Ethiopia wide
tracking communities since 1994

Nonfarm enterprises and 'rural' livelihoods: survival and growth

WIDE Series III Discussion Brief No. 3 of 7[1]

Key messages from the WIDE evidence

- The WIDE research shows that in the context of modernising agriculture, shrinking per capita agricultural land, urbanising rural areas, and broader economic transformation, farming is no longer the only or even the main source of subsistence and economic growth for many 'rural' households and individuals. Both necessity and opportunity have led many to diversify beyond farming into the nonfarm sector, calling for a reconsideration of prevailing assumptions.
    - ➢ It may be beneficial to re-examine the concept of strictly separated rural and urban economies; and to give consideration in policy and practice to 'transitioning' rural economies, through rebalancing attention to both the farm and nonfarm sectors.
    - ➢ The rural nonfarm sector, whilst interrelated with farming, may benefit from a policy direction that treats it on its own right.
    - ➢ To further intensify support to the rural nonfarm sector, consideration might also be given to deploy additional dedicated rural-based expertise and assistance in rapidly urbanising rural areas.
- Less-resourced households and individuals diversify into or engage in nonfarm activities out of necessity and to spread risk and avoid relying on only one option. Many do just a little bit better than surviving while some are able to use this as a path towards gradual economic improvement. For both groups, their nonfarm income is critically important, and those, whose livelihoods are improving, such as migrant returnees, are instrumental for economic growth. However, these actors operate in difficult conditions (e.g. lack of access to finance, workspace, and equipment).
    - ➢ There would be value in providing financial, technical, managerial and workplace advice and assistance to both groups, enabling some to go beyond survival, whilst supporting those already on the way to economic improvement to reach fuller potential.
- The rich and middle-income diversify into or engage in the nonfarm sector mainly to exploit emerging opportunities for additional wealth. Many have been performing quite well without any form of institutional assistance. They face fewer constraints than poorer people, running businesses that are quite profitable. They are creating multiplier effects by developing the urban linkages that they need for their businesses, also benefiting their fellow community members and employing others; and in some cases, promoting apprenticeship.
    - ➢ To transform these bigger businesses into local economy drivers, consideration could be given to assisting them with professional advice, training and orientation. This would help them to scale-up and expand into formal medium and large-scale service and manufacturing companies, creating jobs for the poor and the jobless.
    - ➢ Well-managed rural urbanisation can encourage the rural rich to remain and be part of this process rather than migrating to towns, whilst their investments in both farming and nonfarm rural businesses would multiply local jobs.

- As a result of the combined effects of urbanisation, education, modernising agriculture, improving roads, transport and communication, the lifestyle of richer households in these transitioning rural economies has transformed, and they aspire to have goods and services they did not desire some 10 or 15 years ago. This, and the expanding rural nonfarm sector, create new needs for skilled services in installation, maintenance and repairs of electricity, plumbing, electronics, mechanics, as well as more sophisticated construction, wood and metal work skills. Most of these new demands are currently answered by self-starting young people, who often acquired some skills through working for others. The WIDE data also provide evidence that a number of young people are keen to engage in such activities.
    - ➢ Consideration could be given to strengthen the relevant TVET options and helping those interested to enrol in them – so that they can acquire formal skills and business training to better respond to the demand.
    - ➢ The kind of informal apprenticeship that is currently practised offers a useful model which could be incentivised and scaled up, perhaps through offering tailored support to the established businesses providing such opportunities.
    - ➢ Helping start-ups in such skilled occupations could also have multiplier effects as these pools of young technicians could, in turn, further transfer skills and technology to others in their respective communities; whilst expanding businesses would also employ others to work for them.
    - ➢ Considering the key role of availability of and access to electric power in the unfolding rural transformation, the presence of skilled technicians in rural areas could also support the expansion of alternative electrification solutions, which could alleviate the pressure on the national grid, and promote green technologies.
- In all the four sites there was a drive to formalise the rural nonfarm sector through registration, licensing and taxation. Findings suggest that the costs of formalisation as it was practised was perceived to exceed its benefits for many: time-taking licensing and allegedly too high and sometimes 'random' taxation represented serious bottlenecks for start-ups, discouraging some people from starting and leading to closure of fledgling businesses, in some cases permanently, whilst also 'overtaxing' to varying extents some of the more established ones. Many respondents also highlighted that the support they would expect in return to paying taxes, such as allocation of workspace or access to credit is very limited. This has caused dissatisfaction, perhaps fuelled by the comparison with the farming sector, where taxation levels have not risen while farming incomes have in some instances become considerable.
    - ➢ A more gradual approach to formalising the rural nonfarm sector would seem to be preferable, especially for start-ups. More orientation and consultation, greater transparency in assessments, and a more understanding approach that may give some grace time for newcomers would ease tensions whilst at the same time promoting growth and facilitating the transition to a formalised economy.
- Migration, when successful, is an important aspect of some rural local economies and has the potential to help them grow.
    - ➢ Hence, it would be useful to both improve migration processes and experiences and support returnees in investing in profitable businesses.
    - ➢ This may require a change in mindset about migration, and in the ways in which the migration discourse is framed and reintegration interventions are conceived.

Introduction

While the majority (80 percent) of the rural people where most of the poor people of the world live, are engaged in some form of farming, empirical evidence shows the presence of 'large and growing' nonfarm enterprises in rural areas – a trend which includes Ethiopia (IEG/World Bank 2017). The Ethiopian government acknowledges the role of the nonfarm sector in rural development (see for instance, the recent Rural Job Opportunity Creation Strategy (Ministry of Agriculture and Natural Resources 2017)[2]. However, the focus has been on youth employment creation through a group-based approach, leaving many self-employed young and adult people involved in nonfarm businesses 'on their own'. Whilst recognising the need to prioritise scarce resources, this brief shows that many individuals and households have been engaging in nonfarm enterprises, in addition to farming, or as main or sole source of income for the nearly landless, the landless and the jobless. The evidence suggests that self-employed nonfarm enterprises are worth more focused government assistance and promotion, which could include facilitating working space, skills training, technical support, managerial expertise, and in some cases financial support.

The growth in the nonfarm sector seen in the Bridge communities took place in a context of transformation of rural Ethiopia. Key trends in this transformation include rapid economic growth, rising educational opportunities, the blurring of rural and urban 'worlds', and the strong influence of 'global ideas of a good life', made more accessible through a dense network of connections to towns, cities and the outside world as a result of improving roads, transport, communications and electricity. While this transformation is a nation-wide process, it has been more intensive among rural communities with physical proximity and connectivity to main roads and major towns. The same factors are at play in the simultaneous transformation of smallholder agriculture (Fantu Bachewe *et al.* 2018) – itself an additional key trend interacting with the nonfarm sector growth.

This discussion brief, based on empirical data from early 2018, offers a glimpse into the performance, challenges and opportunities of the nonfarm sector in four different 'rural' communities in Ethiopia, all of them found to be 'transforming' to varied extents. Three of the sites, with a growing farming sector, did well over the past five to seven years: Ude/Sirba[3] in East Shewa, Oromia, rapidly urbanising and densely connected; Yetmen in East Gojjam, Amhara, urbanising too but comparatively farther from a major city; and Aze Debo in Kambata, SNNP, close to the steadily expanding zonal capital, Durame. In contrast, remote Harresaw, bordering Afar in Eastern Tigray, was struggling with recurrent poor rains, although even there, transformation was occurring.

Defining the nonfarm sector

There is conceptual variation in the literature on defining nonfarm activities or enterprises. In this brief, the nonfarm sector refers to economic activities outside of primary agricultural production (IEG/World Bank 2017)[4]. Therefore, such activities as self-employment and wage employment that are formal or informal, year on or seasonal, part-time or full-time involving services, retailing, construction and manufacturing are treated as nonfarm enterprises. Both earned and non-earned incomes that are nonfarm in nature are treated in the same manner.

The nonfarm sector as understood in this brief, embraces both the government supported Micro and Small Enterprises (MSEs) and activities carried out outside of this framework through individual and family efforts. Alongside the government emphasis on the nonfarm sector for its contribution to poverty reduction, employment generation and economic growth[5], this brief highlights a more micro-perspective, in which nonfarm economic activities are undertaken by individuals and households to avoid the risk of depending on one income source, as well as to increase their income through engaging in additional activities.

Therefore, whilst recognising the importance of continued efforts within the strategic framework of the government, the approach that this brief suggests for discussion and critical thinking is one which treats nonfarm businesses as a broad-based economic strategy of transitional rural communities where there are both compelling and attracting reasons (necessities and opportunities) for citizens to engage in this sector as additional or independent business to farming. This approach, grounded in the WIDE empirical evidence, sees the development of the nonfarm and farm sectors as complementary and equally important in a context of increasing 'blurring' of the rural and urban areas and economies. The current MSE approach relies quite heavily on financial support measures and this is found to be problematic, among many other challenges (Berihu and *et al.* 2014). Instead, the approach to the nonfarm sector proposed in this brief, which is broader in purpose, does not necessarily call for dependence on heavy financial injection; but it requires addressing issues of potential competition of the nonfarm and farm sectors for local resources such as land and water (see DBIII:01 Land and urbanisation).

Key messages and supporting evidence

Farming is no longer the only source of rural economic growth and subsistence

The prevailing assumption that farming is a sufficient source of subsistence and economic growth for all rural dwellers may need reconsideration. In the context of modernising agriculture, shrinking per capita agricultural land, rural urbanisation, and broader economic transformation, farming is no longer the only or even the main source of subsistence and economic growth for many transitioning 'rural' households.

Increasing scarcity of agricultural land in mid-and high-land Ethiopia has become a structural problem affecting rural livelihoods and economic progress. Because of successive division of land among generations, the scope for many parents to bequeath land to their grown-up children has become very limited. While there are some households who own 'enough' land, many others struggle on very small amounts of farmland. Moreover, in all WIDE Bridge sites there are large numbers of landless young people, some of whom are working for and with their families or for themselves, others in government assisted groups for income generation, and yet others without anything productive to do in a context of limited employment opportunities (also see DBIII:04 Young people's economic experience). The pressure on land is acute in Aze Debo and Harresaw for demographic and topographic reasons. In the other two sites, urbanisation and industrialisation in the case of Ude/Sirba and urbanisation in the case of Yetmen, compete with farming for land use (also see DBIII:01 Land and urbanisation).

Land scarcity and hence lower agricultural income are important factors driving diversification into the nonfarm sector. Evidence from the Bridge sites show that land is still a crucial source of livelihood (also see DBIII:01 Land and urbanisation). However, households with relatively larger sizes of land, often economically better off, also engage in nonfarming, so that poverty and unemployment do not fully explain the trend to diversify. Urbanising and industrialising features, including those that are helping to modernise smallholder agriculture such as the development of roads, transport, communications and electricity, and the expansion of local towns and small urban centres, have also created opportunities that wealthier farmers were able to seize thanks to their farming income. Some capital has also come from remittances from migration.

In summary, and reflecting evidence from a number of other Ethiopia-focused and broader studies (IEG/World Bank 2017[6]; Kowalski 2017 citing evidence from the first round of the Ethiopian Socioeconomic Survey[7]; Yishak *et al*. 2014[8]), the nonfarm sector was found to be growing in all the four Bridge sites. In addition, as will be further discussed in the next two sections and in line with findings in other African contexts[9], nonfarm activities were found to be important for individuals and households with varied wealth and land ownership statuses.

- These findings suggest the need, as also evoked in DBIII:05 on modernisation and inequalities and DBIII:04 on young people's economic experiences, to re-examine the concept of strictly separated rural and urban economies; and to give consideration in policy and practice to 'transitioning' rural economies through rebalancing attention to both the farm and nonfarm sectors.[10]

In this, we concur with Nagler and Naudè (2017), who also found out that the rural-urban dichotomy may be of limited value (in Africa), and leads to underestimate the potential of rural towns and agglomerations.

Support to nonfarm activities would help less-resourced people to go beyond survival

Poor and less-resourced households and individuals diversify into or engage in nonfarm activities out of necessity and to spread risk and avoid relying on only one option. Many do just a little bit better than survival while some are able to use this as a path towards economic improvement. Financial, workplace, and technical or skills support would help them to improve their performance and profitability.

While there is no clear-cut distinction between nonfarm enterprises carried out by the poor, the middle-income and the rich, the less-resourced have been mostly engaged in a wide range of small-scale activities including daily labour, wage employment, petty trading in crops, vegetables, and fruits, sale of wood, tea and coffee shops, small restaurants, bakeries, beauty salons and barber's shops.

The presence of two coffee processing plants in Aze Debo and of factories around Ude/Sirba (flower farms, textile, plastic and other factories) provides opportunities for wage employment, although there were complaints about the pay being too low. Expanding farming and nonfarming activities, except in Harresaw, have created opportunities for daily labour; however, participation is inhibited by local perceptions that working for others is a lowly activity in Ude/Sirba and Yetmen. Remittances from in-country and international migration are sources of income for many households in Aze Debo, and to some extent in Harresaw and Ude/Sirba. Generally speaking, opportunities for nonfarm activities have increased over the past five years in these three sites, whereas in Harresaw, the effects of successive droughts acted as a strong constraint. Nonetheless, even there, decreasing farm and daily labour opportunities have drawn many people to practise nonfarm activities.

Most of the less-resourced people started their nonfarm activities with limited capital from a wide range of sources including personal savings, informal loans, gifts, remittances, and local credit and saving groups, including *eqqubs*.[11] Most activities are informal and depend on their own and family labour; businesses can be full-time or part-time, seasonal or can run throughout the year. Young, adult, married and unmarried men and women are all involved in such activities. Petty traders often do not have properly allocated spaces and sell their produce along roads, in their homes and at weekly market places. Small shops, workshops, tearooms and the like tend to be established in people's own, families' or rented rooms. Many carry out their enterprises without any training, with just a few having had some training or orientation occasionally given by NGOs or government. People often diversify into more than one type of nonfarm activity at a time or in different times. Lack of access to credit is an obstacle for those who want to expand.

Many stated that their income is inadequate because of limited demand and businesses overcrowding one another. Proximity to a larger urban area (like Durame in Aze Debo) may be a positive factor (greater demand for petty trading of agricultural products) or a negative one (competition with bigger businesses in towns e.g. hairdressers). This suggests that: a) one of the factors directly influencing the potential of the nonfarm sector is how well the farming sector is doing locally – as local demand largely depends on agricultural incomes and b) other 'demand side' measures such as easing access to nearby markets, which helps trading in agricultural products, may also have depressing effects for other local businesses. This resonates with international evidence and other studies on Ethiopia indicating that interventions are needed not only on the supply side of

Non-Farm Enterprises (NFEs) but also on the demand side (*Cf.* IEG/World Bank, 2017). It also supports the argument made in this brief about the need to see farm and nonfarm as two sides of the same coin.

While many of the less-resourced households run such businesses for survival, some others are able to do better, as shown in the few examples below.

- *Trading in Harresaw* - A woman buying crops from local farmers to sell them at nearby weekly markets had to stop during a drought as her profit was no longer covering her costs, but resumed after doing daily labour for two months. In contrast, a man, also trading in locally bought crops in the same markets, started with savings from migration to Saudi Arabia, had his own donkey to trade in livestock and made an annual net profit of 15,000 birr and was able to access a 20,000 birr loan. Similar contrasts between people struggling for survival and others doing a little bit better were found in the service sector.
- *Services and trade in Aze Debo* - A young man running a tearoom and DSTV showroom in a house given by his elder brother, complained that his income was low for a number of reasons, including power interruption and competition by bars and cafeterias showing football matches in Durame, after buying a generator. Another young man who started crop trading with his savings and help from a brother living in South Africa, explained that his capital is not sufficient to purchase as much crops as he wants. Wereda inspectors came and sealed his shop for not having a license just two months after he had started so he got one, and says he is really afraid of having to pay taxes at the end of the year as he has been hearing many complaints about wereda officials' assessments on the radio this year.
- *Small-scale manufacturing in Ude/Sirba* - a young man, who learnt metalwork skills whilst working as an assistant in the nearby town of Mojo, started a metal workshop on space provided by his family and with some small machines he bought. However, whilst the market is promising, he sometimes needs larger machines and has to go back to his former employer to borrow these, which prevents him from finishing orders in good time. He in turn was planning to bring in his friend to work for him as a paid assistant.
- *From tea-selling to bakery in Yetmen* - A young woman, previously making and selling snacks and tea, managed to start a small-scale bakery in a house rented along the asphalted road. She complained that the inputs she needs, which she buys from individual traders as she does not have access to flour subsidised by the government, are costly. She relies on her own and her family's labour. She has five regular daily customers (restaurants and teahouses), although there is competition from other bakers. The business is profitable, although electricity outage, high cost of inputs and lack of a baking machine are major problems. Visiting zonal officials promised assistance a year ago then nothing happened.

Traditional transportation is also a source of income for the poor and jobless, who rent the services of donkeys (Harresaw), donkey-carts (Aze Debo), horse-carts (Ude/Sirba) as well as donkeys and hand-driven carts (Yetmen). Many young people are also employed as drivers for others engaged in the public transportation sector, including bajajs (Indian auto rickshaws), especially in Aze Debo, Ude/Sirba and Yetmen.

These empirical evidences suggest that nonfarm income can be useful for less-resourced individuals and households. However, most of these nonfarm players operate in difficult conditions due to shortage of working space, lack of or limited access to finance or credit, and inability to procure larger equipment – constraints that other studies have highlighted as well (Amare *et al*. 2017; Berihu *et al.* 2014). At the same time, the work of some of these actors, including migrant returnees, can be instrumental for poverty reduction and economic growth.

- There is, therefore, a need to promote such nonfarm activities undertaken by both groups: for the latter because of their growth potential; whereas supporting those for whom nonfarm incomes are about survival might allow them to go beyond that stage.

Supporting diversification by the richer/middle-income would have multiplier effects

The rich and middle-income diversify into or engage in the nonfarm sector in trading, transportation and other activities to exploit emerging opportunities for additional wealth. Many have been performing quite well without any form of institutional assistance. However, they could also be assisted to grow into small, medium and large-scale manufacturing and service provision enterprises which could in turn employ the poor and the jobless.

The rich and middle-income are largely engaged in a wide range of lucrative activities including trading in crops, hotels, bigger shops, distributing businesses and the transportation sector. The rich usually do not face the challenges mentioned for the poor whilst the middle-income may be somewhat affected. The rich are often those with larger amounts of agricultural land, who may rent-in additional land and may purchase and keep profitable hybrid dairy cows and bulls for fattening, and whose considerable income obtained from crop and livestock production provides them capital to invest in nonfarm businesses, and vice versa.

Big crop and livestock traders, people owning motorbikes, bajajs, minibuses, buses and trucks, or running bigger and medium-size hotels, groceries and restaurants, are found in three sites, whereas in the remoter Harresaw there is no transportation service other than donkeys; and bigger businesses are fewer, and smaller. These better-off nonfarm players stimulate their community's local economy through both internal and external linkages with other actors providing the products they need for their businesses (grains, milk, factory-made beverages, and consumer goods). They also employ others, and in some cases, serve as points of informal training or apprenticeship for others, who can in turn use this to start their own activities (see metalwork case above).

All the four sites present cases of individuals or households who have succeeded in wealth creation by diversifying into the nonfarm sector. Some of these cases are described below, with examples of the linkages and other job creation effects just mentioned:

- A big crop trader in Aze Debo has been engaged for 15 years in teff and maize trading between Aze Debo, Durame and Wolkitie, alongside coffee trade, farming four hectares of his own land and one and half hectares rented in from others. One of his sons, a geography diploma holder, has chosen to live and work with his parents rather than migrating abroad or carrying on with teaching; two sons are in South Africa and another son in the West.
- In Harresaw, a young man, who five years ago was the first and only shoe-shiner of the kebele, now owns the largest commodity shop, the largest snack bar, and the only bakery in the kebele centre, whilst he is also fattening hybrid cattle and farming one *timmad* of land. He made a profit of 80,000 birr last year from his licensed bakery, though he had not received any support from the government. To improve his business, he would want the possibility of buying more flour directly from the factory to further cut his production costs.
- In Ude/Sirba, a 50-year old businessman with two-years post-secondary education, and three hectares of land of his own and renting-in four hectares, also owns a grain mill, minibuses, shops and a small grocery selling beer. He is also a member of a seed producing cooperative. Kebele and wereda officials are supportive, regularly visiting and encouraging him. The biggest hotel owner in Ude is a woman who had completed grade 3, who started ten years ago preparing and selling tea and bread in front of the school in Ude. She inherited from her parents the land where she built the hotel. Now she is also running butchery and beer and other drink distribution business with her own truck, and employs 24 permanent workers (paid a minimum

of 700 birr /month on top of food and accommodation). She recently received a loan of 80,000 birr from a government source.

- In Yetmen, a woman running a hotel in the town centre, serving food, and renting rooms and with a billiard room, also employs four people as long-term employees. Two other restaurants/hotels are her only competitors. She makes more profit on drinks than on food, and whilst she says she is not able to tell her net profit, she saves 4,000 birr in a week for an *eqqub*. Her main problems are electricity outage, limited availability of labour, output prices not being commensurate with input prices, and competition from other businesses. She claims she did not receive any support from the government.

In the last five years, modern transportation has become an increasingly important additional source of income for the rich and relatively rich, whilst the expanding local modern transport sector also facilitates the internal and external linkages needed for the bigger businesses such as those described above, and smaller ones (e.g. rich traders with trucks in Ude, bringing shop items, drinks and other goods to sell to local smaller traders and retailers). In Aze Debo, motorbikes, bajajs, minibuses and Isuzu trucks owned by people living in the kebele and others who settled in Durame, take advantage of the recently asphalted road. For instance, a boy who lost his parents and grew up alone is now driving his public bus in Durame, after a successful migration to South Africa. In Ude/Sirba, although horse carts are still dominant in the inside parts of the kebele, many bajajs provide service to Mojo and Bishoftu as well, gaining a good income. Five people in the kebele have big lorries (one of them owns a Sino-truck), and seven people bought minibuses, alongside other nonfarm businesses for some of them. In Yetmen as well, the transportation sector has expanded, as large crop traders have bought mini-buses and Isuzu trucks, taken as a sign of great success in the nonfarm sector. In contrast, no one is involved in modern transport business in remoter Harresaw.

The evidences above illustrate the kinds of multiplier effects that such larger businesses, established by richer and middle-income people, may create.

- ➢ The government could capitalise on such multiplier effects to promote further local economic growth and diversification.

Older survey evidence suggests that for many rural households, the income from NFEs is limited and may not even allow smoothing consumption during agricultural shocks.[12] Such might be the case in deep rural areas where the opportunities for NFEs are limited compared to transitioning communities like those addressed in our study. In contrast, our analysis, based on qualitative and more recent data (early 2018), suggests that rural NFEs do quite a bit more for the richer and the rich and even for some of the less-resourced in the Bridge sites. This was already detected in the earlier WIDE discussion brief on economically successful individuals (see DBII:09 Insights on economic success).

Moreover, we found out that while farming and NFEs are dependent on each other, in urbanising rural contexts, NFEs may be serving as the major path for economic prosperity for many households. Our findings may reveal a relatively recent and increased dynamism in the nonfarm sector. Moreover, surveys may well 'miss' 'economic success' cases in which nonfarm activities play a major role, which may still be relatively few but are nonetheless very important to identify and try to understand.

The rich and the middle-income face fewer constraints, running businesses that are quite profitable and expanding, and often diversifying further. They are benefiting their fellow community members by developing links with other towns and cities. They also serve as points of apprenticeship for the youth.

- The above suggests that those richer and middle-income entrepreneurs could better serve as local economy drivers if their enterprises were assisted to scale-up into formal medium and large-scale service providing and manufacturing companies.[13]
- Whilst in some instances limited financial support might be useful, most important would be professional advice, training and orientation – paying attention to both the provision of basic literacy and numeracy where needed, and technical and managerial training for those who already master these skills – such as the large number of post-primary school leavers now found in many rural areas (see DBIII:04 Young people's economic experiences).
- Supporting those who may wish to fully transition to an urban livelihood is also going to be helpful even though some may be reluctant to give up their rural land.

Responding to new rural lifestyles would create jobs

As a result of the effects of urbanisation, education, modernising agriculture, improving roads, transport and communication, 'rural' people aspire to have goods and services they did not desire some 10 or 15 years ago. The nonfarm sector can facilitate the fulfilment of this demand, which can in turn create new opportunities for nonfarm enterprises.

In all the four WIDE Bridge sites, in early 2018, the commonly used rural/urban distinction was fading away due to intensifying rural-urban linkages with nearby towns, internal urbanisation, and expansion of nearby urban areas (see also DBIII:01 on land). The municipalisation of part of Ude/Sirba in 2012 led to a greater population concentration in the emerging town and its rural peripheries, with people relocating from near and faraway places, informally buying land, building residences and starting new businesses. Industrialisation (flower farms, textile, plastic and other factories, and especially poultry farms) also contributed to increasing urbanisation. In Yetmen as well, the town has become a municipality and has incorporated parts of the surrounding rural areas into its territory, some already allocated to urban youth cooperatives and others through lease auction for residence. Aze Debo is just four kilometres from Durame, the Kambata and Tembaro zonal seat, and lost some of its land to the town. In Harresaw, the existing kebele centre, still very small and at a distance from the (gravel) road connecting a nearby municipality to the wereda centre Atsbi, doubled in size over the past six years. The kebele also lost some land to the municipality; and there is a wereda plan to develop a 'sketch plan' of rural town in the kebele, the location of which was a controversial issue in the community.

In the four sites, increases in household income, availability of government services, especially around kebele administration offices, expansion of private businesses of all sorts, and intensified connections with urban areas and the outside world in general, have transformed the lifestyle of some of the richer households. Owning modern houses with modern household equipment, furniture and electronic items such as mobile phones, radios, TV sets, refrigerators and electric ovens, and connecting to the electric grid and in some cases tap water (also see DBIII:05 on modernisation and inequality) are major parts of this transformation. This and the expansion of enterprises such as bakeries, beauty salons, barber's shops and grain mills, and of the modern transport sector through motorised vehicles of all kinds, create new needs for skilled services of installation, maintenance and repairs in electricity, plumbing, electronics, mechanics, as well as more sophisticated construction, wood and metal work skills.

Most of these new demands, poised to further rise as rural economies increasingly transition to more urbanised economies, are currently answered by self-starting young people. Many of these young people do establish themselves with at least some practical experience acquired through working for someone else. Some formal skills and business training would support them further, whilst the kind of informal apprenticeship that is currently practised offers a useful model which could be incentivised and scaled up, perhaps through offering tailored support to the established businesses providing such opportunities. The WIDE Bridge research suggests that in addition to better responding to these new demands, such a focus would also respond to aspirations of a good number of young people, keen to engage in such activities.

- These evidences call for strengthening and diversifying the options offered by the Technical and Vocational Education and Training (TVET) subsector, which thus far appears to play a very small role in the development of the nonfarm economy (Mulu Gebreyesus *et al.* 2018)[14], as well as supporting those interested to enrol in TVET and to start businesses in the areas mentioned above (also see DBIII:04 Young people's economic experiences).
- Such an investment could also have multiplier effects as these pools of young technicians could, in turn, further transfer skills and technology to others in their respective communities whilst expanding businesses would also employ others to work for them.
- Going further and considering the key role of availability of and access to electric power in the unfolding rural transformation, the creation of skilled technicians in rural communities could also support the expansion of alternative electrification solutions, which could alleviate the pressure on the national grid, and promote green technologies.

Through government actions aiming to facilitate the presence of such a pool of 'modern skills' in transitioning rural economies, the emerging rural demands arising from new socioeconomic occupations and new lifestyles could become a driving force for further change in these economies.

A more gradual approach to formalising the nonfarm sector would better help it grow

In all four sites there was a drive to formalise the informal nonfarm sector through registration, licensing and taxation. Findings suggest that the costs of formalisation as it was practised, exceeded its benefits for many: time-taking licensing and allegedly too high and sometimes 'random' taxation represented serious bottlenecks for nonfarm start-ups, discouraging some people from starting and leading to closure of fledgling businesses, in some cases permanently, whilst also affecting to varying extents the more established ones.

In rural communities, taxation historically included land tax, which smallholders single out as *'firėgibir'* in Amharic (literally 'grain tax'), and various other payments in cash, labour or in-kind, levied as fees or contributions for different causes, which ultimately could raise the costs much higher than the land tax. However, paying land tax, which is receipted, has been considered as a privilege legalising land ownership rather than a burden; and there have only been minimal changes in land taxation. In stark contrast, taxation on the emerging and in some sites fast-expanding rural nonfarm sector, with its own rules and practices, is not viewed so positively by many of the growing number of people who come in contact with it one way or another.

In the four WIDE Bridge sites, there were complaints about nonfarm business formalisation and taxation, particularly by start-ups and aspirants who consider these measures as bottlenecks. The main issues, as illustrated in a few selected cases below, appeared to relate to tax levels rising from one year to the next, and allegedly estimated without taking account of businesses' other expenses and therefore limited incomes; lack of fairness in estimating tax levels among businesses; uncertainty as to how fast officials would enforce formalisation; and time-taking and sometimes unclear processes to get a license or a Tax Identification Number (TIN). Many respondents highlighted the lack of support that they would expect to be available in return to paying taxes, such as allocation of workspace or access to credit. There were cases in all sites of people deterred from starting or expanding their business for fear of high taxation levels.

- In Yetmen, a man running one of the wood workshops, who started with his own savings and credit from a local savings and credit association, who hired two skilled and apprentice employees paid respectively 1,000 birr and 500 birr per month, still found it difficult to survive after five years. His main worries were the high costs of taxation and annual license renewal, combined with competition and lack of land to erect his own workshop. He had not received any support and yet, in 2016/17 his business tax suddenly rose from 400 birr to 1,900 birr, in addition to 400 birr to renew his license and a 250 birr service charge to the town's municipality. Other respondents similarly pointed at high taxation levels on their and other people's businesses.

- In Ude/Sirba, a hotel owner complained that the main problem is unequal treatment among hotel owners. He also faced a serious problem in getting a TIN, for which he was first told by municipality officials that he had to go to Adama (the zonal capital) but where he allegedly did not get what he needed; he opened his business without a TIN, which was then closed for two weeks. Taxation levels were also challenged by many, including one man who complained: "*It is totally unfair and taxes never consider the reality on the ground and their income*."
- In Aze Debo, the tax rate had risen sharply between 2015/16 and 2017/18 for many businesses. Two people running tea shops brought complaints to the kebele chairman, who took the cases to the wereda for consideration but did not have a response after several months. There was an active drive towards formalisation, with many small businesses running without license asked to get one, and in October 2018, wereda officials sealing the premises of those who had not done so until they would get one. The owner of a bakery, who first refused and tried to fight with the wereda officers, saw his business closed. He finally complied following advice from the kebele chairman, and last year paid 1,800 birr as annual tax, whilst he never got any credit or other support to assist his business. A young woman who opened a shop in Durame with savings from migration to Kuwait closed her business as she did not think she could afford the taxes which she feared would be high if she took a license; her operation was a net loss, having invested 10,000 birr for the goods and 1,800 birr in rent to finally clear the remaining items for just 5,000 birr. Petty traders were not asked to pay tax yet, considering the nature of their business, whereas people trading in clothes, shop items, crops, animals and the like had to pay market day tax. Tea shops did not have licenses and were not yet under much pressure, although they too were told to obtain one as soon as possible.
- In Harresaw, there were frequent mentions of wereda officials closing businesses that failed to pay or did not have a license, and this had become a serious concern. Some of those with businesses in the centre of the kebele complained about high tax levels, like a woman running a small snack bar and asked to pay 1,860 birr as annual tax whilst allegedly making only 100-200 birr profit per month. Some of those starting a business hesitated to expand, such as a young woman running a modern hair braiding salon and who would have liked to provide a wider range of modern hair dressing services but was *"afraid of being forced to take a license, which then leads to too much tax payment."* Some of the smaller shops might not have a license, which was highlighted as unfair competition by the couple owning the second largest and licensed shop in the *kebele.* Local drink houses did not have licenses, but a wereda official noted that since early 2018 people were also expected to pay taxes on traditional drink trade such as *tejj* houses. Some uncertainty also surrounded crop trade: most farmer-traders did not have a license, generally arguing that they do not have a 'permanent place' like a shop or a store. A larger trader with his own warehouse did have a license; one of the smaller ones without a license said he was worried of being caught by the tax officials. A few of the larger businesses found taxation levels to be fair, and in fact paid lower than what they did in preceding years, but stressed that getting a license was still a long process. In the case of the baker, getting his license cost him much time, as bakers established in the nearby town allegedly tried to prevent him from getting it.

Again, these findings are supporting those of other studies. Among others, an exploratory study on MSEs also highlights 'stringent licensing requirements' as one oft-mentioned constraint, in addition to others such as 'small size of credit' (Berihu *et al.* 2014). A survey study carried out in Gedeo to identify reasons for small businesses not to be registered and licensed found factors similar to those identified by the WIDE Bridge research, namely (from most to least important): too high taxes, bureaucracy in registering and licensing process, registration and licensing (initial and renewal) costs, business being small and feeling no need of registration and licence (Berhanu *et al.* 2014). It is worth noting that these two studies focus on enterprises in urban areas; whilst there appears to be a dearth of studies on taxation of nonfarm enterprises in rural or 'transitioning' areas. This seems to reflect the prevailing dichotomy in policy and academic thinking conceptualising separately rural from urban economies, with the nonfarm sector considered to be of importance mostly or exclusively in the latter.

Like in urban areas, the recent process of formalising and taxing the growing rural nonfarm sector has become an issue that is causing dissatisfaction.

- While paying tax is a citizen's obligation, a more gradual approach would seem to be very helpful, especially for those who are starting businesses. More orientation and consultation, greater transparency in assessments, and a more understanding approach that may give some grace time for newcomers, might prevent the building up of dissatisfaction whilst at the same time it may promote growth and facilitate the transition to a formalised economy.
- That land tax is very small compared to tax on nonfarm businesses might also act as a factor in people's perceptions about nonfarm income tax so that consultation and discussion might be especially helpful. (Also see DBIII:04 Young people's economic experience).

Conclusion and a few new ideas for discussion

This discussion brief has addressed what rural economic actors do and say about nonfarm enterprises. Regardless of socioeconomic differences, all value the nonfarm sector as a useful strategy: for the richer and middle-income it largely comes as an economic opportunity for growth, whereas for the poor and less-resourced, including many of the youth, it is largely a necessity of survival, but also for some of them, a way of getting wealth and improving their lives. The desire to minimise risk by avoiding relying on only one option is another factor motivating diversification, and having a portfolio of activities to spread the risk maybe all the more important for the poor.

The nonfarm sector is interrelated with farming but may benefit from a policy direction that treats the sector in its own right.

As a field of business in its own right in transitioning rural societies, the nonfarm sector has not attracted much policy attention, or much academic or public debate. The national priority given to youth unemployment, with initiatives such as the recently established Youth Revolving Fund, was much more noticeable than five years ago, with some positive results but also a number of implementation issues calling for further government attention. However, this brief and the companion brief on young people's economic experiences (DBIII:04) suggest that more could be done to support the rural nonfarm sector and reach out to more young people as well as adults, many of whom are self-starting but facing constraints. The nonfarm sector could benefit from skills-based and managerial support, with some financial injection in the case of both the smaller and larger businesses.

Small rural towns could serve as growth points for economic transformation

There seems to be a potential in rural urbanisation to serve as a path towards poverty alleviation, economic growth and transformation, in addition to expanding cities and big towns. Therefore, alongside promoting rural-urban linkages to bigger cities as hubs of transformation, assisting urbanising centres within rural kebeles to grow into towns could elevate them to becoming additional growth points.[15] This has already begun by municipalising rural centres (Ude in Ude/Sirba, Yetmen), and in Tigray the regional objective of developing rural small centres into 'sketch plan' towns. Although, as argued in DBIII:01 Land and urbanisation, this process needs to be carefully managed, it could encourage the rural rich to remain and be part of the urbanisation process of these rural centres. For instance, the practice of rewarding best performing model farmers with town plots may be done in their own villages.

The WIDE Bridge study suggests that there is much the nonfarm sector could contribute to urbanisation of rural places if the sector is supported by a clear policy direction and practical measures to address the challenges facing it and to better capture the opportunities it offers. Interventions could start with the best and least performers so that both groups would further grow beyond survival for the less-resourced ones and generating multiplier effects for the richer ones, also promoting inter-linkages for better synergy. Institutional connectivity, human and capital support and increased provision of rural services and resources increase the chance that the rural poor would benefit from nonfarm enterprises (IEG/World Bank 2017).

The rural nonfarm sector may benefit from new government structures responsible for the sector

Rural urbanisation and economic diversification may require the deployment of additional rural-based expertise and assistance. Existing government structures and their personnel in the fields of agriculture, health, education and security can contribute towards strengthening the rural nonfarm sector. As the interaction between the farm and the nonfarm sectors is dynamic and mostly enabling, with activities at the very interface between them such as trade of farm products, agricultural experts may contribute to the nonfarm sector even though they are already busy with different responsibilities. Furthermore, there may be benefit from having a new government structure in rapidly urbanising 'rural' communities, responsible for the nonfarm sector. It is logical to think that the more rural areas are urbanising, the closer to the 'rural' people urban-based government services need to be.

Along with the efforts to minimise irregular migration and regularising it, more can be done to make migration outcomes contribute to rural local economies

Migration, when it is successful, is an important aspect of some rural local economies and has the potential to help them grow. Hence, it would be useful to both improve migration experiences (see DBII:08 on moving for work and DBIII:04 on young people's economic experience for more), and support returnees in investing in profitable businesses. This may require a change in mindset about migration, and in the ways in which the migration discourse is framed and reintegration interventions are conceived.

Strengthening the sector may benefit from research and development into specific issues

As also noted in DBIII:04 on young people's economic experiences, tackling youth unemployment could greatly benefit from more government attention to the rural nonfarm sector. This sector does not stand separate from farming; consequently, issues of youth economic participation in rural areas are better conceived as an integral part of the challenges and opportunities of overall rural socioeconomic development. In this regard, research may generate new knowledge and lessons from comparing and contrasting young and adult people's nonfarm enterprises performance between those who are within the framework of government assistance and those who are not receiving any form of institutional support. Also, the preference of many young people to work individually rather than in groups and on activities of their choice, as well as their preference for 'new' activities (such as metal and wood work) is worth noting. Researching, starting as a pilot, expanding and scaling up could provide better opportunities for learning and adaptation but also for scale-up and expansion.

References

Amare Abawa Esubalew and Raghurama, A. (2017) 'Micro, Small and Medium Enterprises (MSMEs) Development Strategies in Ethiopia: Retrospective and Prospective Analysis'. *International Journal of Commerce, Business and Management,* 6(1): 11-20.

Barrett, C.B. (1998) 'Immiserized Growth in Liberalized Agriculture'. *World Development* 26(5): 743-753. In Bigsten, A. (2014). 'Dimensions of African Inequality'. *Working Paper* 2014/050. Helsinki: United Nations University, World Institute for Development Economics Research.

Berhanu Getinet Kibret, Rokandla, V., Admasu Abera, LalishoEyoel and Sileshi Belayneh (2015) 'Opportunities and Challenges of Small Business Enterprises in Gedeo Zone-Ethiopia: From Policy, Regulatory and Institutional Perspectives'. *Asia Pacific Journal of Applied Finance*, 4(2): 12-22. ResearchGate publication, accessed at https://www.researchgate.net/publication/297484496.

Berihu Assefa, Abebaw Zerfu, and Biruk Tekle (2014) 'Identifying Key Success Factors and Constraints of Ethiopia's MSE Development: An Exploratory Research'. *Research Report* 18. Addis Ababa: The Ethiopian Development Research Institute Research Reports.

Bigsten, A. (2014) 'Dimensions of African Inequality'. *Working Paper* 2014/050. Helsinki: United Nations University, World Institute for Development Economics Research.

Bigsten, A. and S. Tengstam (2011) 'Smallholder Diversification and Income Growth in Zambia'. *Journal of African Economies* 20(5): 781-822. In Bigsten, A. (2014). 'Dimensions of African Inequality'. Working Paper 2014/050. Helsinki: United Nations University, World Institute for Development Economics Research.

DBII:08 refers to 'Moving for work from rural communities', Catherine Dom, 2016. Accessed at http://ethiopiawide.net/wp-content/uploads/WIDE_DB08Mobility_final.pdf

DBII:09 refers to 'Insights on economic success in rural communities', Tefera Goshu, 2016. Accessed at http://ethiopiawide.net/wp-content/uploads/WIDE_DB09Success_final.pdf

DBIII:01. 'Land & urbanisation', Sarah Vaughan, 2018.

DBIII:03. 'Modernising smallholder farming: Achievements, challenges and prospects in four communities', Mulugeta Gashaw, 2018.

DBIII:04. 'Economic experiences of rural young people in 2018', Catherine Dom, 2018.

DBIII:05. 'Rural modernisation and increasing economic inequalities', Philippa Bevan, 2018.

Fantu Bachewe, Guush Berhane, Bart Minten, Alemayehu Taffesse (2018) 'Agricultural Transformation in Africa? Assessing the Evidence in Ethiopia' *World Development* 105: 286-298. Accessed at http://dx.doi.org/10.1016/j.worlddev.2017.05.041

Federal Democratic Republic of Ethiopia (2016) Council of Ministers Regulation to Provide for Establishment of the Federal Small and Medium Manufacturing Industry Development Agency. Regulation No. 373/2016. Addis Ababa: Ethiopia.

Government of the Federal Democratic Republic of Ethiopia (2011) Micro and Small Enterprise Development Strategy, Provision Framework and Methods of Implementation. Addis Ababa, Ethiopia.

Independent Evaluation Group (IEG) /World Bank Group. (2017) 'Growing the Rural Nonfarm Economy to Alleviate Poverty: An Evaluation of the Contribution of the World Bank Group'. Washington: International Bank for Reconstruction and Development/The World Bank.

Kowalski, J., Lipcan, A., McIntosh, K., Smida, R., Sørensen, S. J., Seff, I, and Jolliffe, D. (2017) 'Nonfarm Enterprises in Rural Ethiopia: Improving Livelihoods by Generating Income and Smoothing Consumption?' ResearchGate, accessed at https://www.researchgate.net/publication/318899696.

Ministry of Agriculture and Natural Resources (2017) *Rural Job Opportunity Creation Strategy*, Addis Ababa, May 2017

Mulu Gebreyesus, Abebe Ambachew, Tigabu Getahun, Berihu Assesfa, Girum Abebe, Seid Hassen and Haileselassie Medhin (2018) 'Main Features of Micro and Small Manufacturing Enterprises in Ethiopia: Baseline Survey Report'. Addis Ababa: Ethiopian Development Research Institute.

Nagler, P. and Naudè, W. (2017) 'Non-farm entrepreneurship in rural sub-Saharan Africa: New empirical evidence'. *Journal of Food Policy* 67:175–191, Published by Elsevier Ltd, accessed at http://creativecommons.org/licenses/by/4.0/.

Reardon, T. (1997) 'Using Evidence on Household Income Diversification to Inform Study of the Rural Non-Farm Labor Market in Africa'. *World Development* 25(5): 735-748. In Bigsten, A. (2014). 'Dimensions of African Inequality'. *Working Paper* 2014/050. Helsinki: United Nations University, World Institute for Development Economics Research.

Tassew Woldehanna (2002) Rural farm/nonfarm income linkages in northern Ethiopia. In Davis B., Reardon Thomas, Stamoulis, K.G. and Winters, P. (Eds), *Promoting farm/nonfarm linkages for rural development: Case studies from Africa and Latin America*, (pp. 121-144). Rome: Food and Agriculture Organization of the United Nations.

Yared Teshome Geneti (2018) 'Challenges and Opportunities of Micro and Small Enterprises Strategy in Ethiopian Urban Development: the Case of Ambo Town, Oromia Ethiopia'. *SDMIMD Journal of Management*, 9 (1), 55-64). Institute of Development Studies (IDS), University of Mysore, Karnataka, India. Accessed at http://www.informaticsjournals.com/index.php/sdmimd.

Yishak Gecho, Gezahegn Ayele, Tesfaye Lemma, and Dawit Alemu (2014) 'Rural Household Livelihood Strategies: Options and Determinants in the Case of Wolaita Zone, Southern Ethiopia' *Social Sciences* 3 (3): 92-104. Accessed at http://www.sciencepublishinggroup.com/j/ss.

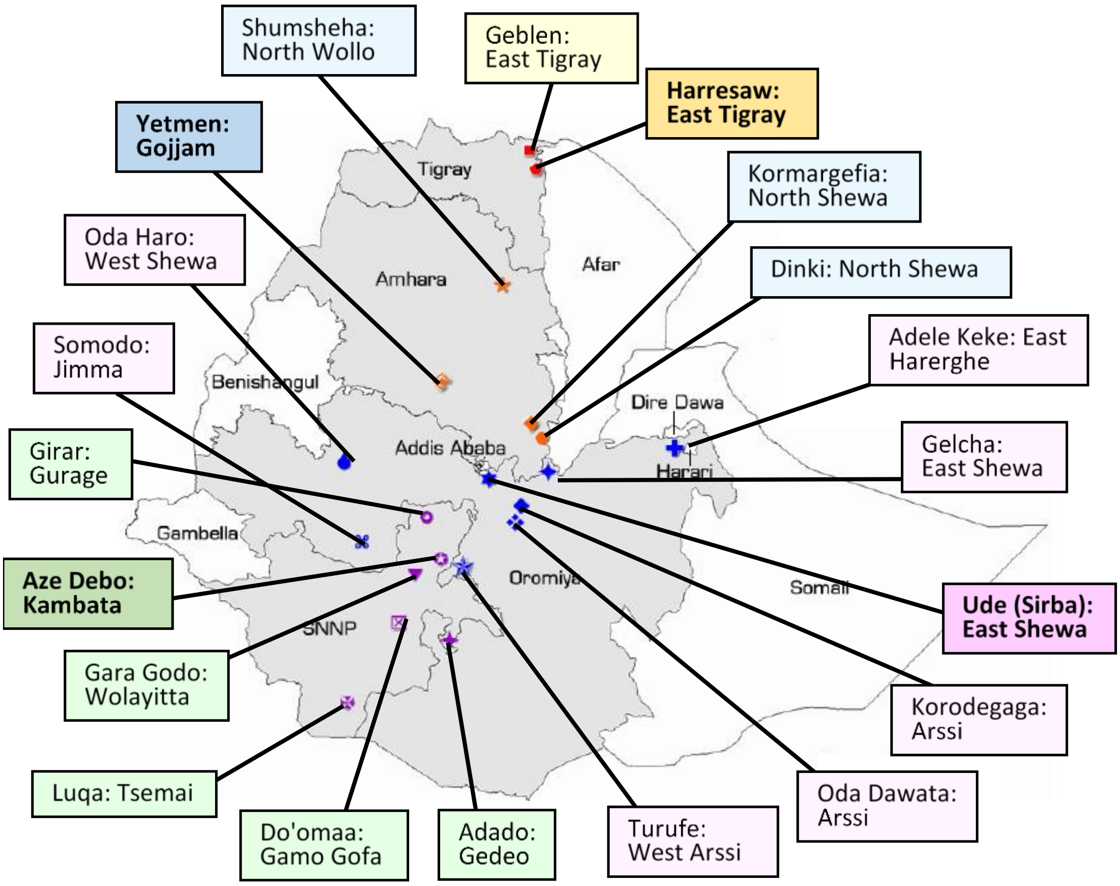
Note: Discussion Briefs from the Ethiopia WIDE research

This brief is part of a series of seven discussion briefs produced by the Ethiopia WIDE team on the topics of land, farming systems, non-farming systems, youth economic experiences, social protection, inequalities and governance, based on research carried out in four communities in the first quarter of 2018.

Ethiopia WIDE is a rigorous independent longitudinal study of 20 rural communities in Amhara, Oromia, Southern Nations, Nationalities and Peoples, and Tigray regions, selected in 1994 by researchers from Addis Ababa and Oxford Universities, as exemplars of different types of rural communities in Ethiopia. They represent wide variations in a range of key parameters notably livelihoods (including surplus producing, drought prone, cash-crop and agro-pastoralist sites), remoteness or ease of access, cultural institutions, and religious and ethnic composition. The team has recently published a book entitled *Changing Rural Ethiopia: Community Transformations*, as well as a compilation of an earlier series of discussion briefs under the title: *Twenty Rural Communities in Ethiopia: Selected discussion briefs on change and transformation*. Further reports and data are available on the website www.ethiopiawide.net.

In the current Bridge Phase, 4 sites were selected one from each of the 4 regions for a fourth round of research. (In the map below, the names of the four Bridge sites are in bold, and darker colours were used for the boxes). Links have been established with 4 universities: Ambo University, Bahir Dar University, Hawassa University, and Mekelle University. We anticipate that these institutions will take on an increasing role in continuing to track change in communities across the country.

Map of the 20 WIDE communities (with WIDE Bridge shaded)



[1]This brief was prepared by Mulugeta Gashaw. The author is grateful for comments from other members of the WIDE team (Catherine Dom, Alula Pankhurst, Philippa Bevan, Sarah Vaughan and Agata Frankowska).

[2]The Rural Job Opportunity Creation Strategy of the Ministry of Agriculture and Natural Resources (2017) includes four pillars as follows: entrepreneurship/self-employment; wage employment, labour market; National Rural Employment guarantee scheme; rural livelihoods diversification.

[3]The site was called Sirba at the time of the WIDE3 research in 2012. It has since changed name, alongside municipalisation of what used to be an exclusively rural kebele. Ude/Sirba now comprises a newly established municipality surrounded by a rural kebele of which one village is still called Sirba.

[4]In the 'Growing the Rural Nonfarm Economy to Alleviate Poverty' report of the Independent Evaluation Group/World Bank (2017), the authors use the following definition: "Rural nonfarm activity is defined both spatially, by activity that takes place in rural areas, and functionally, by a set of activities that do not constitute primary agricultural production. Rural nonfarm activities include value chain activities, such as agroprocessing, transport, distribution, marketing, and retail, as well as other economic activities in the rural space, such as tourism, manufacturing, construction, mining, and other self-employment activities (handicrafts, bakeries, mechanics, kiosks, and so on)." This brief largely concurs with this functional definition. However, we also highlight that many 'rural areas' are better understood as 'transitional' ones.

[5]The necessity to develop the micro and small enterprises with a view to employment generation, poverty reduction and economic growth has been reflected in various government development strategies – although these mostly focus 'de facto' on enterprises in urban areas. These include the 2003 National MSEs development and promotion strategy, revised in 2011, and the 2016 strategy aimed to provide broad-based support for the sector and create the condition to transform to medium and large-scale enterprises to strengthen the industrial sector and to promote export.

[6]This evaluation research, carried out in selected countries including Ethiopia, found that nonfarm enterprises are a major source of rural income in developing countries, and rural nonfarm incomes amount to 35 to 50 percent of total rural households' income.

[7]According to the first round of the Ethiopia Socioeconomic Survey (2011), 20 percent of households in rural and small towns operated at least one nonfarm enterprise whereas the percentage was 54.8 for households in small towns and 19.9 for rural households (mentioned in Kowalski 2017).

[8]A survey carried out in four districts in Wolayta reveals that nearly 58 percent of rural farming households combined nonfarming activities with farming because of land scarcity, recurrent droughts and other factors while some of these households pursued nonfarm enterprises as their primary livelihood strategy (Yishak *et al*., 2014).

[9]For instance, on one hand, households with the highest farming incomes (Reardon, 1997 in Bigsten 2014) and those with better endowments and finance (Bigsten and Tengstam, 2011 in Arne Bigsten, 2014) were found to also be the ones who obtained the highest nonfarm incomes. On the other hand, the nonfarm sector also concerns cases of 'distress diversification', or jobs just to survive (Barrett, 1998 in Bigsten, 2014). Both categories are found in the Bridge sites. However, as discussed in a following section of this brief, we also found that some of those in the latter group managed to turn their distress involvement in nonfarm activities into opportunities for more income, which reveals the contribution of the poor or the less-resourced to economic growth.

[10]This suggestion departs from the literature on 'rural nonfarm enterprises' which appears to continue to think of 'truly' rural contexts (e.g. Kowalski *et al*., 2016), without taking note of the fact that an increasing number of local economies should be seen as 'transitioning'.

[11] In the first round of the Ethiopia Rural Socioeconomic Survey (2011), 65.7 percent of respondents mentioned own agricultural income as the primary source of start-up fund for their NFEs whereas it was 13.7 percent for those living in small towns. In the towns 36.9 percent of this came from nonfarm self-employment income as a main source of fund whereas this was 16.9 percent for those living in the rural areas (Kowalski *et al*., 2017).

[12] They claim "We find no evidence that households operating NFEs are better off in the face of shocks or food insecurity, reinforcing the notion that NFEs do not significantly contribute to risk mitigation or consumption smoothing", (Kowalski et al. 2017). According to Kowalski *et al.* (2017), the ESS1 used a definition of NFEs comparable to that adopted in this brief "as the operation of a nonfarm enterprise involved in the provision of non-agricultural services such as carpentry, the processing and sale of agricultural by-products such as flour, trade, professional services, transportation services, and food services". Moreover, the ESS geographical scope (290 rural areas and 43 small towns of less than 10,000 inhabitants) seems to also embrace contexts similar to those of the Bridge sites. One major difference, as highlighted in the text, is in the time of the first survey round (2011) compared to the time of the Bridge research fieldwork (2018).

[13] This approach might also address a trend that was identified as a gap in other studies (e.g. Amare *et al*., 2017), namely, that government efforts thus far appear to focus more on the creation of new (micro) enterprises than on helping enterprises transition from micro to small and from small to medium level.

[14] In a survey of 8174 micro and small enterprises in the ten major cities of the country, including Addis Ababa, Gebreyesus *et al*. (2018) found that the workforce of these enterprises comprised only 17 percent of TVET graduates, which they highlight as non-commensurate with the level of efforts by the government to expand the pool of TVET graduates with a view to driving the growth of manufacturing enterprises.

[15] Woldehanna, in a study in two districts of the Tigray Region, found that 81 percent of the households participated in some form of nonfarm activities. Moreover, he found that the more districts are far from the regional town Mekelle and wereda towns, the less is their capital invested on services, trades and small-scale manufacturing nonfarm activities.