed’ on the streets of the big towns. The evidence presented in this report suggest that the bulk of employment in the informal sector, far from being only marginally productive, is economically efficient and profit-making, though small in scale and limited by simple technologies, little capital and lack of links with the other (‘formal’) sector. Within the latter part of the informal sector are employed a variety of carpenters, tailors and other tradesmen, as well as cooks and taxi-drivers, offering virtually the full range of basic skills needed to provide goods and services for a large though often poor section of the population.”

“Our analysis lays great stress on the pervasive importance of the link between formal and informal activities. We should therefore emphasise that informal activities are not confined to employment on the periphery of the main towns, to particular occupations or even to economic activities. Rather, informal activities are the way of doing things, characterised by:

(a) ease of entry;
(b) reliance on indigenous resources;
(c) family ownership of enterprises;
(d) small scale of operation;
(e) labour-intensive and adapted technology;
(f) skilled acquired outside the formal school system; and
(g) unregulated and competitive markets (Bangasser, 2000).

3.1.3. The term “informal sector” and its multiple denotations
Over the years, the term “informal sector” has more and more become questioned by international actors such as the ILO. Increasingly, it has been found to be an inadequate and perhaps misleading term to reflect such a dynamic and complex phenomenon, which is not actually a “sector” in the sense of a specific industry group or economic activity. Alternatively, it has therefore been argued that the term “informal economy” would be more appropriate as to cover the growing and diverse group of workers who operate informally. By
doing so, it would better specify the conceptual framework of informality, covering both employment relationships and production relationships. The term “informal economy” would hence better reflect the great diversity of the workers, as their problems and needs are obviously different and consequently needs to be dealt with separately (International Labour Office, 2002).

3.1.4 The enterprise approach: Its components and implications
In 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal economy, which was later included in the revised United Nations System of National Accounts (1993 SNA). In order to attain an internationally approved definition of the informal sector which was satisfactory to both labour statisticians and national accountants, it was agreed that the sector should be defined according to the features of the production units (enterprises). The categorization thus altered into more of an enterprise approach of looking at the informal sector, as opposed to the labour approach of defining the sector in terms of characteristics of the persons involved (Hussmanns, 2004).

In line with this approach, the term “enterprise” is used in a broad sense and basically implies “a unit engaged in the production of goods or services for sale or barter” (Hussmanns, 2004). In terms of legal organization, enterprises could be corporations, non-profit institutions, private unincorporated enterprises or unincorporated enterprises owned by government units. Apart from production units employing hired labour, the term also covers those that are owned and operated by individuals as self-employed workers, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner’s home, in private premises or without fixed location (Ibid).

Informal sector enterprises are further recognized as unregistered under specific forms of national legislation, such as tax or social security laws. Despite not being regulated, the majority of workers in the informal economy however produce goods and services that are legal, although there are evidently criminal activities (International Labour Office, 2002).

All in all, there are evidently various implications and viewpoints of the informal sector. Nevertheless, this study will mainly focus on the great multiplicity found in the informal sector and thus avoid the somewhat rigid definition used by the ILO. Instead of commonly referring to the informal economy as somewhat homogenous, it will be described and perceived in accordance with the term of the “informal economy” as mentioned above. The
enterprise approach of looking at the informal sector will thus be avoided, given that the main focus lies on the persons involved in informal activities. Accordingly, the informal sector will more rightfully be portrayed as highly diverse, highlighting the people’s daily activities and own perception of reality. The general stimulation of the informal sector will moreover be recognized as an integrated unity, of which households have various resources at their disposal; including the interrelations with the formal economy and other informal monetary sources like microfinance institutions.

3.2 The expansion of the informal economy in Africa

Despite earlier predictions, the informal economy has rapidly expanded world-wide, and especially in developing countries. In Africa for instance, informal work accounted for almost 80% of non-agricultural employment, over 60% of urban employment and over 90% of new jobs for approximately the past decade. Evidently, the informal economy can thus no longer be considered a temporary phenomenon, neither in Africa nor in other parts of the world. On the contrary, it is rather clear that the informal sector increasingly serves as a safety net for disadvantaged people in developing countries such as Ethiopia. The fact that the nature of the informal sector as is neither capital intensive nor requiring educational skills also means that poor people are drawn more to this sector than the formal sector (International Labour Office, 2002).

3.2.1 Demographic trends: The gender bias

In trying to understand the growth of the informal economy, one of the most important aspects is the demographic trends. In Africa, the growth of the informal economy is for example linked to issues of surplus labour. It is vital to have background information on matters such as the size and growth of the labour force, the education and skills of those entering the labour market and the rate of urbanization (International Labour Office, 2002).

When looking at the critical features of the informal economy, it is impossible not to specifically mention the gender bias manifest world-wide. In Africa and virtually all parts of the globe, female labour force participation has been expanding faster than that of men, both out of choice and out of necessity. In numerous African countries such as in Ethiopia, the share of informal work in total employment is for example significantly higher for women than for men, even in absolute numbers (Lika, 2007, p.72).

Nevertheless, women in both rural and urban areas continue to be the “great invisible hands” whose labor remains unrecognized in national economic statistics, which is clearly the contemporary situation of Ethiopian women (Lika, 2007 p.72). Women are for example more
prone than men to be in those informal activities that are undercounted, such as production for own consumption, home work and paid domestic activities in private households. Given their generally lower levels of education and skills as well as their common lack of resources, women frequently tend to end up in the lower end of the informal economy. They are also likely to act in small-scale economic units where their economic contributions often go unnoticed and are subsequently not accounted for, such as their engagement in agricultural activities (Ibid). Considering womens’ multiple roles as for instance farmers, household and community managers, traders and family takers, they are evidently prone to be confronted with work overload and fatigue (Negussie, p.81).

Women furthermore tend to be concentrated in activities which could be seen as an extension of their domestic chores, such as the sale of home-made beer and cooked groceries as well as the manufacturing of processed food products and cloth products. Men in contrast usually carry out more diversified informal activities such as manufacturing, trading, construction and carrying. As a result, they are more likely to expand their investment capital (Ibid).

3.3 The concept of the household and its role in production
In line with the theoretical framework of Friedmann (p.46ff), households are referred to as “the smallest unit of civil society”, broadly defined as “a residential group of persons living under the same roof and eating out of the same pot”.

As evident in the Whole Economy Model, the household is acknowledged as connected to other spheres in advancing their pursuit of life and livelihood. These include the social domain (religious, ethnic and territorial organizations), the economic domain (small business organizations, labour markets, and informal monetary sources such as MFIs) as well as the political domain (social movements and political organizations) (Ibid, p.52).

The concept of a household moreover includes the vital aspect of non-market relations, being made up by individuals who stand in relation to others by the principle of reciprocity and mutual obligation. These may for instance include family, neighbours and friends, but also members of local organizations. The moral obligations within these non-market relations thus constitute a “moral economy” of mutual exchange. Poor households in particular are for example characterized by their heavy reliance on non-market relations both for securing their livelihood and for pursuing their life ambitions (Ibid, p.45ff).

Friedmann further acknowledges households as productive and proactive units, in contrast to the neoclassical model of looking at the household as a consuming unit by which
production usually takes place outside the home (Ibid, p.32). As evident in the ILO approach of the household in line with neoclassical economics, households are not seen as being productive unless they sell the product of their labor on the market. Yet, the household's contribution to the national economy is in reality immense. If for example all the work currently done for free within households would be carried out against wages, it would significantly add to the national economy. Given that the household production for use are also constantly fluctuating, national income accounts are consequently inaccurate and fail to recognize the economic activities taking place outside the market (Ibid, p.46ff). Therefore, Friedmann's approach of how to perceive the household could be said to represent a more inclusive and objective illustration of the household and their potential in the informal sector.
4. Introduction to empirical findings
This chapter aims to highlight some economical and societal aspects in Ethiopia occurring during the research which needs to be further clarified. Background information about the country, its microfinance industry and the role of Community-Based Organizations (CBOs) are also included as to gain a better understanding of the empirical findings.

4.1 Ethiopia: Societal and Economical background

4.1.2 Population
Subsequent to Nigeria, Ethiopia is the second most populated country in Africa. The national population growth is exceedingly high, with the number of inhabitants estimated to increase with about 2 million residents annually. A large number of Ethiopia’s population consist of youth, with around four out of ten Ethiopians being below 15 years of age. The rapid population growth is however burdening the already strained resources currently existing (Utrikespolitiska Institutet, 2010).

Given that agriculture is the main source of national income, the large majority of Ethiopians reside within rural areas where conditions for agriculture are advantageous. Addis Ababa is the largest city in the country, where more than 3 million inhabitants currently live. There is however a clear shortage of accommodation, while the slum areas in and around the city are rapidly growing (Ibid).

4.1.3 Ethnicity and religion
The number of ethnic groups and languages existing nationally are yet unclear, but official records acknowledge the number of ethnic groups to be 64. In reality, there are however additional groups who are yet to be recognized (Utrikespolitiska Institutet, 2010). Some of the largest ethnic groups include the Oromo, the Amhara, Tigre, Somali and the Southern peoples and Nationalities (Guraghe, Walaita and others). Nearly two thirds of the national population belong to the largest ethnic groups; the Amhara and the Oromo (Foreign & Commonwealth Office, 2010).

Ethiopia is one of the world's most ancient Christian countries, and is the only nation south of Sahara where Christianity is not a colonial heritage (Utrikespolitiska Institutet, 2010). The predominant Christian orientation is the Orthodox Christianity, of which about 45 % of the population conforms to (Foreign & Commonwealth Office, 2010). Although Ethiopia is often associated with the Orthodox belief, nearly half of the population are however Muslims. The Islam faith is especially concentrated in the eastern parts of the country among the Somali and Afare peoples (Utrikespolitiska Institutet, 2010).
4.2 The economical situation

Like many other developing countries, the cornerstone of the Ethiopian economy is agriculture. Ethiopia's poverty-stricken economy is almost entirely depending on the profits made from the agricultural sector, as other large industries are yet to develop. The activities within this sector accounts for nearly 85% of total employment, and nearly 8 out of 10 habitants rely on agriculture as their main source of livelihood. The majority are however not included in the formal economy, but are cultivating for subsistence living. For export, the most critical merchandise is undoubtedly the Ethiopian coffee. Oil plants have become the second biggest export product, followed by khat (Utrikespolitiska Institutet, 2010).

Given its delicate nature, the agricultural sector however frequently suffers from drought and poor cultivation practices, resulting in national famine disasters on several occasions. The issue of food security is thus a constant worry and a major challenge for the Ethiopian government (Utrikespolitiska Institutet, 2010).

The low revenues in the agricultural sector could partially be explained by the government's regulations concerning ownership of land. Under Ethiopia's constitution, all land has been in the possession of the government who has been providing long-term leases to the arrendators. After the governmental change in 1991, the regime has however attempted to liberalize the economy by deregulating the financial market as well as the agricultural sector. Yet the land remains in the hands of the government (Utrikespolitiska Institutet, 2010).

The Ethiopian labor market is further strongly characterized by the high rate of unemployment as well as underemployment. The majority of the Ethiopian population earns a living outside the formal labor market by for example engaging in self-catering professions in rural areas. Despite the high unemployment, there is however a large shortage of personnel to qualified professions. The main cause for this is that many highly educated nationals move abroad for political or economical reasons, leading to the so called ”brain drain” effect (Ibid).

4.3 Microfinance in Ethiopia

4.3.1 General background

Currently, there are seven major sources of loans and other financial services in Ethiopia. These are namely commercial banks, cooperatives (such as savings and credit cooperatives), informal finance (such as money lenders, traders and relatives), semi-formal finance

2 Khat is a shrub which is commonly grown in East Africa. It has a stimulating and euphoric effect when chewed.
(including CBOs such as iqqubs, iddirs, and mehabers explained further below), NGOs as well as government projects and programs. Since the early 90’s, there has however been a growing awareness of the need for sustained access of financial services to the poor, which the majority of the above sources have thus far failed to provide. Informal channels such as traders, moneylenders and iqqubs typically charge high interest rates for their loans, consequently leading to lower returns in investment (Amha, 2008, p.8ff).

Learning from the low transaction costs and high marginal rates of return on capital found in the informal sector, microfinance has therefore been viewed as a more innovative and sustainable alternative in delivering financial services more efficiently. During the past years, it has become one of the most prominent mechanisms in addressing poverty countrywide, used in development strategies both by the government and its development partners (Amha, p.5). Despite putting considerable effort in providing financial services to the disadvantaged of society, there are nevertheless numerous challenges for the microfinance industry as described further below.

4.4 Organizational structure and ownership formation
In Ethiopia, microfinance is still an infant industry which is currently operated by approximately 30 institutions. The ownership structure of the microfinance institutions (MFIs) is characterized by a mixture of public organizations, NGOs, associations and individuals (Ayana et al, 2003 p.1).

4.4.1 The National Proclamation on Microfinance
In 1996, the Microfinance law (Proclamation No.40/96) was issued as to provide financial services to those unable to attain these services from the bank. Through the implementation of the Microfinance law, the NBE was given sole authority to regulate microfinance institutions in the country, whereby all active MFIs were further registered as share companies. As a result, all MFIs are now governed by board of directors who are elected by their respective assemblies (Amha, 2008, p.38ff).

In accordance with the Proclamation, MFIs are obliged to be wholly owned by Ethiopian nationals and/or organizations owned by Ethiopian nationals. International NGOs are thus prohibited of owning and operating microfinance activities, despite the fact that most MFIs have attained their initial capital from them. This could be particularly questioned considering the high level of poverty in the country, with the overall objective of MFIs being poverty alleviation. International NGOs could for example have contributed to a better inflow of resources and help to support new innovations in the development of the sector (Ibid, p.4ff).
The exclusion of foreign owners has consequently led to the involvement of nominal shareholders, who in turn lack any real stake in the MFIs. If a MFI face monetary issues, it has for example been confirmed that the majority of shareholders would be unable to raise additional equity capital. The issue of ownership and accountability could thus lead to serious problems in the long-run as MFIs expand their business (Ibid, p.4ff).

4.5 Review of the financial sector in Ethiopia
After the change of government in 1991, Ethiopia has experienced a radical transformation in policy towards building a market-led economic system which has consequently influenced the development of the financial sector. With the aim of increasing overall economic growth, macroeconomic stability and competition, the government initialized a liberalization and reformation of the financial sector. The key reforms that have had direct impact on the financial sector include for example the Monitoring and Banking Proclamation (No 83/94), which reinstated the institutional autonomy of the National Bank and enabled it to supervise the financial institutions within the country, including microfinance institutions. Private banks and insurance companies were further required to be licensed as share companies in order to carry out banking and insurance activities (Amha, p.39).

Currently, the financial sector in Ethiopia is characterized by the concentration of financial institutions in Addis Ababa and other few big urban centres. The diversification across regions and sectors are still very limited. Predominantly, the financial sector largely remains closed to foreign investment and lacks both depth and width in the services they provide and the types of clients they serve. The government is however still trying to further liberalize the financial sector, despite the slow pace (Ibid, p.39).

Nevertheless, the financial sector in Ethiopia remains shallow with a small banking sector and almost no capital markets. It mainly comprises of the NBE (The National Bank of Ethiopia), the insurance companies, the conventional banks and the microfinance institutions. The role of microfinance institutions is therefore significant, especially as conventional banks have limited access to reach the majority of the population residing in rural areas (Ibid, p.40).

The issue of inflation rate is further important to consider in analyzing the general profitability of MFIs as well as when putting this in relation to the size of interest rate, as described in the subsequent chapter. According to Ethiopia’s Central Statistical Agency in March 2009, it was estimated that the year-average inflation in Ethiopia would be 36.8 % by June 2009. By that time, it was confirmed that the year-on-year inflation had fallen to 23.7 %, remaining on a clearly downward trend. It should however be noted that falling inflation does
not imply an end to the high price levels still restraining most consumer incomes. A reduction in inflation simply means that the growth rate of prices is slowing down, but it says nothing of the high price level at which this slowdown is occurring. Given the jump in prices, real incomes have thus risen by much less than is implied by simple measures of nominal GDP per Capita (Access Capital, 2009).

4.6 Demand and supply of financial services

In 2009, the Ethiopian population was estimated to be around 82,800,000 million (Landguiden, 2009). If it is presumed that the average family size in Ethiopia is 5 people, this subsequently implies that there are more than 15 million households in the country. If it is further assumed that half of the households are not financially productive and one targets 1 person per household as in need of micro-credit, it means that approximately 7.5 million will require these services. With these figures in mind, it is thus clear that the potential demand for micro-credit in Ethiopia is enormous. Yet, there is a scarce supply of financial services to meet the needs of poor households (Amha, p.8).

At present, Ethiopian microfinance institutions are obtaining their loan capital from different sources such as savings mobilized by MFIs, grants from donors as well as programs such as RUFIP\(^3\). Yet, these resources have been found to be insufficient in meeting the current large demand for loans (Ibid, p.31).

As for the financial products they provide, many of the Ethiopian MFIs offer similar financial products and mainly use the group lending methodology, while individual lending is employed to a limited extent. Some of the loan products provided by MFIs include agricultural loans, consumption loans, asset/housing loans and specific (other) loans (Ibid, p.21ff).

4.7 Challenges for the microfinance industry

Despite all the efforts in improving poverty eradication and economic growth in overall, Ethiopian MFIs are yet to face numerous obstacles in improving their operation and organizational structure. The major barriers that are typically identified are the lack of loan capital, limited outreach and capacity, high risk, inflexible financial products as well as legal and regulatory constraints (Amha, p.56).

\(^3\) RUFIP (The Rural Financial Intermediation Program) is a program financed by and the Ethiopian government and other national organizations to support MFIs and cooperatives, and is mainly allocating loanable funds as well as smaller percentages used for capacity building (Amha, p.35).
4.7.1 The issue of loan funding
Among the key issues frequently pointed out is the lack of loan capital, which is aggravated by inadequate donor funding and lack of equity capital. As a consequence of the current microfinance legislation, there are limited opportunities for MFIs to access foreign capital and attract social investors. There are also no solid linkages between MFIs, commercial banks and insurance companies, thus hindering the microfinance industry from being integrated into the wider financial markets (Amha, p.56ff).

4.7.2 The governance structure
As mentioned above, the requirement of MFIs to be licensed as share companies has affected their operation in various ways, particularly in the issue of governance. The majority of the institutions are for example facing governance problems due to their ownership structure. Even if the existing MFIs do meet the corporate requirements of a company in accordance with the Proclamation, they in reality share basically nothing with a business company. This becomes especially apparent considering matters like transfer of shares and appropriate pricing of their products. As a result, there is hardly any material incentive for board members to undertake responsible leadership (Amha, p.57).

When issuing the Proclamation, the initial assumption was further that clients of the MFIs would eventually come to own the institutions by buying shares. Yet, this has not been realized as the majority of MFIs are still to transfer their shares to clients (Ayana et al, p.1ff).

The total reliance on NBE to supervise and provide MFIs with technical support has also proved to be problematic given the bank’s limited capacity. At present, there are no other government departments or institutions which can provide support to the microfinance institutions (Ibid).

4.7.3 The restricted width of microfinance operations
In Ethiopia, poverty reduction has been a major concern of the microfinance industry. Accordingly, all nationally registered MFIs have tried to apply new financial methods to reach families below the poverty line (Amha, p.49).

Nevertheless, the extremely poor and disadvantaged groups of society are often excluded given the nature of the group-lending methodology and the stiff requirements for accessing loans. Although the methodology helps to address the lack of property collateral of poor
households, its general nature inevitably screens out “the poorest of the poor” to access loans from an MFI (Ibid, p.58).

Furthermore, the clear under-representation of women has been widely recognized among many microfinance institutions, which is why the industry has given first priority to enroll women in their programs. They have acknowledged the importance of increasing women’s participation in the labor market and to address these issues in the fight against poverty (Amha, p.49). Yet, the limited outreach remains a serious impediment issue for Ethiopian MFIs, especially with respect to women. At present, it is estimated that MFIs provide only about 20% of the potential demand of poor households. In addition, only about 6% of smallholder farmers in Ethiopia have access to the credit services of MFIs.

The unmet demand in rural but also urban areas thus remains gigantic. Among the issues to be resolved as to increase the outreach in delivering financial services includes dealing with the weak institutional capacity and the poor communication systems, gradually leading to operational and financial sustainability (Amha, p.58ff).

4.7.4 The issue of risk and capacity building
Regarding risk matters, it is clear that the performance of MFIs is moreover affected by issues such as drought, seasonality of rural activities and local market failures.

The lack of capacity building is further a serious issue for the development of the microfinance industry. This is especially manifest in terms of trained manpower, equipment, offices, transport facilities and research. At present, there are no specialized microfinance training institutions able to provide trained manpower for MFIs. Adding to this is the weak marketing strategy and lack of market research, which consequently makes it difficult for MFIs to address the needs of their clients (Ibid, p.58ff).

4.8 Community-Based Organizations (CBOs)
In both rural and urban areas in Ethiopia, it is common that neighboring family households organize themselves and develop their own institutions, popularly known as Community-Based Organizations (CBOs). The nature of the CBOs highly varies from social, religious and financial concerns, but are all aimed to address the needs of the people. In most communities, membership in traditional community associations such as iddirs, iqqubs and mehabers are very common. More importantly, CBOs also play a crucial role in savings and beneficiary mobilization in the informal financial sector (Negussie, 2004, p.34).
4.8.1 Iddirs

An Iddir is the most common informal institution in Ethiopia, common in both rural and urban areas. It is primarily a burial society whereby savings are made to cover the cost of funerals, but also weddings. Whenever death occurs among its members, the organization raises an amount of money to handle the burial and other related ceremonies. It further aims to address different community concerns and provides various services to its members. Membership is regularly by residence, whereby members pay a small monthly fee (Pankhurst et al, 2009).

In general, individuals tend to join iddirs when starting to have a family. Membership of iddirs is also increasingly widespread particularly among the poorest members of society, who are in most need of their support. Only new migrants without a fixed address and those who cannot afford the fees (the most impoverished of society) lack membership, and are consequently without the only form of social insurance that currently exists in Ethiopia (Ibid). Most of the associations are however not officially registered due to the high cost of registration. As a consequence, most iddirs remain unable to open bank accounts, obtain credit, or become partners with the government or NGOs in development activities (Ibid).

Concerning its organizational structure, nearly all iddirs have a secretary and a treasurer as well as a chairman and judge. Due to its impartial membership structure, it is often said to be Ethiopia’s most democratic and egalitarian social organization where membership is open to anyone regardless of religion, socioeconomic status, gender and ethnic affiliation. Originally though, iddirs were organized by ethnicity, kinship and religion (Pankhurst et al, 2009).

Apart from supporting members in funerals and/or weddings, iddirs also functions to establish and maintain good relationships among its members, carrying out development projects and coordinating members for community sanitation and crime prevention. In some iddirs, support is also given to unemployed members.

During the current rule of the Ethiopia Peoples’ Revolutionary Democratic Front (PRDF), the potential of iddirs as a vehicle for development has been further acknowledged by both the government as well as by nongovernmental institutions (NGOs). From the government’s point of view, the general recognition of civil society’s role in development has led to that iddirs have been accepted as possible partners for successful and sustainable development (Pankhurst et al, 2009).
4.8.2 Iqqubs

Iqqubs have played a significant role especially for the informal sector in Ethiopia. An *iqqub* is a traditional saving and credit association, of which its purpose is basically to pool the savings of their members in accordance with the rules established by the group. Members usually deposit contributions on a weekly or monthly basis, and lots are drawn by turns whereby the members can purchase the winner’s lot by paying a premium (Pitamber, 2003).

4.8.3 Mehabers

Another common CBO is the *Mehaber*, which is a religious, informal institution that aims to raise funds for medical and burial expenses. It is widespread among the Orthodox Christians of Ethiopia, as it typically draws its members from the church. Members usually meet on a monthly basis for food and drink, and commonly support each other in times of difficulty (Pitamber, 2003).
5. Empirical findings
In order to better understand the information attained from the interviews, it is necessary to look into the basic regulations and organizational structure of the Ethiopian microfinance institution that these informal workers belong to, namely the Meklit Microfinance Institution (MMFI). Given that most of the people interviewed frequently mention various topics related to the organization of MMFI, it is important to highlight the main areas of concern as identified by the informal workers themselves. It is also crucial as to better comprehend the basic structures of an Ethiopian MFIs and how they usually operate. Here thus follows a general presentation of Meklit including their common objectives and undertakings.

Meklit Micro Finance Institution (MMFI)

5.1 Organizational structure
Meklit was established in February 2000 when it received its legal personality as a national microfinance institution, following the National Bank Policy of Ethiopia and the National Proclamation no 40/1996.

The management of MMFI consists of a board of directors and a general manager, elected by the general assembly of share holders (Mengistu, 2000). The main shareholder of Meklit is Progynist, also known as Zema Setoch Lefithih, which is an indigenous women empowerment NGO set up in 1997. It is a former cooperation partner to Meklit and used to offer training facilities to its clients. Currently, Progynist are holding 90 % of its shares. The remaining 10% are held by 9 individual holders, being the nominal shareholders (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-12-09). To sustain its financial activities, Meklit are given economical support by its main cooperation partners, which are the Rural Financial Intermediation Programme (RUFIP), The Arsibale Rural Development Project, The Development Bank of Ethiopia and other commercial banks (Amha, 2008, p.35).

The main partner of Meklit is the Association of Ethiopian Microfinance Institutions (AEMFI), whose aim is to create an institutional structure to serve as a national forum and network the activities of MFIs (Ibid, p.48).

5.2 Areas of operation
Currently, the institution is operating in the city of Addis Ababa, Nazareth (Adama), Dera, Arsi-Robe and Butajira towns, which includes Dodota and Sire Woreda. In all areas, there are also sub-branches working under them.
The head office is situated in Addis Ababa, where 5 local divisions are currently operating. These areas include Ledeta, Tesfa Kokob, Greji, Kolfe and Addis Ketema. In addition, the local office in Sebeta and Endiber located in the rural areas are included in the branch of Addis Ababa (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-12-09).

5.3 The vision
The main objective of MMFI is to empower disadvantages groups of society, in particular women, by enabling them access to sustainable credit facilities. In the long term, the vision is to increase their power of decision-making as well as to contribute towards the restoration of their dignity and respect. In order to achieve this vision, Meklit is committed to address the financial and related needs of underprivileged people by encouraging them to engage themselves in micro and small businesses as well as agricultural activities in urban and rural areas. This mission is defined in step-by-step approaches, which are expected to gradually lead to operational and financial sustainability among the clients.

One of these objectives is to mobilize saving by using different techniques for the clients to improve their business potential. Another is to create employment opportunities and promote income diversification by providing permanent access to credit, saving and other support services (Mengistu, 2000).

As to the general strategies of the institution, the aspect of long-term sustainability is a key objective as to make profit to cover the costs of operation. Massive mobilization of saving is also undertaken in order to increase the loan demands in its service areas. In all its operations, priority is given to women by for example forming groups on a gender basis. The aim is to constantly strive to increase the percentage of women clients to about 70 % (Ibid).

5.4 Target group profile
As defined by the general vision, MMFI is dedicated to address the financial needs of farmers, micro and small business operators as well as those willing to conduct other income generating activities. Normally, the target groups of Meklit should fulfil the following criteria:

- Age should be between 18 to 60 years of age
- The client should have a capacity to engage in viable income generating activities
- The client should not have access to formal banks
- The client should have a good character and integrity. The person must also be accepted by the members of the group he/she belongs to.
- He/she must be a member of a legally registered cooperative (in the case of a cooperative)
- Those who are willing to form solidarity groups (for group methodology)
- He/she must be ready to accept the operational rules and procedures of the institution and be willing to enter into a loan agreement (Mengistu, 2000).

5.5 Types of services

5.5.1 Credit
As to the financial services of MMFI, the main facility offered is that of credit. To use this service, clients are required to pay it back with interest and service charges. The length of the repayment period depends on the size of the loan and can be repaid on a weekly, monthly or yearly basis. For instance, a loan of less than Birr\(^4\) 5,000 should be paid within one year, and a loan exceeding that amount is to be paid within two years (Mengistu, 2000). There is no maximum amount of borrowing stated by the institution, and no minimum amount of borrowing either.

The most common form of loans is that of group loans, which many prefer due to the possibility of helping each other out to repay the loans (Legesse, Meklit staff in Mexico branch, Addis Ababa, 9-11-09).

The credit service is based on group guarantee or on individual basis. It is also available as a seasonal loan as well as for cooperatives and civil servants. Currently, the sectors that Meklit is providing loans for are agricultural activities, production, petty trade, service and consumption (Sori, Meklit staff in Mexico branch, Addis Ababa, 5-11-09).

The interest rate is currently 20 % for group loans, 22 % for individuals, 25 % for seasonal loans and 16 % for consumption (e.g. for building a house.) Apart from the interest rate, Meklit charges a service charge of 2 % annually for individual and group loans. For seasonal loans (as explained further below), Meklit charges 4 % yearly (Mengistu, 2000).

A client who fails to pay on the exact due date is required to pay a penalty fee of 5 % of the loan overdue amount. However, if a client manages to pay the overdue loan within a week’s time, then he/she is free from penalty. If a client cannot repay his/her loan, Meklit has the right to bring the client to court or to seize any valuable goods that he/she may obtain (Ibid).

\(^4\) 100 SEK = 189.65 Ethiopian Birr (International Currency Converter, 2010, Last updated 29 April 2010)
5.5.2 Mandatory and Voluntary saving
Besides the credit service, Meklit guarantees that borrowers and non-borrower clients save some part of their income using two different options; namely mandatory and voluntary saving. As for mandatory saving, clients are required to regularly save a certain amount determined by the institution. The mandatory saving should be deposited before the client takes his/her first loan and continues until the client leaves the program. Apart from building the future capital of a client, this type of saving is also used to guarantee part of the loan of the borrower or the group he/she belongs to. Another form is individual voluntary saving, where the client may deposit a certain amount of money on his/her own free will (Mengistu, 2000).

The mobilization of savings has two fold advantages. Firstly, it is the means to build the capital of the client, which will eventually break the vicious cycle of poverty. The second advantage is that the higher the saving of a client, the lesser the risk of defaulting, as the saving will be indirectly used to off-set the unpaid loan of the client. Apart from being used as insurance against indebtedness, it could be used in cases of emergency such as for medicine, school or other expenses (Ibid).

5.5.3 Non-financial services
Meklit is further aiming to provide non-financial services to its clients in form of technical assistance such as business training, counselling, networking and information concerning market conditions. Previously, the NGO Progynist used to offer technical assistance and training to its clients. Currently though, Meklit is suffering from lack of funds and are thus unable to offer any assistance to its clients or to further any cooperation with Progynist (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-12-09). The objective is however to network with other NGOs or specialized institutions to facilitate training for its clients, based on the identified needs. Efforts are made to cover the cost of training by NGOs and training centres, as Meklit as a microfinance institution obviously cannot engage itself in training that exhausts its resources and inflate its program costs (Mengistu, 2000).

5.6 Level of clients’ business
Even though Meklits’ clients are micro and small business operators, there is still a significant difference in the size of the business they own. To determine an appropriate loan size, it is therefore important to categorize the businesses of clients by the volume of capital employed, the turn over of the business and the size of their employees. It can thus be helpful to
differentiate between three levels of businesses, based on the types of activities. The three levels can be stated as follows:

**Level A:** Small *gulit*\(^5\), *injera*\(^6\) baking and selling, small tearooms, mobile vendors, charcoal selling businesses, local beer vending etc.

The business of such clients normally generate less than Birr 120 per month and the clients are not expected to have any other source of income.

**Level B:** Small shops, food item production and distribution, hair dressing, small hotels, tailoring, shoe repairs etc.

The clients of such category are expected to earn a monthly income of about Birr 350.

**Level C:** Clients of such category are mostly engaged in production process like wood, metal works and the like. Similarly, clients from other sub-sectors such as agriculture, retail and services are expected to be included in this category.

The income of such clients can generate more than Birr 350 per month (Mengistu, 2000).

### 5.7 Client registration

To take part in the microfinance program, potential clients have to pass through a preparatory phase to understand the norms, objectives and principles of Meklit. The aim is to strengthen the capacity of forming groups and for them to start saving and initiate the first loan request.

The most important issue is that clients should be facilitated to choose their own groups freely and be clear about the responsibility they take in forming the group. All clients must be convinced that their loans will be paid on time (Mengistu, 2000).

In consultation with the group members, the credit officer will also classify each business into one of the three categories (level A, B or C). The credit officer will further give recommendation on each of the loan processing documents (Ibid).

### 5.8 Group lending

For group loans, potential clients are recommended to form groups ranging from 3 to 7 members (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-

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5 A *gulit* is a place where people can stay and carry out their trading activities, mostly sitting in the open air

6 *Injera* is an Ethiopian flat bread made out of *teff* flour
The group shall guarantee the loan and at the same time co-manage the saving and credit program.

**Basic principles of group formation**

- Group members should be from the same *kebele* or Peasant Association (PA)
- Group members should unanimously accept each other
- The membership of the group shall be decided by the group
- Groups should actively participate in the co-management of the program and equally share their duties and responsibilities (Mengistu, 2000)

**Rules in the group formation**

- The group shall be formed of people who know and have confidence in each other
- Each member of the group should accept his/her duties and responsibilities
- Household members and/or close relatives that share the same income can not be organized in the same group
- Members of one group should know each other in residence and/or business areas. They should be able to visit each others’ business easily and without incurring additional costs or wasting time
- Group leaders should be those who are accepted by all members are ideal in their character and competence.
- Each member should agree to follow the policies, rules and regulations of MMFI
- Groups should be formed of people of similar economic status
- Clients should bring a letter of recommendation from their *kebeles/Pas* they are residing in (Mengistu, 2000)

**5.9 Individual loan**

Individual loans are usually given to civil servants and are exceptional among the majority of Meklit’s clients (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-12-09).

For individual loans, potential members are required to adhere to the following pre-conditions:

- Clients should agree to come to the nearest office to access loan and make regular loan repayments.
• Clients should have a personal guarantor with known personalities and sufficient level of income to pay loans in case the borrower fails to do so. The personal guarantor should bring a letter from their organization or workplace, stating that they can be guarantors for the applicant clients. He or she should be governmentally employed, but if not, the client must have two personal guarantors with a monthly salary of at least Birr 500. Otherwise, clients are required to bring business license and certificate of personal property (mainly fixed assets).

Procedure for approval of individual loans:
• The individual client shall submit application together with the business plan,
• The unit manager shall give his or her opinion concerning the viability of the business to the branch manager,
• The branch manager and his or her staff shall review the application and approve the loan (Mengistu, 2000).

5.10 Seasonal loan
Seasonal loans are provided for mainly agricultural activities where the business and the production will depend on the season. The loans are not repaid regularly, as the client will repay their loans after the peak of the season when they have gained profit (Alemu, Meklit planning and monitoring officer in Mexico branch, Addis Ababa, 8-12-09). MMFI provides seasonal loan for its clients on individual or group basis. The procedure for approval of seasonal loans is the same as for individual loans (Mengistu, 2000).

5.11 Loan cycle
Meklit gives credit for several cycles/stages. After taking the first loan, the other successive loans are called repeat loans. A client graduates to successive and higher loans if:

• The client and the group members have paid the preceding loans successfully according to the rules and regulations of the institution.
• All group members have repaid their loan without any delay.
• The business he/she requested loan for is found to be viable and feasible.
• The request is approved by the group he/she belongs to and the staff of MMFI.

The size of the loan will depend on the loan policy of Meklit, the level of loan cycles as well as the capacity of the business. The length of the repayment/loan depends on the cycle of the
loan and the nature of the business. Very small business operators with small loan sizes can pay the loan with relatively shorter period of time, while the heavier loans require more time (Mengistu, 2000).

5.12 Arrears and defaults
Any loan which is not collected on the agreed due date is considered as an arrear. The seriousness of the arrears is determined by the intention of the client and its age. The older the arrears, the higher the risk associated with them.
When a client misses repayment of loans, the following measures will be taken accordingly:

- Group members are encouraged to pay the loan on behalf of the defaulting member and then claim the money afterwards. This would thus protect the client from paying penalty.

- If the group fails to recover the loan, then the credit officer and the rest of the group should go to the residence or working areas of the client and secure payment. If the arrear is still not paid after the visit, a written caution will be given to the client who misses payment. The kebele that the client belongs to and other stakeholders will be informed about the arrears. The saving of the rest of the group members will then be used to cover the unpaid balance.

- If the savings of the client and the rest of the group are not enough to cover the loan and the client has no other alternative source, the group members are required to cover the unpaid loan balance from other sources (Mengistu, 2000).

If a client faces problems which are beyond his/her control such as natural calamities (drought, earth quake and floods), accident and sickness, the client may apply for rescheduling of the loan. For a loan to be rescheduled however, it must first be recommended by the group and the centre and supported by the unit staff members (Mengistu, 2000).

5.13 General statistics of the Addis Ababa branch
According to the statistics of MMFI in 2008, the Addis Ababa branch confirmed having 36.7 % female clients and 63.3 % male clients. It was also noted that over 70 % of the clients in the local division of Ledeta in Addis Ababa branch failed to repay their loans on time,
whereof the majority of these clients are men (Kore, Meklit staff in Mexico branch, Addis Ababa, 9-11-09).

From these figures, it can thus be implied that microfinance institutions such as Meklit not only need to increase their outreach vis-à-vis women, but also to re-evaluate their current repayment system and service charges such as interest fees. The high number of default clients can consequently be said to have a negative effect on the potential of informal activities, which will be elaborated further in the analysis.
6. The interviews
This chapter will deal with the main themes and characteristics of the informal sector as identified from the interviews. Given the abductive nature of this study, the objective is here to describe the general patterns and structures occurring in the process of this study. The basic reasonings attained as well as their general critique of Meklit will further help to examine the question formulation in the following analysis.

Throughout this chapter, the informal sector will be referred to in various terms such as “informal workers”, “interviewees”, “clients” (of Meklit) or as “household members”. This serves to demonstrate the various roles that these individuals play in the different circumstances they are exposed to.

To gain a better insight of the various activities found in the informal sector, some general examples will firstly be demonstrated. The different interviews carried out in various areas will also serve to illustrate the diversity of economical activities found in rural and urban areas. It will also help to gain an increased understanding of the lives, ambitions and general thoughts as expressed by the informal workers themselves.

**Interviewee 1: Student and kiosk vender**
Carried out in Ledeta district (Addis Ababa), 13-11-09

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We walk along a small slum alley in Ledeta with the credit officer of Meklit. The first client we are introduced to is a young boy, standing inside a small kiosk full of various items such as bread, eggs and sweets. The credit officer leaves the area, and we start the interview standing in front of the kiosk. A small radio with Ethiopian music is playing in the background, and customers come and go while we begin our discussion. People in the neighbourhood stare curiously at us, but are polite enough not to disturb during the interview.

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Interviewee 1 is 21 years old and lives in Ledeta (Addis Ababa). He lives in a small house with his parents as well as his 3 brothers and 2 sisters. Two of his brothers are students, while the other is working at a factory. His sisters are at home with his parents, who are unemployed. He is therefore the main financial provider for the household, as his brother earns sporadic, yet insufficient incomes to support the family.

Concerning religious and ethnic background, he is an Orthodox and comes from the ethnic group of Amhara.
For the past 2 years, the interviewee has been running the kiosk while simultaneously studying in college to attain a diploma in accounting. He is now in his second year and is funding his education through this business. The reason why he has chosen this activity is because he has an interest in selling and finds his job socially interactive. At the same time, he has the possibility to combine his work with studies. The working hours are usually from morning until evening, and he usually studies while working. His younger brother usually helps him out as well, thus confirming the vital role of the household.

As for the general costs of the business, it is confirmed that the interviewee pays for license as to legally operate the kiosk, being governmentally owned. He also pays for taxes and transportation of goods. Since he is supporting the whole family with this business and paying for the school expenses, the profits he make is only covering the daily expenses. He is therefore not able to save any financial incomes. His future ambition is however to finish his education and advance in his career in accounting as to further his business.

Concerning the nature of the loan, the interviewee has been a client at Meklit for two years and is taking a group loan along with two other friends. They are neighbours and have the same religious orientation, but do not come from the same ethnical group. One of them is running a video shop and the other is a carpenter. There have however been small disagreements within the group, as one of the members has been unable to repay her loans on time.

When comparing his current life situation to the life he lived before his engagement in microfinance, he judges that his life has considerably improved. Before, his education was often interrupted since he sometimes lacked money to pay for school fees. He is now also able to better provide for the household, especially since both of his parents are now unemployed.

When asked about his general opinion of Meklit, he further deems that the staff has not given him or the other group members any deeper knowledge and training concerning the system of microfinance. They are also unaware about how much they pay in interest rate.

**Interviewee 2: Former constructor and metal worker**

Carried out in the rural small town of Emdibir (Southern Ethiopia), 19-11-09

_We walk along the small centre of Emdibir, and arrive at a small house with one cow grazing outside. There are full of metal parts and wrecked tires lying around and it is clear that most of the things are yet to be repaired. A small baby girl around 2-3 years old with long braids is_
sitting on the red soil, dressed in a glittering, though dirty dress. A middle-aged man is standing bending over one of the machines, smoking a cigarette.

As we are about to start the interview, we move to the door step of the house as to avoid the hot sun. There are not enough chairs for us all, but the man insists on sitting on the ground. The baby sits on his lap, while he continuously smokes his cigarette.

Interviewee 2 is a former constructor and metal worker at the age of 55. He originally comes from Ambo in the southern Oromo region, but has been living in Emdibir for the past 15 years. His family consists of his two wives and 10 children, of which the first wife is residing in Addis Ababa along with their 6 children. All of them are currently attending Primary and Secondary School. The first wife has her own house, of which she rents to people as to make an income. She also has 4 milk cows, which she uses to produce milk for the family.

When he moved to Emdibir, he got a second wife who he has 4 children with. She is a housemaid and the eldest children are currently enrolled in a public Primary School.

As to religious and ethnic background, the interviewee is an Orthodox and belongs to the ethnic group of Oromo. He also has one iddir. His level of education is quite low, as he only reached up to level 8.

Concerning his earlier and current productive activities, the interviewee used to work as constructor in Addis Ababa where he built different types of houses. He later on came to Emdibir to construct a catholic office, and decided to stay there. The money he got from building the office was used to build his current home and buy a small piece of land.

Following this period, the interviewee decided to take loans from Meklit as to start his own small business of metal work and fixing tires outside his home. He therefore took an individual loan, which was about 3 year ago.

The machine he invested in for metal work however got broken, and he was forced to take further loans to be able to repair it. Sadly enough, the machine broke down once again and he was consequently unable to repay his loans and continue the business. As a result, he is now largely in debt to Meklit and must repay around Birr 12,000 before taking any further loans. On top of this, he is required to pay a monthly penalty fee as well as interest rate. According to the interviewee, the only option he has to improve his current situation and repay his loans is to sell his house and go to Addis Ababa to look for work.

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7 According to the Ethiopian school system, primary education starts from level 1-8. Secondary education continues from level 9-10, whereas level 11-12 equals to comprehensive secondary education.
However, Meklit is now considering to overtake his house as it is the only valuable asset he possess. Consequently, he is left with no option than to stay in Emdibir and ask his friends and *iddir* for help.

Currently, the interviewee is cultivating *teff* (the seed used to make *injera*) and owns one milk cow, which is his only means of feeding his family. Yet he has to pay for the daily expenses of his family in Emdibir, such as food and school materials. He is also paying for the school fees of his children in Addis Ababa. Per month, he usually pays Birr 10, which is in total Birr 60 for all the 6 children. According to the interviewee, there is no significant cost for the public education of his children in Emdibir thus far.

Given the problem of repayment and lack of funds to adequately provide for his family, he is now feeling increasingly frustrated and is taking both cigarettes and *khat* to remove the stress. Before, he used to live a good and comfortable life and had enough money to provide for his family by working as a constructor. Now, he feels that his life is miserable as he is uncertain of how to repay his loans and improve his family’s living conditions. Yet, he realizes that the problem of repayment is his own fault given that the machine broke down. He therefore does not blame Meklit for his current situation, but is begging them to please not take his house since it is his only financial asset. Besides, his family have nowhere else to go.

*During the meeting, the interviewee finds it hard to hold back the tears and frustration he feels about his current life situation. Me and the interpreter feel miserable of not being able to help this family any further, but decide to purchase some basic necessities to give as a gift, although we are aware that it is far from enough from a long term-perspective. We feel particularly sorry for his small girl, as it is clear that the man rather spend his money on khat and cigarettes than proper food and clothes for the children. The man is visibly touched by the items we give him, and salutes us in the name of Jesus as we leave the house.*

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*Teff* is an annual grass typically grown in Ethiopia, of which the seeds are used for the making of *injera*
**Interviewee 3: Merchant selling mesob (the basket mainly used for preserving injera)**
Carried out in Mexico district (Addis Ababa), 21-11-09

We walk along one of the small, narrow alleys inside the Mexico district of Addis Ababa along with the Meklit credit officer. As we approach a small house (or what rather looks like a tin shed), we are presented to a middle-aged woman who comes to greet us. She welcomes us inside the small dark room, where one of her daughter is busy chopping onions for the preparation of today’s meal. A large picture of the holy Maria is hanging on the wall, and several white chicken hens are walking around freely on the earthen floor. We sit down in the tattered sofa set, yet unaware of the numerous flees which will keep both me and my translator wide awake the following night.

Interviewee 4 works as a merchant, whereby she prepares and sells the traditional basket for preserving and carrying injera (commonly known as mesob). She lives in Mexico district and widely estimates her age to be around 40, though she is not sure of her exact age.

Her household consists of her 7 children, of which the youngest ones are twins in the age of 14. The twins are attending private school and the others are working. Yet, they are unable to support the household in any higher extent, according to the interviewee. It is therefore chiefly a female headed household, as her husband passed away some years ago. As to ethnic and religious background, the interviewee is an Orthodox and belongs to the ethnic group of Guraghe. She also has one iqqub (a traditional saving and credit association). When asked about educational level, she states that she is illiterate.

Previous to her current profession, the interviewee used to bake and sell injera as well as a traditional homemade beer called tella. For the past 4 years that she has been a client at Meklit, she has however been making and selling mesob, which she sells at the market in Merkato. She is taking a group loan along with her daughter and neighbour, which have all been able to repay their loans on time. Her daughter is running a local beauty salon and the neighbour is selling different types of products, such as vegetables, hen and grass.

Her general costs are the monthly rent of Birr 300 for her selling place at Merkato as well as taxes. As for the issue of license, she states that the owner of the place pays for license. There is also no transportation fee as she walks by foot to Merkato about 5 km away from her home.

To make the basket, she further pays for the grass, skin and the plastic. There are 3 ranks or sizes of the basket that she sells, of which the largest one is sold for a price of Birr 230, the
medium for Birr 180, and the small one for Birr 130. She usually works all day long throughout the whole week to be able to pay for the household expenses.

When asked about the profitability of her business, she states that the profit she earns is enough to cover the daily expenses, such as the school fees for the twins, costing Birr 40 per month for each child. She also saves about Birr 100 for her iqqub.

As for her future ambitions, she says that she would like to open her own shop where she can sell various products such as sugar and different types of cereals, like wheat and barley. When she compares her current life situation to the way she lived before, she thinks that her life in general has considerably improved. Through the help of microfinance, she is now able to pay for food and school fees for the twins. She has also been able to put her children in private school, as compared to before when they went in a governmental school. However, the competition is still high in the business she is doing, and sometimes she finds it hard to sell her products as other merchants can afford to display a higher variety of products and thereby attract more customers.

**Interviewee 4: Merchant selling injera and wot**

Carried out at the Meklit head office in Mexico district (Addis Ababa), 26-11-09

_During our visit to the Meklit office in Mexico (Addis Ababa), we are introduced to an elder lady who has come to visit the staff. She seems very delighted to meet us, and after common greetings and further presentation of who I am we start the interview in privacy outside the Meklit quarters. She smiles at me almost continuously during the interview._

Interviewee 3 is 63 years old and lives in the Ledeta district of Addis Ababa, where she sells injera and wot (a traditional Ethiopian stew) at a small hotel. She has 10 children, of which 4 of them are students living at home. The others are grown up, whereof one is working in the United States and 3 are married. The husband has passed away, thus making it a female-headed household. She also has one iddir, which could be seen as a part of her extended household. As to religious and ethnic background, the interviewee is an Orthodox and comes from the ethnic group of Tigray. She reached up to level 10 in her education, thus making her fairly educated in comparison to most of the informal workers interviewed.
Concerning her previous activities, the interviewee used to sell traditional Ethiopian clothes at Merkato⁹, which she brought from rural areas. For the past 5 years that she has been involved in microfinance, she has however been selling injera with wot (among other dishes) at a small hotel. She is taking a group loan along with 4 other neighbours, having the same religious orientation and iddir. They are selling pepper and butter in the Ledeta district of Addis Ababa.

During a normal working day, the interviewee works from 6 am to 8 pm in the evening. She also has one employer, who prepares the wot at her house and buys the necessary ingredients such as oil, pepper and vegetables. Per day, she usually spends Birr 35 to purchase the required food items. Apart from the Birr 35 that she daily spends on food, she also buys the readymade injera from her neighbour, whereof each injera is costing Birr 2 and 50 cent (as compared to before when it was costing Birr 1). She also pays the employer a monthly salary of Birr 150. To get legal recognition to run her business, she furthermore pays for license and taxes, which is annually costing Birr 200. Given that the hotel is nearby her home (walking-distance), she has no transportation fee.

After having paid for daily expenses such as food and school fees for her children, she is able to save around Birr 10-15 per week at her Meklit account. As she has now finished repaying her loans, she has come to obtain her remaining savings at Meklit.

At present, she is however unable to continue her business due to a road construction which is going on in her neighbourhood. The government has promised to offer her a new home in another district, but according to the interviewee, it is not a fruitful area to do such business. Her future ambitions are therefore to take further loans as to start a new hotel in another area, since she is now forced to move from her neighbourhood.

In overall, she deems the system of microfinance to be helpful as it makes her business more profitable. Nevertheless, it turns out that she has no knowledge about what she pays in interest rate and has not been informed about the general regulations of Meklit as such.

### 6.1 Family background and the role of the household

#### 6.1.2 The impact of family size and relations in informal activities

As initially expected, the family and its role in informal activities were found to be highly significant for the great majority of the interviewees.

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⁹Merkato is known as the largest open air market in Africa, situated in the Addis Ketema district of Addis Ababa.
Concerning the family size, a large proportion of the interviewees confirmed having relatively large families, ranging from 2 to 10 children. The majority of parents also stated having more than 5 children, and 2 of the interviewees were sole breadwinners for as many as 10 children. As a consequence, it was found that those with larger households tended to have more constrained economies with none or marginal profits in comparison to those with smaller households. This was particularly the case in those families having only one breadwinner. It was thus evident that the larger the size of the household, the more obligations to fulfil and expenses to cover. Yet at the same time, the study has shown that many informal workers employ family members in their businesses, of which they in some cases pay a small salary. In fact, most of the business activities that involved more than one employee were family owned and run by family members. It was also common that rural farmers employed relatives or close neighbors to help out in agricultural activities, as evident in interview 6 further below. As a result, they were able to cut down on the cost of wages in their businesses and accordingly increase the productivity of the household, which interview 1 and 6 clearly demonstrate. Many further stated to feel more confident involving family members in their businesses than hiring unknown personnel from the broader community.

For microfinance activities, the close family bonds were also manifest in the rationale for group formation. Many of the clients for example preferred forming groups with extended relatives, although not from the same household given that it is prohibited by Meklit. Yet this was found to occur in some groups, as evident in interview 4.

### 6.1.3 Age and marital status

During the course of this study, it became increasingly clear that the ages of the interviewees were highly differing, ranging from 18 up to 65 years old. The majority of interviewees were however of middle age, between approximately 30 to 50 years of age. Some were also found to be uncertain of their actual age and accordingly stated a round figure. The age factor should therefore not be perceived as a decisive factor but more as a general measurement included in the personal background of each informal worker. Despite the regulations stating that clients should be below 60 years of age, the fact that two of the interviewees were above this figure also shows that the age criteria for loans at Meklit are in reality rather flexible. It also serves to demonstrate their great need of attaining financial income, especially when supporting large households, as in the case of interviewee 4.

When asked about marital status, a large proportion of the interviewees declared being married of which an insignificant majority were sole breadwinners for their household. 6 were
found to be widows and 2 divorced, whereof all were main providers of their respective households. 4 of the interviewees also stated that they are having partners helping out in the same business, especially for those engaged in agricultural activities such as in interview 6. Only 8 persons responded having a partner who is actively providing for the household as well.

All in all, the majority of interviewees were thus found to be the head of their respective households, with the remaining household members relying on the informal activity as the only source of income. Many interviewees however expressed an ambition of passing on their skills to their younger children, confirming the essential role of the household. This could thus be seen as a future investment which assures that the youth will increase their chances of making a livelihood and generate additional income for the household.

The social power of “knowledge and skills” as recognized in Friedmann’s Disempowerment Model were thus clearly significant for most informal activities. Skills attained outside the formal educational system such as the making of injera and mesob were commonly expressed as talents which many informal workers wanted to pass on to other household members.

6.2 The unequal impact of microfinance in household productivity

Through the economical assistance of Meklit, this study has further shown that many households have experienced a significant improvement in the average household income, food security as well as children’s schooling and assets (medical expenses). Some of the interviewees also stated that they have generated enough profit to even save some of the earnings, thus being able to move out from subsistence living.

Yet, it was evident that the greater majority of informal workers were only gaining marginal profits barely covering the major household expenses such as food, rent and school fees. Due to service fees and other expenses charged by Meklit, many claimed that the income generated is insufficient to save, apart from the compulsory mandatory saving.

6.3 Informal networks

A large proportion of the business activities carried out among the workers were also characterized by the role of many informal networks. For instance, many women involved in the selling and distribution of the injera (the Ethiopian flatbread) normally relied on a relatively small, but distinct circle of clients who came by their workplace to buy their products on a regular basis. The informal relations were thus critical for the workers to pursue their businesses successfully.
For the purpose of taking loans, the informal networks found in community-based organizations such as *iddirs* were also used as a clear incentive when choosing group members. Given that the members of *iddirs* are strongly bounded by their moral obligations, the phenomenon of *iddirs* could accordingly be seen as an extension of the unit of the family household in line with Friedmanns’ Whole Economy Model. In addition, the general nature of *iddirs* also ascertains that the divides of gender, education, wealth, religion and ethnicity are being exceeded.

In accordance with the Disempowerment Model, the power of “social organization” and “social networks” are further especially manifest in the informal workers’ strong association with CBOs like *iddirs*, but also religious communities like Orthodox churches. They are thus being able to connect with the wider community to a higher extent, at the same time as they may increase their base of “appropriate information” through enhanced interaction. It is also a way of gaining support (of both economical and social nature) in times of difficulty, as evident in interview 2. During his critical economic situation, his *iddir* have for example helped him and his family during several occasions.

By gaining increased access to the base of “financial power” through for example MFIs, it is moreover possible that additional members of *iddirs* can help to boost their CBO and its overall potential, hence making it more active and stronger in providing both social and economic protection for their members.

### 6.4 The gender aspect

Although the number of women involved in microfinance activities at Meklit was significantly less than men, the majority of those interviewed in this study were unintentionally female business operators. As to women’s economic activities, the influence of socio-cultural factors became increasingly apparent during the course of this research. In many large markets and *gulits* for example, the trading activities carried out by women typically differed from those of men. In most cases, it was evident that women concentrated on selling products such as vegetables, fruits and spices whereas men usually operated in large-scale trading by selling items such as clothes. This could hence be said to demonstrate how social norms are limiting women to restricted areas even in the informal sector.

Lack of knowledge and skills were also found to be common factors which forced women to concentrate on few and similar activities, such as petty trade and baking *injera*. It was especially clear that the popular business of baking and selling *injera* were almost entirely
concentrated by women, typically having a low level of education. As a consequence, many women complained of facing stiff competition and accordingly earned inadequate incomes which forced them to remain in the subsistence economy. This situation is especially manifest in for example interview 4, 5 and 7.

6.5 The different levels of businesses

6.5.1 Size and profitability

As previously explained, there is a clear difference in the size and profitability of the businesses that informal workers pursue. Key factors in defining which level they belong to (A, B or C) are for instance the volume of capital employed, the amount of profit and the number of employees. In this study, the great majority of informal workers were found to be operating businesses in level A. Within this category, common subsistence professions included charcoal selling, injera baking, petty trading, selling of crafts and local beer vending. Stiff competition and lack of marketing and skills were further some of the most typical factors for why many informal workers tended to remain at level A.

In category B, professions like tailoring were common, although their amount of profit were highly fluctuating depending on the level of competition and cost of materials. Some of the interviewees were also found to have moved from level A to B by for example being able to purchase a higher quantity of products through the economical assistance of Meklit. This was the case with many merchants who were selling items such as Ethiopian traditional clothes, cereals and pepper (used particularly for the traditional spice named berbere). Some had also been able to set up their own kiosk instead of advertising their items at gulits, thus advancing their market potential.

When carrying out interviews with farmers in Emdibir, it was also clear that some of the more successful agricultural businesses would probably fit in level C, as they are able to generate relatively high incomes to support their household. Those active in agricultural activities however normally gain their profit according to season and often take seasonal loans. It is therefore difficult to continuously place such farmers in this category due to the irregular nature and returns of their businesses.

Concerning labor capital, it was moreover evident that activities which produce low quality goods such as injera, kocho\(^{10}\) and vegetables usually provide employment only for the owner and their household. Small hotels and other businesses like tailoring or running of small

\(^{10}\) Kocho is a local bread prepared from the powder of the enset plant
kiosks tended to generate higher incomes and employment capacity. As earlier mentioned, the study has also shown that all employers are not necessarily wage employees but rather employed members from the household. Many informal workers have thus been able to cut down on the cost of hired labor, although the employed household members in some cases are given net returns.

Putting this in relation to the social powers found in the Disempowerment Model, it is clear that the majority of informal workers have simple, yet significant “instruments of work and livelihood” as to pursue their respective activity, especially for those within category A. Their access to “financial resources” is thus relatively low, having a clear impact on the productivity of their business, although some clients of Meklit have been able to advance their productivity through their economical assistance.

As evident in interview 6 with the rural farmer, the power of “instruments of work and livelihood” could for example represent having productive land, but also adequate tools to employ the land in the most efficient way possible. The donkey transporting him to the market, as well as the machines, cattle and composting system used as fertilizer are also part of this power base. Previous to his engagement in microfinance, it was at the same time clear that it was the lack of this social power which predominately made his activity less feasible and profitable. When gaining the social power of “financial resources” as to attain these “instruments of work and livelihood”, his business subsequently blossomed, enabling him to better provide for his household. The example thus clearly demonstrates the importance of accessing the appropriate tools for further self-empowerment, leading to a situation of what Friedmann calls “alternative development”.

In the pursuing of work and livelihood, the issue of “surplus time” is also manifest in the various interviews carried out. For the household, the time taken to walk by foot to the market or to transport goods from rural areas are thus an important aspect when considering the daily life and activities of informal workers. The majority of interviewees were for example found to spend considerably long time in pursuing their products and travelling to various places either by foot or public transport to make further incomes. For those in single-headed households, having young household members to feed and pay for school education, the time spent on advancing their informal business were consequently found to be considerably less. Those households where members were actively engaged in the activity or helping out in domestic chores had thus a higher potential of increasing their access to surplus time, thus proving the essential role of the household for further profitability.
In addition, it should be noted that going by public transport which are so often affected by delays, traffic jams and accidents in Addis Ababa could further be said to “steal” valuable time available for the household, also restraining the already limited budget of most of the informal workers.

6.6 The legislative character of informal businesses
In Ethiopia, a proper license is required to win bank credits, to attain urban land or to engage in legal business dealings with government offices. As a consequence, failure to attain licenses has clear disadvantages. On the other hand, informal sector businesses save money through non-payment of license-fees and charges, as well as tax avoidance. Many informal sector operators therefore prefer to undertake businesses without proper license.

In this research, the majority of businesses premises in category A were found to operate without any license. As expected, most the informal workers in all categories lacked license and were not paying taxes. Most commonly, it was those involved in businesses within level B which required a licensed to be legally recognized and thus able to operate. Petty trade activities carried out in governmental-owned kiosks were for example included in this category, which is demonstrated in interview 1. Others were tailors and welders with businesses situated in more established residences in comparison to the informal gulits. Merchants involved in petty trade in markets such as Merkato are for example required to attain such license, as mentioned in interview 3.

There was however no clear correlation between tax-paying informal workers and increased profitability, as many were forced to pay considerable sums for rent and license to be legally recognized. As a consequence, some found their business to bring less income given the high cost of license and taxes.

6.7 Ethnic and religious background
The ethnic and religious background of the informal workers has also been included in this research as to see if any general patterns or characteristics could be identified. Regarding ethnicity, most of the interviewees in this study were found to be of Guraghe, Amhara or Oromo origin. The main ethnic group involved in informal activities and microfinance was evidently the Guraghe, followed by the Oromo community in Addis Ababa. The additional interviews carried out in Emdibir (a region inhabited by the Guraghe community) and in Nazareth (inhabited by the Oromo people) helps to explain the high percentage of these two ethnic groups in the findings.
The study has further shown that traditional nomadic and pastoralist groups such as the Tigre, Afar and Somali communities are clearly underrepresented. For instance, only two of the interviewees were of Tigre origin. Although the reasons for this are various, the most evident explanation is that these communities typically reside outside the urban areas of Addis Ababa. The outreach of microfinance institutions in these areas is furthermore extremely limited. Yet, it should be notified that these ethnic groups only present a minority in national statistics given that the majority of Ethiopians belong to any of the major ethnic groups, such as the Amhara and the Oromo.

As for microfinance activities, the importance of ethnic origin was found to greatly vary. Among the interviewees, there were for example diverse opinions on the impact of the ethnic origin in the rationale for group formation and similar aspects. In some cases, ethnic belonging were found to be a vital matter in choosing group members. Among other groups however, members had intentionally chosen their partners according to religious background, neighborhood or community-based organization, which was found to be more significant. It was for example very common for group members to belong to the same church, especially among the Orthodox.

When it comes to religious background, the study has further shown that nearly all of the interviewees involved in microfinance were of Christian denomination, in particular from the Orthodox orientation. 6 of the interviewees were also Protestants, whereof three belonged to the same microfinance group. Yet only three of the respondents in the study were Muslims, of which two of them belonged to the same group.

The reason for the clear under-representation of Muslims could mainly be explained by religious values, as it is commonly feared that the system of microfinance might violate the Islamic laws. Among many Muslims, there is often a huge hesitation and suspicion that this type of loan money would be *haram*\(^\text{11}\) given that it involves interest rate transaction which is undertaken in banks. The transaction of money with some kind of interest rate could thus be seen as contrary to the Holy Koran (Negussie, 2004, p. 36). Nevertheless, those interviewed in this research did not find their involvement in microfinance activities as opposing Islamic values. Although one client expressed her dissatisfaction concerning the issue of interest rate and initially denied paying for it, it was later discovered that she was nonetheless obliged to pay interest rate in line with the regulations of Meklit.

\(^{11}\) *Haram* means those actions which are forbidden according to Islamic laws (source)
Another interesting finding was the manifest correlation between religious belonging and choice of profession in some cases. The selling of traditional alcohol such as *tella* was for example only undertaken and approved by Orthodox Christian members, as opposed to supporters of the Islamic faith.

### 6.8 Educational level
The study has revealed that a relatively large proportion of the interviewed had a low level of education, of which the majority had not finished Primary school. Six of the interviewed were also illiterate, whereof all but one were women.

Given the complex regulations of Meklit, it could hence be questioned if and how illiterate clients are being assisted as to properly handle matters like payment of interest rate. It was for example evident that many interviewees lacked adequate information concerning the organizational structure of microfinance as well as their obligations. Yet at the same time, many low-educated clients who were not used to handle large sums of money had become increasingly aware of how to economize and accumulate funds through their involvement in microfinance activities.

Unexpectedly, the findings have further shown that there is no distinct relationship between the level of education and the engagement in informal activities. Instead it was clear that the level of education among the informal workers greatly varied, so as their businesses. There was also a significant minority of highly educated clients who were expecting greater profits by running businesses informally than searching for job opportunities within the formal sector.

When looking at any potential correlation between the level of education and the level of businesses however, it could be said that those with higher education tended to operate in those economic activities generating a higher level of income. In many cases, those with a higher level of education were also able to advance and manage their businesses further as in comparison to those in stagnant professions such as the baking and selling of *injera*. Moreover, individuals with primary education and illiterates were commonly found within subsistence professions such as washing clothes or as merchants at *gulits*. This category of informal workers was usually characterized by their lack of knowledge concerning for example market conditions to expand their businesses, thus frequently facing stiff competition.
When relating these findings to the theoretical framework of the Disempowerment Model, it is clear that various bases of social power could be linked to the role of educational level. As to the social power of “knowledge and skills”, the study has for example shown that specific skills play a critical role for the choice and profitability of the informal businesses. A majority of interviewees were evidently operating informal activities related to their specific skills, such as injera baking, farming or making of mesob. In that way, they were thus increasing the human resources of the household by investing their time and effort to pursue these attained skills. On the other hand, it was clear that some informal workers were at the same restrained by only being able to carry out these specific skills, commonly lacking higher education. The lack of training and basic education (crucial for the proper handling of marketing and financial revising) was thus lacking. Their choice and profitability of activity was as a result strongly limited, as most of them were unable to pursue advanced activities generating higher incomes.

In some cases however, it was rather the lack of social power to “appropriate information” or “financial resources” which restricted their business potential. In interview 3, 5 and 7 for example, it is evident that the lack of marketing (due to restrained “appropriate information”) and higher diversity of products (caused by inadequate financial resources) consequently affected the profitability of their businesses. The restrained knowledge on microfinance regulations such as service charges like interest rate, as well as Meklit’s lack of assistance in offering skills in marketing and strategies for promotion, could thus be seen as having a negative impact on the future potential of the informal sector and the role of microfinance institutions.

6.9 The life of an informal worker: Common activities, economical costs and future ambitions

Among the many operators interviewed in this essay, the daily activities, future aims and costs of their businesses are clearly dissimilar. In order to further explore the general nature of the interviews, some further examples of people with diverse social and economical backgrounds will be demonstrated. A short analysis of the main characteristics will subsequently follow.

Interviewee 5: Merchant
Carried out at the Meklit head office in Mexico (Addis Ababa), 10-11-09

Interviewee 4 has come to the head office to repay her loans. She looks curiously at us, and when asked if she is willing to participate as an interviewee, she gladly accepts. We bring
three chairs from the head office and decide to sit outside in the shadow. She is dressed in a long, colourful dress and gives a strong physical impression. She is noticeably cheerful, and answers all our questions in detail.

One of the many informal workers engaged in petty trade activities is interviewee 4. She is a 40 year-old merchant in Addis Ababa who is an Orthodox and belongs to the ethnic group of Sidamo. She also has one iqqub and one iddir. When asked about her level of education, she stated that she has finished level 12 of her secondary education. Nowadays, she is selling commodities such as teff\(^2\), butter, honey, eggs and charcoal. In addition, she sells injera and wott (traditional dish) to a small café. People normally come to buy her products in her house, but she also distributes goods to various areas within Addis Ababa by minibus or by foot. Like many other merchants, she brings all her products from rural areas where she travels by public bus. On a normal working day, she usually works 12 hours. Her husband takes care of their 2 children while she is at work and during the times when she has to sleep over in rural areas to bring the commodities.

She has been a client at Meklit for the past 11 years and is taking a group loan together with 3 neighbours, who are close friends of hers. They all belong to the same iddir, iqqub and have the same religious orientation. There have been no serious disagreements within the group, although they have sometimes disagreed when it comes to payment. According to the level of her business, the amount of loan increases by Birr 500 annually. Thus given the long time that she has been a client, she is currently borrowing around Birr 3,000 annually.

Given that she usually sells in her neighbourhood or at gulits (open market place) along the road, she does not require any license to pursue her business. Neither does she pay any taxes. The main costs of her business are thus only the cost of transport to rural areas and within Addis Ababa, of which she uses public transport. With her earned profit, the interviewee has been able to greatly expand the business and the variety of products. She is also saving some of the income at her account at Meklit (mandatory saving) and for her iqqub. In addition, she has been able to send two of her children to college which she was incapable of doing previously.

As for her future ambitions, she would like to build her own house and further expand her business by selling various products such as different types of cereals. As the competition is rather stiff in her current business, she sometimes finds it hard to sell the products given that
other merchants can afford to display a higher variety of products and thereby attract more customers. She would also like to prepare shiro\textsuperscript{13} and teff (the seed used to make injera) to sell to restaurants and cafés.

**Interviewee 6: Rural farmer**

*Carried out in the rural small town of Emdibir, 19-11-09*

We come across with interviewee 6 at the regional office in Emdibir where he has gone to repay his loans. He happily agrees to respond to some questions, and we enter another room to gain some privacy. It is clear that he has endured many hardships in his life, but he is still visibly strong with a long beard and a catching smile. He seems full with energy and greets us in the name of Allah. From the very first sight, I have a feeling that this is going to be a meaningful interview.

Interviewee 6 is a 58 year-old farmer residing in the outskirts of Emdibir. The village is called Shehe, where he lives along with his wife and nine children, ranging from 10-29 years old. Two of the children live in Israel and six children live at home. He also has one iddir, of which he pays monthly contributions to. As for religious and ethnic background, he is a Muslim and belongs to the ethnical group of Guraghe. He reached level 8 of his primary education.

In the past, the interviewee used to work as a farmer as well but was not able to successfully cultivate his land due to lack of funds. He lacked the necessary machines and had no cereals to cultivate. With the financial support of Meklit, he was however able to expand his business by investing in cattle, i.e. 2 milk cows, hens and 4 sheep. On his land, he has also extended the amount of crops by planting wheat, barley, trees, khat and different kinds of vegetables. The interviewee is not using any fertilizers, but is using the system of composting which he has been given free training from the local agricultural ministry. He usually sells the khat and trees (used for firewood) at the local market in Ahter, around 4 kilometres away from his home. Apart from his own use of vegetables and cereals to provide for the household, he also sells the remaining crops.

The interviewee has been a client at Meklit for 3 years and is taking a group loan along with 4 other friends. Initially, all of them were active in farming, but some of them lacked

\textsuperscript{13} *Shiro* is a traditional Ethiopian dish which is usually made out of the flour of chicken peas.
sufficient knowledge and failed to cultivate successfully. Now, they are working as merchants selling traditional Ethiopian clothes in Addis Ababa, whereas he and his colleague are still active peasants. All of the members are relatives from the ethnic group of Guraghe and come from the same kebele (the lowest administrative unit in Ethiopia). In addition, they also belong to the same iddir and usually help each other out in times of crisis. So far, they have had no disagreements within the group and have all managed to repay their loans on time.

On a normal working day, he and his wife usually work from 9 am to 3 pm. His female children are also helping him out when they are not in school. When there is a peak season, he normally employs 3 of his relatives whom he pays Birr 13 per day.

As for the general expenses, the main costs of his business are only the employment of workers and the price of preparing the compost. There is no transportation cost, as he walks by foot with his donkeys to the market. He also saves some crops in the house for bad seasons. From the profit he makes, he is able to cover the daily expenses such as school fees and food. He also has a saving account at Meklit, where he saves around Birr 3,000 annually depending on the profit.

When comparing his current life situation to the way he lived before, he states that the difference is “as big as the sky and the grass”. Before, he used to beg from his friends and relatives for money and was barely able to feed his family on a daily basis. Now however, he is able to buy them good shoes and clothes for school and buy his wife a nice dress (The interviewee smiles once again and widely articulates while speaking. It is very apparent that he is satisfied with his current life situation).

When asked about his general impression of microfinance, he states that Meklit has been successful for him and that he has been treated well by the staff. Yet sometimes when he has asked for additional loans, they have been late with giving him money on time.

In the future, his primary goal is to complete the cost of his children’s schooling. Thereafter, his dream is to build a house in the town for his children, where the possibilities of proper schooling and well paying jobs are higher.

Interviewee 7: Merchant selling injera within an association
Carried out in Mexico (Addis Ababa), 18-11-09

We walk along one of the poor neighbourhoods in the interior parts of Mexico. The credit officer introduces us to a middle-aged woman, who is sitting inside her small house along with two children and one of her associates. One child is handicapped, and looks curiously at
my notepad. The TV is running inside the small room, displaying daily news in Amharic. We sit down in two chairs and start the interview, while the credit officer patiently waits outside.

Interviewee 7 is one of many informal workers active in the business of selling injera. She is a 50 year-old woman who comes from a rural village in the southern Oromo region, but now resides in Addis Ababa.

She is illiterate and used to work as a cashier in a hotel, but decided to change business in order to get better salary and better provide for her family. As the husband passed away, she is the head of the household consisting of her 3 children. Her youngest child is now studying at a public school. The other two children did not finish their education due to lack of school fees and are now doing small odd jobs.

As to religious and ethnic background, she is an Orthodox and comes from the ethnical group of Oromo. She also has one iddir, of which she pays Birr 25 to monthly.

For the past 9 years, she has been a client at Meklit, where she is taking a group loan along with 4 other members of the association. They are all neighbours and have the same religious orientation. Within the association, they are mixing and selling injera which they have been able to pursue solely due to the loans from Meklit. They are renting a governmental house in Mexico (Addis Ababa), where they mix the flour and sell it. Usually, they collect the required materials together and divide the profits equally within the group. They also employ workers to bake the injera. During a normal working day, she works from 6:30 am to 4 pm.

As for the costs of the business, the main expense is the price of teff. For 100 kilo, they pay Birr 1,100 which they buy at the local meal house. They also pay for the firewood, the employment of the guard and the injera bakers. In addition, they are charged for the electricity and water of the governmental house, including the rent and Birr 10 each in taxes. Given all of the expenses, she deems that the business is unprofitable and is barely covering the daily costs of her family. When comparing her current life situation to the way she lived before, she does not see any significant change or improvement in her living conditions. In overall, the business is doing okay but is not profitable.

She moreover thinks that the interest rate and other services that Meklit charges payment for is too high. Yet all in all, she deems that Meklit is “her eyes” and she is still thankful to them for giving her the opportunity of taking microfinance loans. If she is able to increase her financial income, her future aim is however to open a small shop to sell different products.
As evident in the above cases, the daily working routines and costs of the informal businesses are highly diverse. Looking at the interviews and the daily working routines as a whole, it could however be said that the majority of workers work more than the official 8 hours per day. It was also evident that many merchants involved in petty trade activities were rather mobile, moving from one place to another. This was particularly the case for those who were not having official licenses or paying taxes, such as merchants at gulits.

The role of the household in carrying out the daily activities was also commonly mentioned and was clearly a way for many informal workers to cut down on the cost of labour. It thus confirms the essential function that household members play for informal activities and their productivity.

As for the general expenses, a significant number of informal workers were found to spend relatively large sums of money for transport. Merchants for example travel to rural areas to purchase items such as vegetables, teff and charcoal at a low cost and thereafter bring them to sell for a higher price. As mentioned earlier, many also pay high costs for public transport within the town for the purpose of selling or acquiring further commodities, thus affecting their access to surplus time.

Several interviewees have nevertheless reported an improvement of their income, which have enabled them to pay for their children’s school fees and fulfill other social obligations (such as the membership fee for the iddirs and iqqubs). The findings also indicate that many farmers have been able to cultivate additional subsistence crops and increase the quantity of harvest through the economical assistance of Meklit. When comparing their current life situation to how they lived before getting involved in microfinance, it is clear that clients such as interviewee 6 has been able to raise the household productivity considerably by using the assets and knowledge he already had. All he lacked was the financial help to successfully use the resources he possessed. Thus, it is clear that not all jobs in the informal economy yield paltry incomes. In fact, many in the informal economy, especially the self employed, earn more than unskilled or low-skilled workers in the formal economy. There is also much innovation and many dynamic growth-oriented segments in the informal economy, some of which require considerable knowledge and skills. This is for example evident in the case of the young man in interview 1, who is combining his studies in accounting with running a small local kiosk. He is thus gaining practical experiences of finance and has the potential to expand his business by further studies. At the same time, he is able to support his household as well as securing his future by affording to pay for his school fees. The future potential of
businesses like his is thus greatly advantageous when looking at the general possibilities for the informal sector.

When asked about their future visions, a large number were moreover certain of achieving a secure future for their household by for instance being able to send their children to school and investing in higher education. For those engaged in subsistence activities, the dream of expanding their variety of products as to increase the profitability and market outreach was also common, as implied in interview 3, 5 and 7.

6.10 General critique of Meklit: The various viewpoints of informal workers
In this research, the most common complaint among the clients was clearly the size of the interest rate, which many deem as an impediment of the business productivity. Meklit was for example criticised for charging interest rate even if a client takes a loan today and is able to repay the loan by as early as tomorrow. Some also deemed the interest rate of 20% for group loans as unaffordable, especially considering the change in market conditions. Given that the cost of living has become more expensive, an increase in loan sizes was frequently insisted upon as to adapt to the prevailing market conditions.

Nevertheless, many at the same time stated to be unaware of how much they pay in interest rate and had not been given any further education concerning the system of microfinance. According to one client, the credit officer only comes to collect the money without asking about the development of neither their business nor their general living conditions.

There are also external issues which may affect the operation and profitability of the informal business operators. A case in point is the situation which arose for one of the interviewees running a video shop in the Ledeta district of Addis Ababa. For four months, the entire neighbourhood where she was operating could not access electricity due to governmental issues. As a result, she barely had any clients and could not afford to repay her loans. During the problem with the electricity, Meklit however took no consideration to her situation and asserted that she still had to repay her loans on time. She also had to pay a penalty fee, which she had not been earlier informed about. Many interviewees further implied that Meklit intentionally did not inform clients about the high rate of penalty fee so that they will gain additional profit.

Another example is interviewee 4, who were unable to pursue her business due to a road construction in her neighborhood. Although Meklit officially states to offer a rescheduling of loan to assist in such circumstances (see 5.12), the institution hence does not always take proper action in reality. To avoid such dilemmas when external issues occur, the regulations
of Meklit thus need to be enforced and re-updated, making sure that some sort of guarantee is offered to informal workers and their businesses.

A common complaint was moreover Meklit’s frequent delay in granting loans on time, as well as to attain higher sums of loans. Many clients expressed that they were not given their loans on time, which the staff however seemed to be unaware about.

As for group loans, one interviewee further pointed out the issue of peer pressure that occurred when she wanted to quit taking loans. As the rest of her group members were still in need of taking more loans, she was forced to continue in line with the regulations for group loans. If not, the rest of the group members would not be able to take any further loans.

Nevertheless, several interviewees have expressed their sincere gratitude for the services of Meklit and have on the contrary perceived the staff as encouraging them in their activities. Many informal workers have also been able to move out of subsistence professions and upgrade their businesses through the economical support of Meklit. Among clients such as interviewee 7, Meklit was even expressed as “her eyes”, which had given them a possibility to better feed the household and pay for school expenses. All in all, there are thus mixed feelings regarding the general assistance and impact of microfinance. It is however evident that issues concerning the organizational structure of microfinance institutions and the lack of funds need to be firstly dealt with as to better serve informal operators.
7. Analysis
In this chapter, the information attained from the interviews and my studies from the secondary data will be further analyzed as to see if any general patterns could be defined, hence assessing the nature of informal businesses in Ethiopia.

As presented in the theoretical framework, Friedmann’s concepts of the Whole Economy Model and the Disempowerment Model will be used in answering the initial enquiries as posed in the question formulation. The eight bases of social powers as explained in the Disempowerment Model will thus be employed in measuring the extent to which the informal sector can be said to carry a future potential through the support of microfinance institutions. In enhancing the development of MFIs, identified obstacles and possible recommendations for its general operation will be lastly discussed.

7.1 The informal sector- general definitions and main characteristics

7.1.2 The ILO and the definition of the informal sector
As previously mentioned, there are various perceptions as to how the informal sector can be defined. The interviews carried out have likewise indicated highly diverse features of informal workers and their businesses.

Nevertheless, the findings attained in this study have shown a clear compatibility with some of the characteristics mentioned in the ILO definition. It is for example evident that most of the informal activities are easily accessed (“easy of entry”), and are often an extension of the household activities. Typical examples are businesses such as the baking of injera and cloth washing. Most informal operators had further gained their skills outside the formal school system, although many merchants were found to have at least somewhat knowledge on educational expertise such as basic accounting. The fact that many informal workers pass on their skills to other household members also demonstrates the ease of entry. Family ownership or involvement in informal sector enterprises was hence manifest, once again proving the critical role of the household.

The interviews carried out have moreover confirmed the ILO definition of informal activities as labour-intensive, as evident in activities such as the making and selling of injera and mesob. Likewise, many businesses of informal activities were characterised by their small scale of operation. Most merchants interviewed in this study were for example operating in one specific area or market place with a relatively small circle of clients, as shown in interview 1, 3, 5 and 7. The common lack of marketing infrastructure was here
evident, as the operators usually sold their products or services directly to individual clients, rarely through other enterprises.

Adding to this, the irregular and competitive nature of informal activities was clearly visible in the meeting with many informal operators. The stress of facing stiff competition was commonly felt as problematic for many of the interviewees, especially given the lack of marketing and skill upgrading. The fact that the products used in most informal businesses (especially those in petty trade activities) were commonly comprised of indigenous resources was apparent, demonstrating the crucial rural-urban connection in trade as well. For instance, many merchants took time to purchase local goods such as teff, berbere and vegetables from rural areas to sell at urban markets in Addis Ababa. Consequently, the informal economy can be said to be characterized by the frequent lack of diversification of activities and production of more processed products.

Given that the majority of interviewees were residing in the urban areas of Addis Ababa, the number of workers involved in farming activities was moreover few in this research. Nevertheless, the agricultural activities carried out among informal workers cannot be ignored since Ethiopia’s informal economy is greatly characterized by the agricultural sector. The findings have also shown that the economical support from microfinance institutions have significantly helped many farmers to realize their potential and expand their businesses, as evident in interview 6. By also empowering informal workers in rural areas, the link between urban and rural areas could subsequently be reinforced, thus enhancing the economic potential of both the rural and the urban informal sector.

7.1.3 The issue of license- and tax payment

Given the specific social environment that informal workers in Ethiopia are operating in, there are however some other descriptions in the ILO definition which become a bit tricky to apply. This especially concerns the ILO definition of the informal economy as “unregistered under specific forms of national legislation, such as tax”. Given that some of the interviewees were found to pay for license and/or taxes to legally run their business, the issue of stating who “qualifies” to be in the informal sector is thus not always that obvious. Yet considering the weak governmental legislation and stocktaking of the informal sector in Ethiopia, the payment of license and taxes does not change the fact that the nature of these activities is essentially informal. It is also clear that the payment of taxes among some informal sector enterprises is still perceived as an insignificant contribution to the national economy as a whole, and more or less goes unnoticed.
7.1.4 The multiple functions of CBOs

From the perspective of the Ethiopian society, the role and impact of CBOs (particularly *iddirs*) in informal activities is impossible to disregard. The fact that many interviewees mentioned their participation and monthly contributions to CBOs like *iddirs* and *iqqubs* could thus be viewed as one of the main characteristics for Ethiopian households, seen as an extension of the private household. The importance of community participation could consequently be said to affect the informal activities as well, as evident in the fact that many group members of Meklit had intentionally chosen members from the same CBO.

In developing countries such as Ethiopia where social norms still play a major role in influencing social behaviour, informal insurance mechanisms such as *iddirs* could further be seen as crucial for the protection against social risks. The social bond of trust manifest within such communities thus plays a major role in for example the rationale of group formation at Meklit. They could also be seen as a natural part of the household and Friedmann’s Whole Economy Model, including the monetary contribution of CBOs as an in-kind distribution in the production of a households’ livelihood. The household’s input to the communal economy is thus evident, showing a clear alignment between the household and the wider community.

7.1.5 The profitability of informal businesses and the gender aspect

As this study has shown, not all jobs in the informal economy produce small incomes, and neither did all informal operators have a low level of education. Instead, it was rather clear that the business profitability usually depends on which business level (A, B or C) that the informal sector enterprise is operating in.

Yet, there is no denying that disadvantaged people of society commonly take up unattractive jobs in the informal economy which generate marginal incomes for the household, thus maintaining the vicious cycle of poverty. For women, it was also confirmed that the link between working in the informal economy and being poor (thus, having less access to the eight bases of social power) is stronger as in comparison to men. The majority of female business operators interviewed were for example concentrated in the lower-income segments, including the baking and selling of *injera* as in the case of interview 7. As already mentioned, many of the women were also typically having a low level of education, of which a significant number were illiterate.

Nevertheless, the economical assistance of MFIs such as Meklit have proved to have a positive impact for the increased expansion and profitability of informal businesses, enabling workers to generate more income and thus climb up the ladder. If given appropriate training
on matters such as marketing skills, the issue of lower level of education could at the same
time be improved as to further the productivity and integrate into the wider market. The many
ambitions and ideas expressed among interviewees likewise prove that there evidently exists
high innovation and dynamic growth among informal activities, having the potential to grow
through the economical support of MFIs. Through group lending, informal workers are for
example obtaining the financial resources and the organizational skills that enable them to
participate confidently in various business activities. To operate for example a small shop, the
owner must have a range of reliable suppliers, skills in contract negotiation and basic
marketing.

As argued throughout this study, the informal sector is in overall characterized by its great
diversity, creativity and dynamics. When considering how the informal sector should be
defined and its main features, it is thus important recognize the multiple identities and high
innovation found in the informal economy, while simultaneously identifying the general
patterns in line with the aim of achieving an abductive study. It is also evident that the general
definition of the informal sector must be seen it its specific context, and in the particular
social and economical environment that the workers are operating in. To achieve this, it is
hence vital to go beyond the rather static and homogenous outlook on the informal sector as to
realize the various socio-economic backgrounds and activities that evidently exists within the
informal economy. In doing so, it is possible to further consider a move towards an alternative
development as outlined in the theoretical framework of Friedmann.

In further estimating the future potential of the informal sector and the role of MFIs, the
Whole Economy Model and the Disempowerment Model will be applied as follows.

7.2 The Whole Economy Model and the role of the household
In accordance with Friedmann’s Whole Economy Model, the general importance and impact
of the household has been portrayed as a frequent line of argument throughout this study. By
applying this model, it has for example been possible to highlight the holistic role of the
household in the various informal activities, as manifest in the interviews carried out. It has
also confirmed the household as the primary unit of production and decision-making, whereby
the economic informal activity is often an extension of their household activities such as
injera baking.

More importantly, the findings have shown that informal activities typically comprise of
various networks and social relations, thus being integrated into both the private household
sphere as well as the wider social sphere of for example the communal economy (such as the
CBOs). This consequently demonstrates the importance of non-market relations as well, which are crucial for an alternative development to take place. It is further evident that although an informal enterprise may officially be perceived as individually operated, it is in reality incorporated into wider networks and social bonds, at the same time having clear linkages to the formal economy. As this study has indicated, the households’ linkages to and between the subsistence economy and the formal economy are crucial for household members. In recognizing the constant flow between the subsistence, the informal and the formal economy, it is also clear that households engaged in informal activities have the potential of being integrated into the formal economy. One way of achieving this could for instance be through the economical assistance of MFIs to increase their profitability and hence their access to the bases of social power (as discussed further below).

At the same time, it could be argued that the services and products provided by the informal sector are necessary for the economy as a whole, not least for the formal economy. As a consequence, it is unrealistic to dismiss the informal sector as an abnormality and separate it from the formal economy. Instead, it is more logical to identify the natural integration between the formal and informal economy as identified in this study. This is for example evident in the daily purchase of various goods connected to the formal economy, or the governmental assistance to farmers concerning fertilizers in interview 6. Households engaged in informal enterprises could also be perceived as greatly mobile, whereby the human resources are crucial for the efficiency of economic activities.

All in all, the household thus represent an important aspect of the informal sector as such, as evident in the common involvement of other household members in the informal businesses. Having a large household could hence be seen as an investment in the productivity of the household, generating higher incomes by having the ability to employ free manpower and thus increase the labor capacity.

7.3 The Disempowerment Model: Discovering MFI’ impact on the informal sector
In line with the theoretical framework of Friedmann’s Disempowerment Model, an alternative development is believed to be achieved by advancing the access to the eight bases of social power, leading to an empowerment of the household and their individual members. As pointed out earlier, poverty is thus perceived as a state of disempowerment, which requires increased access to the basic needs.
In this study, the Disempowerment Model has been applied as to measure the extent to which the capacity and future potential of the informal sector could be said to have enhanced through the economical support of MFIs.

7.3.1 The eight bases of social power
When considering the general assistance of MFIs in relation to the bases of social powers, it could at first glance be perceived as being primarily the access of financial resources which have relatively increased among informal workers. Given that the only source of credit before joining the credit group for most interviewees were typically family (no one obviously had any access to formal lending programs or institutions such as banks), the access of funds through MFIs have obviously made a significant difference for the majority of informal workers. The economical assistance of microfinance institutions thus indicate that they are truly useful and needed, as it evidently have improved the lives of so many informal workers. The increased access of “financial resources” is further manifest in Meklits’ (as well as other MFIs’) encouragement of mandatory saving among their clients, thus enabling them to attain their own capital which will help them to gradually become more self-empowered, in line with Friedmanns’ idea of an alternative development. The income regained through mandatory saving could hence be seen as a future insurance, as the informal workers will be able to use those assets when they withdraw from taking further loans. This could thus be seen as a way for informal workers to provide their own needs, consequently becoming more self-reliant.

Given the interconnection between these bases, it is however clear that enhanced financial resources has consequently affected the access to other bases of social power as well. Through enhanced funds, informal workers have for example been able to attain instruments of work and livelihood to pursue their informal activities, such as appropriate tools for farming. In doing so, the access to surplus time could likewise be said to have increased for the household, as the investment in for example a new, modern tractor could lessen the time spent on cultivating the land.

Likewise, the social power of defensible life space was recognized as important for the household in carrying out informal activities, and in particular the immediate neighbourhood where many merchants typically carry out their trading activities. Among many interviewees, the profitability of their business for example greatly depended on the reliance and mutual support coming from the surrounding neighbourhood, together representing the core of the client network. In addition, many interviewees confirmed to have chosen group members
from the same neighbouring area (kebele). In that way, the general boosting from MFIs could be said to have enhanced the social activities in the immediate neighbourhood, increasing the potential of informal businesses. Nevertheless, it is clear that MFIs such as Meklit may in some cases be incapable of improving the access to defensible life space for their clients. This dilemma is for example portrayed in interview 3, where one merchant is forced to abandon her home and business due to a road construction, consequently having no other choice than to search for a more appropriate place of carrying out her informal activity. In such cases, the possibilities of MFIs like Meklit to improve the access to defensible life space are thus clearly restrained.

As to the asset of social organization, the findings has further indicated that most informal workers had a relatively high access given their typical involvement in CBOs like iqqubs and iddirs, but also in religious associations such as Orthodox churches. This social power was for example evident in the rationale for group formation, as many loan takers chose group members from the same social organization, thus confirming them as a natural source of support and collective action. It was also clear that through the power of social organization, members had a possibility to gain access to other power sources. This was for instance proven to be the case among iddirs, helping their members to gain access to financial resources in times of difficulty. The same can be said as to social networks, where it should be notified that informal workers typically access both horizontal and vertical networks through their involvement in microfinance, often increasing their linkages to the formal economy. Their vertical networks are for example demonstrated in their membership in MFIs, while the horizontal networks are visible within social organizations like iddirs. Together, they can be said to constitute increased access to self-empowerment for households engaged in informal activities.

Despite the engagement in microfinance, the study has moreover shown that many interviewees lack the social power of appropriate information, particularly regarding marketing skills or microfinance directives such as interest fee. This could partly be explained by Meklit’s restrained resources and hence lack of opportunity to carry out training in marketing and skill upgrading. Those in possession of appropriate information and/or knowledge and skills before getting involved in microfinance activities thus often had a higher potential of advancing their productivity and social powers, hence becoming more self-empowered. On the other hand, it is clear that the common lack of appropriate information and/or knowledge and skills could in some cases be improved if Meklit would enhance their capacity of carrying out proper training to their clients, as discussed further below.
7.3.2 Remaining issues to increase the potential of the informal sector
In overall, there are evidently some obstacles for the operation of MFIs which could be said to consequently restrain the access of social powers for the informal sector. At the same time, the study has confirmed the clear interdependency between these bases, enabling informal workers to enhance their future potential by at least gaining increased access to some of the social powers through the economical assistance of microfinance institutions. MFIs such as Meklit could thus be said to have the potential of fulfilling some of the basic needs required by household members, hence improving their general living conditions and productivity to promote a more genuine alternative development.

Nevertheless, it can be argued that the assistance of MFIs in enhancing the future potential of the informal sector are far from being complete as to cover the great demand of financial resources needed among informal workers in Ethiopia. Considering the contemporary social environment that Ethiopian MFIs are operating in, there are still numerous obstacles for the proper operation of MFIs which will be discussed further below. These issues thus need to be urgently dealt with as to be able to fully realize the true potential of the microfinance industry, subsequently enhancing self-empowerment among informal workers. This will accordingly enable MFIs like Meklit to help informal workers enhance in for example skill-upgrading and productivity, hopefully being gradually integrated into the formal economy.

7.4 Identified obstacles and recommendations for the microfinance industry
During the process of carrying out this research, there were evidently some general impediments which were identified as problematic for the general operation and development of Ethiopian MFIs. Given that these obstacles have also proven to affect the informal sectors’ possibilities of increasing their future potential, it is thus important to point out the main issues as well as possible recommendations for the improvement of MFIs.
It will thus be argued that these obstacles, some of which have been earlier mentioned in chapter four, must be overcome in order to enhance the potential of informal workers.

7.4.1 The microfinance legislation
First of all, it is clear that the weak legal environment has evidently posed various challenges to the running of MFIs as mentioned in part 4.7.2, especially regarding the National Proclamation and its general implications. Given that the board members of MFIs are not formal owners in line with the microfinance legislation, it has been proven that they consequently lack resources and does not feel accountable to act when things go wrong. Thus, it is obvious that the legal framework which Ethiopian MFIs are currently operating in is an
obstacle for the potential growth and improvement of the microfinance industry, consequently affecting the development of the informal sector as well. In order to better serve the informal sector in order to realize its full potential, the microfinance legislation hence needs to be reformed as to deal with the dynamic growth and innovations found in the microfinance industry. Preferably, such reforms should be agreed upon between both governmental actors and representatives from the AEMFI (Association of Ethiopian Microfinance Institutions) as to satisfy all parties concerned.

7.4.2 The lack of outreach and the need of promoting demand driven financial services
As already pointed out, there is evidently a huge unmet demand of microfinance services in Ethiopia, which should be dealt with as to enable MFIs to increase its outreach. The study has for example shown that the rate of Muslim clients involved in microfinance is significantly less than the Orthodox Christian members at Meklit, but also among MFIs nationwide. Moreover, it is evident that the Muslim community and women (female-headed households) within the informal sector require modified financial products which match their needs. By for example tailoring the products to the clients’ needs, the financial services will have a greater impact in the clients’ respective working sector and also improve the repayment capacity, thus allowing Meklit to sustain their operations. In developing specially tailored services to women, traditional nomadic and pastoralist groups as well as the Muslim community (all of which were identified as representing clear minority groups) the industry will thus be able to expand its outreach.

There is likewise a need for Ethiopian MFIs to increase their scope and operation by searching for new markets and widening the range of financial services to households. As informal workers (and households) are evidently not homogenous but have different needs and are found within various segments of society, the financial products offered should consequently strive to reflect this diversity.

As evident in the presentation of MMFI, there are further many complex rules and obligations which inevitably rules out those who are most desperately in need of their services. Given the long procedures of registration and financial requirements needed for informal workers to attain microfinance loans, it could thus be questioned whether the services really reaches the “poorest of the poor”, which Meklit officially states as one of their main objectives outlined in their common vision.
7.4.3 Issues expressed by informal workers

As evident from the previous chapter, there are many problems concerning the operation and regulation of MFIs as identified by the informal workers themselves.

One of the most important issues is that the majority of clients who come to seek help have no knowledge about microfinance and lack organizational skills concerning the structure of borrowing. As this study has shown, many borrowers lack higher education and are not used to handle large sums of money. A large number of clients are consequently unaware of how to save and deposit money and are unable to repay their loans on time, resulting in high penalty fees. The high rate of default clients and low rate of female clients as pointed out earlier (see 5.13) thus indicates that MFIs such as Meklit have a long way ahead in achieving their stated objectives. This situation also makes it harder for Meklit to make profit, which is so urgently needed as to expand the business and enlarge the circle of clients. The findings have thus proven that the idea of MFIs targeting the “poorest of the poor” is rather a misconception, given that such a client profile is unlikely to guarantee returns and increase profits.

Given the strong dependence on attaining credit for informal workers, it is moreover possible that MFIs such as Meklit could use the desperation of its clients, knowing that they have no other financial alternative. They thus have the chance to use this vulnerability to make profit, which some interviewees have indicated in for example the demand of the high interest rate. Nevertheless, it is clear that Meklit do need to follow the regulations set by AEMFI as to be able to legally operate as a nationally registered MFI. Therefore, it is doubtful to believe that Meklit would use clients for their own profit, and hence lose their legitimacy. The complaints expressed among many interviewees should hence be perceived as an issue related to the regulatory framework instead of implying that the institution is intentionally exploiting their clients, especially given the lack of evidence to cover this.

The question of loan sizes, delays in handing loans as well as the lack of training was further identified as problematic for many of the interviewees. As earlier mentioned, the question of rescheduling of loans if a client is faced by external problems is also restraining the profitability of informal workers. Currently, the assistance is not adequate in supporting clients when such matters occur, as evident from interview 9. It is hence clear that the nature of for example service fees, loan sizes needs and rescheduling of loans need to be modified as to better serve the needs of their clients, hence increasing the potential of the informal sector. As the findings have further shown that many clients gain small returns from their use of loans, it is also obvious that MFIs need to evaluate what type of credit is desired among their
potential clients including the issue of high interest rate, commonly resulting in insufficient income levels.

7.4.4 The issue of loan capital and institutional capacity
Although the services of Meklit play a vital function for the informal sector, it is nevertheless true that microfinance institutions face both internal and external problems which consequently affect their clients’ businesses.
One of the major impediments for economical advancement and sustainability for MMFI is evidently the lack of funds, affecting various areas of their operation and resulting in a lack of adequate training. Due to their restrictive budget, Meklit can for example not afford to provide any further education in marketing and skills advancement as mentioned earlier. For MFIs to contribute to further poverty reduction and increased productivity among its clients, it is thus clear that they must be scaled up significantly. This can be said to be mainly achieved through funding from various sources, as national sources in line with the regulations of the National Proclamation are clearly insufficient.14 Without adequate loan capital, it will obviously take MFIs a longer time to reach a large number of households.

For an enhanced development, the agency itself (in this case, Meklit) must likewise be a trustworthy, competent and stable organization. It must also be able to coordinate and direct both its clients as well as its staff to achieve the best results. It is thus important that the staff is competent and willing to assist their clients in furthering their productivity, which has sometimes been doubted by some of the informal workers carried out in this study. Although quite a number have simultaneously expressed great satisfaction with the general assistance of Meklit, it is nevertheless crucial that the great majority of clients perceive Meklit as a trustworthy institution as to increase their future potential.

During the course of the research, one could further notice a clear difference in what Meklit officially claims to do in comparison to what they do in reality. For instance, it has occurred that household members and/or close relatives are in the same group despite the regulations stating differently, as discovered in interview 3. According to the staff at the local branch in Kolfe (Brooks, Kolfe district (Addis Ababa), 9-12-09) the regulations are not really followed and should be treated as simply recommendations. Thus, it is evident that the organization needs credibility to gain legitimacy among its clients and the surrounding environment.

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14 As mentioned in part 4.4.1, foreign investors are not allowed to invest in the financial sector, including the microfinance industry.
7.4.5 The need of proper training and the potential assistance of shareholders

This study has further shown that the Ethiopian microfinance industry is evidently aiming for poverty alleviation and business profit simultaneously. If not, MFIs would obviously be incapable of operating or offering any financial services to its clients. However, if MFIs such as Meklit are not giving its clients adequate training on for instance marketing skills, the effect of microfinance in the informal sector will accordingly be less efficient. In this research, it was for example evident that several tailors had for example set up their businesses in almost exactly the same market area. In addition, many of them had a low variety of products in comparison to many other tailors in the neighborhood. As expected, nearly all complained of facing stiff competition which hindered their business to become more profitable.

It is thus obvious that informal workers need training to specialize, compete and expand their business, which are currently lacking. They also need market information to know where, how and what is profitable. If the businesses of the clients are profitable, then more clients will as a result be able to repay on time, which will in return provide Meklit with greater profit. Consequently, it is evident that training (identified as the social power to “knowledge and skills” as well as “appropriate information”) would greatly enhance the relative access to all bases of social power, thus enhancing their self-empowerment.

In order to achieve this, the already mentioned question of governance could further be taken into consideration. Despite all the obstacles associated with the National Proclamation, one could on the other hand argue that it could be better to accept the prevailing legislation as it is and have it as a more realistic point of departure. In this case, it could for example be suggested that the various nominal shareholders and financial supporters should possibly provide MFIs with further economical support in offering training for its clients. This move would gradually lead to an increase in their returns as well, thus benefiting all parties.

In resolving the above mentioned issues, MFIs such as Meklit could be recognized as having the possibility to strengthen not only their institutional capacity, but also the informal sector as well. The great diversity and creativity found within the informal sector would hence be reflected to a greater extent, leading to an enhanced interaction with the formal economy as a result.

7.5 Summary

The main points of this chapter could be summarized as follows:
1. Most of the activities carried out in this study mainly comply with the characteristics pointed out in the ILO definition of the informal sector, although the activities and profitability of their businesses greatly vary. On the whole, the informal sector has been recognized as a highly dynamic, creative and heterogeneous sector.

2. The link between rural and urban areas is significant for informal activities, and especially in terms of trade.

3. The social and economical role of CBOs (and particularly iddirs) could be seen as a social safety mechanism which is important for the production of a households’ livelihood.

4. The major impediments for the Ethiopian microfinance industry in developing the informal sector, as identified by this study, are namely:
   - The weak microfinance legislation
   - The clear under-representation of particularly Muslims and women
   - The lack of specially tailored services and products to societal minority groups.
   - The lack of funds. This thus calls for adequate funding from various sources, possibly from external financial sources and nominal shareholders.

5. From the informal workers point of view, the major obstacles were identified as follows:
   - High interest rates
   - Too small loan sizes
   - Lack of training (in areas such as marketing and skills advancement)
   - Delays in handing loans

These all thus need to be adequately addressed in order to enhance the potential of the informal sector.
8. Concluding reflections

In the introduction part of this essay (see background 1.1.), I expressed what I deem as the central point of departure, namely:

“….The problem identified is thus the common standpoint that the informal sector should be transferred to the formal sector, as opposed to acknowledging its potential as a natural continuation of the formal sector. One way of modifying this approach could therefore be to intensify the support to the informal sector.”

This formulation could hence be said to signify the main dilemma of this research, whereof the role of the informal sector is being reflected upon. After further reasoning about this matter, the analysis of this paper has thus raised some key issues concerning the future potential of the informal sector.

First of all, the study has demonstrated the high diversity found within the informal sector, both in terms of income and activities carried out. Whereas some have been able to start businesses generating equal or higher incomes as in comparison to those in the formal economy, many are nevertheless remaining in subsistence activities as this study has shown. Nonetheless, the findings have indicated that the informal sector have the potential to grow if offered intensified support, especially given the high dynamics, creativity and innovation found within the sector.

8.1 Issues facing the microfinance industry

In order to achieve an enhanced development, this paper has pointed to the capacity of microfinance institutions to promote, improve and expand economic activities within the informal sector, thus giving increased access to the bases of social power as described in Friedmann’s Disempowerment Model. As highlighted in the analysis of this study, there are however some clear obstacles for the operation of Ethiopian microfinance institutions. This concerns particularly the governance structure of MFIs which have proven to limit the real potential of the industry as well as its clients. Looking at the contemporary Ethiopian society and the political climate that the microfinance industry is currently operating in, it is thus obvious that the current National Proclamation constrains the operation and profitability of MFIs. The weak governance legislation becomes especially clear when considering the somewhat vague impact of nominal shareholders, having no real stake in investing in the
microfinance industry as such. It is thus evident that the governmental role in developing the microfinance industry needs to be modified as to consequently enhance the potential of the informal sector.

The fact that MFIs have also proven to be profit-oriented while simultaneously striving towards poverty alleviation moreover creates a further dilemma, especially since the most advantaged groups of society are accordingly left behind. This issue thus raises some questions and concerns on the validity of micro-credit as a poverty reduction mechanism.

8.2 The role of CBOs and the potential of social organizations

Given the current problems of MFIs, one could at the same time consider the role of CBOs such as iddirs in empowering workers in the informal sector, thus enhancing the possibility of the informal sector as to gradually integrate into the formal economy.

Since the governance structure and regulations of CBOs are already established and widely acknowledged, it could here be suggested that similar organizations with the purpose of empowering informal workers should be created as to enhance their future development. Given that CBOs are already deeply rooted and acknowledged in the Ethiopian society, it is thus very likely that similar associations would be accepted by the great majority of informal workers as well as the wider society.

By collective action in organizations similar to the structure of the already existing CBOs, the many informal workers active in different activities would thus have the opportunity to come together and take a united stand in issues such as the advocating of their rights and basic needs. In achieving this, they could accordingly gain increased access to social power as outlined in Friedmann’s Disempowerment Model, especially in regards to the interrelated powers of social organization and social networks which are especially crucial in accessing the remaining bases of social power. By allowing the dynamics found in the informal sector to expand on its own conditions, it could thus be said to lead to increased self-empowerment in line with Friedmann’s idea of an alternative development.

Moreover, this type of association, seen as a type of labor union, could function as a social guarantee by providing protection to those active in subsistence activities. The representational security which such unions would offer could accordingly lead to enhanced self-empowerment among its members, at the same time increasing the capacity building and self-sufficiency of informal workers. It is also likely that the informal sector would become increasingly acknowledged by the wider society, consequently moving away from the common standpoint of perceiving the informal sector as an abnormality. The sector would as
a result have a greater chance of integrating with or even outgrowing the formal economy, especially by further authorizing informal activities through this type of organization.

It is furthermore possible that the wide range of informal activities found within the informal sector would gain increased legitimacy from the society at large if given governmental support, hence being recognized as vital for the economy as a whole.

All in all, the implications of these findings hence point to that a new type of association for informal workers could lead to a further empowerment of the informal sector, leading to increased access to the bases of social powers. Through an enhanced cooperation between the microfinance industry and such organizations, the informal sector would have a bigger opportunity of becoming a natural continuation of the formal sector, especially if given governmental and donor support. Apart from the identified obstacles and possible recommendations for MFIs as outlined in the analysis, a move towards a new type of organization could help to promote the informal economy to a higher extent.

From my empirical experience of the Ethiopian society and the insights gained from this research, I will thus argue that the possible development of a new type of labour unions for informal workers would greatly favour the sector as a whole and further enable these activities to eventually integrate with the formal economy. Although the role of the microfinance industry are still equally important in providing financial resources, these type of unions would have the possibility to fill the gaps of the MFIs and further increase its future potential.
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Appendix: Tables
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Table 2: Association of Ethiopian Microfinance Institutions (AEMFI), (2007), Addis Ababa, p.15
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2. Interviewee 2, former constructor and metal worker, Emdibir 19-11-09
3. Interviewee 3, merchant selling mesob, Mexico district (Addis Ababa) 21-11-09
4. Interviewee 4, merchant selling injera and wot, Meklit head office in Mexico district (Addis Ababa), 26-11-09
5. Interviewee 5, merchant, Meklit head office in Mexico district (Addis Ababa), 10-11-09
6. Interviewee 6, rural farmer, Emdibir (Southern Ethiopia), 19-11-09
7. Interviewee 7, merchant selling injera within an association Mexico district (Addis Ababa), 21-11-09
8. Interviewee 8, merchant selling egg, butter and milk, Ledeta district (Addis Ababa), 30-11-09
9. Interviewee 9, owner of a local CD/DVD store, Ledeta district (Addis Ababa), 13-11-09
10. Interviewee 10, merchant selling pepper (berbere), Meklit head office in Mexico district (Addis Ababa), 26-11-09

Remaining implicit interviews:

11. Interviewee 11, owner of a local café, Meklit head office in Nazareth (Adama), 5-11-09
12. Interviewee 12, welder, Meklit head office in Nazareth (Adama), 5-11-09

\textsuperscript{15} Confidentiality was asserted to all the interviewees participating in this study. Therefore, the names of the interviewees remain exclusive.
13. Interviewee 13, farmer buying and selling cattle, Meklit head office in Nazareth (Adama), 5-11-09

14. Interviewee 14, baking and selling injera, Ledeta district (Addis Ababa), 7-11-09

15. Interviewee 15, merchant selling butter and charcoal, Ledeta district (Addis Ababa), 7-11-09

16. Interviewee 16, merchant distributing injera, Meklit head office in Mexico district (Addis Ababa), 9-11-09

17. Interviewee 17, merchant selling injera, Meklit head office in Mexico district (Addis Ababa), 9-11-09

18. Interviewee 18, merchant transporting teff from rural areas to Addis Ababa, Meklit head office in Mexico district (Addis Ababa), 9-11-09

19. Interviewee 19, merchant distributing traditional beer to hotels, Mexico district (Addis Ababa), 10-11-09

20. Interviewee 20, merchant selling cereals, pepper and traditional Ethiopian items, Mexico district (Addis Ababa), 10-11-09

21. Interviewee 21, merchant selling eggs, charcoal, cereals and vegetables, Mexico district (Addis Ababa), 10-11-09

22. Interviewee 22, taking loans for consumption (to pay for college), Mexico district (Addis Ababa), 11-11-09

23. Interviewee 23, merchant selling injera to a hotel. Also working part time at a local café, Mexico district (Addis Ababa), 11-11-09

24. Interviewee 24, taking loans for consumption (to pay for college), 18-11-09

25. Interviewee 25, farmer, Emdibir (Southern Ethiopia), 19-11-09

26. Interviewee 26, farmer, Emdibir, 19-11-09

27. Interviewee 27, default client (now washing clothes), Mexico district (Addis Ababa), 21-11-09

28. Interviewee 28, washing clothes and selling injera, Mexico district (Addis Ababa), 2-12-09

29. Interviewee 29, tailor, Mexico district (Addis Ababa), 2-12-09

30. Interviewee 30, tailor, Kolfe district (Addis Ababa), 3-12-09

31. Interviewee 31, tailor, Kolfe district (Addis Ababa), 3-12-09
32. Interviewee 32, kiosk owner, Kolfe district (Addis Ababa), 9-12-09

33. Interviewee 33, merchant selling school uniforms, bedspreads and rucksacks, Kolfe district (Addis Ababa), 9-12-09

34. Interviewee 34, merchant selling children’s’ clothes and other baby products Kolfe district (Addis Ababa), 9-12-09

*Interviews carried out with staff members of Meklit Microfinance Institution:*

1. Kore M, Meklit staff at Mexico branch, Meklit head office in Mexico district (Addis Ababa), 9-11-09

2. Legesse, Meklit staff at Mexico branch, Meklit head office in Mexico district (Addis Ababa), 9-11-09

3. Alemu N, Meklit planning and monitoring officer in Mexico branch, Meklit head office in Mexico district (Addis Ababa), 9-12-09

4. Sori N, Meklit staff in Nazareth branch, Meklit office in Nazareth (Adama), 5-11-09

5. Brooks P, Kolfe district (Addis Ababa), 9-12-09
Appendix

Table 1: Source of fund of MFIs in Ethiopia (2006)
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<tr>
<th>MFI</th>
<th>Saving</th>
<th>Paid-up equity</th>
<th>Loan from bank</th>
<th>Loan from RUFIP</th>
<th>Grant/donation equity</th>
<th>Net income from lending</th>
<th>Total</th>
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Table 3: Potential demand for microfinance in the next decade (2008-2017)
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<th>Year</th>
<th>Population</th>
<th>Household heads</th>
<th>%age of hh to addressed by MF</th>
<th>Potential clients</th>
<th>Average loan size</th>
<th>Total loan required</th>
<th>Average Saving</th>
<th>Potential saving</th>
<th>Funding of MFIs from other sources</th>
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<td>9614</td>
<td>96,903,092,022</td>
<td>11,127,627,792</td>
</tr>
<tr>
<td>2017</td>
<td>103,817,542</td>
<td>20,763,508</td>
<td>50%</td>
<td>10,381,754(^4)</td>
<td>10,212</td>
<td>106,016,471,848</td>
<td>16,344</td>
<td>169,979,387,376</td>
<td>63,597,915,528</td>
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