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A look at the urban informal economy
We live in a world divided roughly between the strong economies of the wealthy countries where most people have jobs, access to credit, pay taxes, and enjoy levels of social and economic security that for most people in the developing world are distant dreams.

Uncounted millions of people in the developing world depend on the informal economy for their livelihoods. And in a new urban era where the majority of people now live in towns and cities, slums have become the physical manifestation of the informal economy. It is primarily because of the low earnings in the urban informal economy that the unplanned, unserviced settlements we commonly call slums have developed in and around urban areas.

It is patently clear that to promote decent work and help reduce urban poverty we have to tackle the underlying causes of informal activities: we must broaden labour rights, improve social protection, invest in the knowledge and skills of workers, provide access to credit and support micro-entrepreneurs. Legal and institutional barriers that make it difficult for informal sector entrepreneurs and workers to join the formal economy must be revised or scrapped altogether in consultation with them.

Governments and municipalities undergoing rapid urbanisation need to be aware of the fact that the informal economy is the mainstay for an increasing proportion of the urban population and that sustainable economic growth can only be achieved through a concerted approach to improving living and working conditions of the urban poor.

As the International Labour Organization tells us, the best way of tackling the situation of people in the informal economy is by acknowledging and assessing the “decent work” deficit. We should like to add to this approach the need to include the “living conditions” deficit which is often the root cause of poor health, poor education, poor social protection that undermine a healthy and productive workforce. Without secure tenure, informal economy workers in cities are vulnerable and subject to evictions. Their homes are not recognised as houses; their lack of “right of abode” prevents them from gaining access to basic services such as water, sanitation and garbage removal.

Their unrecognised or illegal status often prevents them from accessing education and health care. This in turn affects their ability to participate in the urban economy. UN-HABITAT’s research shows that secure tenure is perhaps the single most important catalyst in mobilizing individual investment in a locality. Insecurity of tenure is, likewise, often associated with the marginalisation of individuals and communities, crime, poor health, and other impediments to effective urban governance. The deficit in decent work is thus directly related to the deficit in decent shelter. As the work deficits are improved, the ability of the informal sector workers to obtain decent shelter will also improve and vice versa.

UN-HABITAT studies also show that the majority of young people working in the urban informal sector live in slums. For example, in Benin, slum dwellers comprise 75 percent of informal sector workers, while in Burkina Faso, the Central African Republic, Chad and Ethiopia, they make up 90 percent of the informal labour force.

The majority of young women in slums tend to have children at an earlier age than their non-slum counterparts. In the absence of an extended family to help with taking care of children, the sick and the elderly, young women in slums are likely to look for jobs away from home, particularly in the formal sector.

High levels of unemployment among youth, particularly in urban areas, indicate that the formal economy is unable to absorb labour at a requisite scale and pace, which in the long term has a direct impact on sustainable economic growth and poverty reduction.

At the time of going to press, UN-HABITAT’s Governing Council has reaffirmed fresh support for the agency at the close of its twenty-first session with a sharpened focus on tackling urban poverty and the life-threatening living conditions that prevail in slums.

Indeed, the governments passed a landmark resolution that gives us the go-ahead to set up experimental financial mechanisms for pro-poor housing and basic urban infrastructure. Engaging in experimental mechanisms for financing pro-poor housing and urban development will, after a 30-year hiatus, enable us to begin to unlock a door that has prevented the majority of the urban poor from realising their aspirations of a safe and secure abode.

Other related resolutions include a resolution on youth, the adoption of guidelines on “Decentralisation and the strengthening of local authorities” and “Guiding principles for providing basic services”. The latter two resolutions emphasize the front-line role and contribution of local authorities and the service providers they regulate in improving working and living conditions for the estimated 1 billion slum dwellers that represent one out of every three people living in our towns and cities.

Anna Tibajjuka
Executive Director
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The urban informal economy – new policy approaches

Though difficult to define and measure, the informal economy is growing and growing in size and scope in many developing countries around the world, write Frederico Neto, Officer-in-Charge of UN-HABITAT’s Urban Economy Branch, Yejin Ha and Ananda Weliwita, also on the staff of UN-HABITAT, in this interesting insight into how and why it works the way it does.

The need to integrate informal economic activities into national accounts led to the formulation of a statistical definition that follows international economic classifications used by the United Nations system. According to this internationally agreed definition, the informal sector consists of income-generating households and/or unincorporated enterprises, including own-account enterprises and other unregistered enterprises with a unit size below a certain number of employees.

Since this statistical definition is based on the concept of unregistered or unincorporated enterprises, it does not adequately cover informal employment relations. This has led to a broader definition based on quality of employment criteria – such as the lack of secure labour contracts, worker benefits or social protection – both within and outside informal enterprises. According to this broader definition, informal employment within unregistered enterprises includes employers, employees, own-account workers and unpaid family workers. Informal employment outside informal enterprises includes domestic workers, day labourers, home-based workers and unregistered employees in formal enterprises.

Because current definitions focus on various economic characteristics of the informal sector, no single conceptual or statistical definition is universally used. While the terms ‘informal sector’ and ‘informal economy’ are often used interchangeably, the increasing focus on the latter challenges the ideas that informality is confined to a single sector of economic activity, or that the formal and informal sectors of the economy are independent of each other.

The concept of a single informal sector is misleading because it actually encompasses a broad range of economic activities. Examples of informal activities include street vending, informal transport, home-based work and micro-enterprises in different economic sectors, such as manufacturing, construction and services. Moreover, whereas the formal and informal economies were previously considered as detached from each other, it is now increasingly recognized that they are dynamically linked to form a continuum of economic relations. For example, many home-based informal enterprises in both the garment industry and mail order services have production and distribution links with formal enterprises in the global chain of production.

Bearing in mind the above-mentioned definitional caveats, there is evidence that the urban informal economy employs a considerable share of the labour force in many developing countries. Informal employment as a percentage of non-agricultural employment is estimated to be over 70 percent in sub-Saharan Africa, 65 percent in Asia and over 50 percent in Latin America, albeit with wide variations among different countries (see Figure 1). Similarly, the informal economy is estimated to account for a significant share of the overall economy in both developing countries and those with economies in transition. As shown in the Data Crunch article below, the average size of the informal economy in 2002/03 ranged from 30 percent in Asia to 40 percent in transition economies and 43 percent in Africa and Latin America.

National governments and municipal authorities in many developing countries often emphasize the negative aspects of informality to justify the implementation of restrictive policies for the informal economy. These negative aspects include tax evasion, breach of minimum labour and health standards, and congestion in urban areas. However, given that the informal economy is the main source of employment and income for a sizeable proportion of the urban poor, these restrictive regulatory policies seriously undermine efforts to combat urban poverty and unemployment.

Regulation of the informal economy is, of course, necessary for raising tax revenues and ensuring compliance with minimum labour, health, environmental and quality standards. However, where regulation is excessive, it will effectively increase the cost of entry and operation, and contribute to the growth of the informal economy. This poses a particular problem for developing countries. As Table 1 shows, the average cost of regulation as a proportion of Gross National Income (GNI) per capita is considerably higher in developing regions – notably in sub-Saharan Africa – than in those more developed.

A main policy challenge facing developing countries today is thus how to formulate a regulatory and incentive policy framework which will eliminate or at least minimize the negative aspects of informal activities while strengthening the potential of the informal economy to generate more jobs and other income-earning opportunities.

The Informal Economy in Developing Countries

![Informal employment as % of non-agricultural employment in selected regions and countries, various years (1995-2000)](image)


Note: The data for Africa refer only to sub-Saharan Africa.
The Cost of Regulation: Requirements to Start a Legal Business

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Procedures</th>
<th>Duration (Days)</th>
<th>Cost as Percentage of GNI/capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>6</td>
<td>25</td>
<td>8.0</td>
</tr>
<tr>
<td>South Asia</td>
<td>9</td>
<td>46</td>
<td>45.4</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>8</td>
<td>51</td>
<td>47.1</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>10</td>
<td>39</td>
<td>51.2</td>
</tr>
<tr>
<td>Latin America and the Carribean</td>
<td>11</td>
<td>70</td>
<td>60.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>11</td>
<td>63</td>
<td>225.2</td>
</tr>
</tbody>
</table>

Source: UN-HABITAT (2006), op. cit. Note: The data set covers 85 countries in all regions.

A good deal of the debate over government policies for the urban informal economy is based on whether it should be further regulated or deregulated. However, it is increasingly recognised that policy analysis should move beyond this conventional debate and focus on an appropriate regulatory framework designed to (i) promote the gradual regularisation of the urban informal economy; (ii) improve its operational efficiency and (iii) strengthen its income-enhancing effects on the urban poor.

UN-HABITAT recently conducted a detailed research study on the informal economies of six developing country cities, namely Bangkok, Delhi, Durban, Lima, Mexico City and Nairobi. The objective was to examine existing regulatory environment in each city and to identify innovative policies for improving the operational efficiency of the urban informal economy. The final report, Innovative policies for the urban informal economy (UN-HABITAT 2006), shows that complex and stringent regulatory requirements on the establishment and operation of micro enterprises have contributed to the growth of the informal economy, notably in developing country cities.

Streamlining regulations can, therefore, increase the rate of formalisation or the gradual regularisation of informal businesses. Improved rates of regularisation will depend on whether informal operators perceive the regulatory costs of entry and operation to be lower than the potential benefits of regularisation.

Such potential benefits include recognition of property rights, greater access to credit, access to basic urban services, productivity gains, as well as higher savings arising from a reduction in payment of license and other fees. Poorer self-employed operators at the bottom end of the urban informal economy are particularly affected by complex, costly or time-consuming requirements.

The above-mentioned UN-HABITAT report proposes a menu of regulatory and incentive policy options focused on two broad objectives: (i) the formulation of an appropriate regulatory and policy framework to set up and operate businesses and (ii) complementary developmental policies required to maximise the benefits of streamlined regulation. It is clear that appropriate regulation must combine with developmental interventions to maximise the economic benefits of regulatory reform. The proposed policy options can be summarized as follows:

(i) Appropriate regulatory and policy framework
- Measures to ensure simpler registration, operation and reporting procedures;
- Greater policy coherence and harmonisation at national and municipal levels;
- Differentiated regulatory and incentive measures specifically targeted on different segments of the informal economy;
- Proactive measures to provide advisory support to informal operators and businesses.

(ii) Complementary development policies
- Improved access to workspace, markets and urban infrastructure;
- Improved property rights and security of tenure;
- Better access to credit and finance;
- Enterprise development and capacity building;
- Reduced tax burden, including municipal fees;
- Policies to promote macro-economic stability and urban economic development.

This proposed policy framework is not meant to be a “one-size-fits-all” strategy, as any practical policy must be context-specific and take into account the unique urban (and national) socio-economic dynamics. Since these policy proposals are based on a detailed analysis of the more promising reforms implemented in six developing country cities with a vibrant informal economy, they can inspire other cities into developing policies that best suit local needs.

Given the importance of the urban informal economy to low income groups, this policy framework is ultimately aimed at maximising income and employment benefits for the urban poor. As the world becomes more urbanized and poverty becomes an increasingly urban phenomenon, it is also becoming increasingly clear that a key contributing factor to the incidence of poverty is a shortage of adequate employment in growing cities and towns. Therefore, generating jobs and adequate incomes for the urban poor who rely on the informal economy for their livelihoods is critical to the achievement of the poverty-related Millennium Development Goals.
Inclusive urban planning

What might a street vendor in Durban, South Africa have in common with a waste collector in Bogota, Colombia or a home-based garment worker in Ahmedabad, India? – Answer: Each works in the informal sector outside the reach of government regulation, largely invisible to official statistics, bureaucrats and planning. Here, Martha Chen, a lecturer in public policy at the Kennedy School of Government, Harvard University, and coordinator of the global research policy network, Women in Informal Employment: Globalizing and Organizing (WIEGO) argues that urban planners and municipal officials should acknowledge that the urban informal workforce is here to stay.

We are all quite conscious of the growth of cities around the world and the related growth of slums and squatter settlements. Yet how many of us stop to think how the residents of those slums and squatter settlements earn a living?

International Labour Organization estimates suggest that half or more of the urban workforce in developing countries operate informally, outside the reach of government regulation or protection. Of this vast urban informal workforce, probably half are street vendors or street workers of other kinds: barbers, beauticians, shoe shiners, cobblers, and others providing services. In some countries, where social norms restrict the mobility of women, most of those who work on the streets are men. In all countries, reflecting a common gender division of labour, the vast majority of those who work from their homes are women.

Consider Ahmedabad in western India. According to a recent study, out of a total labour force of about 1.5 million workers, over 75 percent are engaged in the informal economy. The vast majority of poor households depend on the informal economy, and over 80 per cent of women workers work in the informal economy. Nearly 30 percent of male workers operate on the street compared to 5 per cent of women workers, while nearly 70 per cent of women workers operate from their homes compared to 9 percent of men.

Most urban informal workers are linked in some way to the formal economy: buying from or selling goods to formal firms, selling goods for formal firms on a commission, or selling goods to individuals who earn their living in the formal economy. Although a traditional medicine vendor in Durban sources her goods from other informal operators, she often sells goods to formal customers. The scrap paper and plastic collected by the waste collector in Bogota makes its way up a recycling chain to large factories which produce pulp and plastic products. The garment made by the home-based sticher in Ahmedabad makes its way up a subcontracted value chain to a retail outlet in Europe or the United States.

But their contribution to the local, national, and global economy remains invisible and under-valued. The traditional medicine vendor used to sell her goods on the median strip of a major road in Durban – exposed to the elements, to the noise and pollution of the traffic, and to the likelihood of harassment, eviction, or bribes by the police and municipal officials. The waste collector used to be harassed by the public, police, and municipal authorities and was not able to negotiate a fair price for his service. Operating in isolation from her home, the garment maker was not able to negotiate regular orders or fair prices. Also, the Ahmedabad municipalitry did not provide the basic infrastructure – water, sanitation, and electricity – which would make her home-cum-workplace more productive.

Urban planners and municipal officials should acknowledge that the urban informal workforce is here to stay, that it contributes to the city economy in many ways (creates employment, produces and distributes goods and services at affordable prices), and that reducing urban poverty is not possible without supporting the working poor in the informal economy. Second, they should promote inclusive urban planning, including participatory planning processes, to address the key constraints and needs of different categories of urban informal workers. Third, they should recognise the right of urban informal workers to live in central urban areas and provide basic infrastructure. Otherwise, in today’s vast sprawling cities, small islands of formal firms and factories will remain surrounded by a vast sea of informal operators trying to earn a living - who will increasingly demand their fair share of the urban pie.

Today, the traditional medicine vendor, waste collector, and home-based garment worker are doing better than before. In Durban, there has been a remarkable area-based planning and urban renewal project in the central transport node and market area called Warwick Junction.

In Bogota, waste collector cooperatives which have been able to negotiate recognition and better working conditions from municipalities and better prices from the recycling industries.

And, in Ahmedabad, the Self-Employed Women’s Association (SEWA), a trade union of women informal workers, has negotiated better piece-rates for home-based garments workers as well as basic infrastructure for a large number of slums. These initiatives, some of them outlined in the pages that follow, show that inclusive urban planning is not only desirable but also feasible.
The downside of informal trading – evictions

Three years have passed since the Advisory Group on Forced Evictions (AGFE) held its inaugural meeting in Nairobi. And although forced evictions are not always against informal traders, it is the urban poor in the informal economy who usually bear the brunt. This article by UN-HABITAT looks at the rising number of forced evictions around the world catalogued in the second AGFE report.

UN-HABITAT’s Advisory Group on Forced Evictions launched its second report during the 21st Session of the Governing Council in April 2007. It carries updated information on eviction cases documented by AGFE in its first report, and 15 new cases from Angola, Botswana, Brazil, India, Nigeria, Japan, Pakistan, Palestine, Peru, South Africa and Zimbabwe involving many thousands of people.

One of the major findings of the report ( Forced Evictions – Towards Solutions? Second report of the Advisory Group on Forced Evictions to the Executive Director of UN-HABITAT. HS/932/07E. ISBN: 978-92-113-1909-5) is that forced evictions over the past three years have increased dramatically in frequency, in number and in the level of violence.

“They appear to have become a common practice in lieu of sustainable urban planning and inclusive social policies, both in many developed and developing countries,” said Mr. Yves Cabannes, of University College London who is the AGFE Convener.

“Evictions, often at massive scale, have been taking place or are to take place in at least 60 countries.”

The Group has identified, monitored and documented 30 cases of forced evictions around the world. It has also acted as an independent mediator in four missions to cities where forced evictions were being carried out or where there was an imminent threat of large scale evictions. In addition to AGFE’s own activities, several organizations linked to AGFE form part of a global network that is working towards reducing and preventing forced evictions in all parts of the world.

It is projected that, based on current trends between 60 and 70 million people will have been evicted in the two decades between 2000 and 2020 – a dramatic number of people considering that governments agreed in the Millennium Declaration to achieve a significant improvement in the lives of 100 million slum dwellers by the year 2020.

“It is critical that we are constantly on the alert against illegal arbitrary evictions,” says UN-HABITAT’s Executive Director, Mrs. Anna Tibaijuka. “By documenting these cases, AGFE is providing UN-HABITAT and the international community with an important service.” Two years ago, she served as the Special Envoy of the Secretary General during the Zimbabwe government’s evictions of some 700,000 people.

Mr. Cabannes said AGFE’s Second Report was aimed at increasing awareness and knowledge on how to address the forced evictions crisis in a timely and effective manner.

The impact of forced eviction on families and communities, and particularly the poor, is severe and deeply traumatic. Property is often damaged or destroyed, productive assets are lost or rendered useless, social networks are broken up, the local informal trading destroyed, and access to essential facilities and services is lost.

All too frequently the evictions entail rape, physical assault and murder to force compliance. During police evictions in 2004 at an informal settlement on the outskirts of Zimbabwe’s capital Harare, at least 11 people were killed, five of them children under 7.

Many similar incidents elsewhere in the world are documented in the report. In the Chinese city of Nanjing in 2003, a man committed suicide by setting himself alight when he found his home had been demolished. In Lahore, Pakistan, a man also tried to self-immolate in front of the chief justice after his house had been demolished. In the South African town of Pietermaritzburg in 2005, a woman drank a litre of kerosene when the police came to evict her from her roadside trading stall. The list goes on.

Mr. Jean du Plessis, acting executive director of the Geneva-based Centre on Housing Rights and Evictions (COHRE) says millions of people around the world live in constant fear of eviction.

“Every year millions of people around the world are forcibly evicted, leaving them homeless and subject to deeper poverty, discrimination and social exclusion,” he says.

“Often these are large-scale mass evictions, where entire communities of tens or even hundreds of thousands of people are removed. Such communities are invariably evicted against their will, in most cases without compensation or alternative housing.”

Mr. du Plessis was at pains to state that eviction without consultation or adequate alternatives and compensation is illegal under international law. It is also unjust, compromising fundamental human rights principles, with devastating consequences for those affected. Moreover, in terms of international experience and best practice, it is fundamentally counterproductive to the goal of human development whether within or outside the formal economy.
Legalizing property rights – unleashing the economic potential of the urban poor

The biggest problem facing developing countries and those with economies in transition is that over four billion people, or two thirds of the world’s population conduct their economic activities in the informal sector outside the realm of the law. This means, writes Ana Lucia Camaiora, Legal Director at the Institute of Liberty and Democracy in Lima, Peru, that they are excluded from the benefits of operating fully in a modern and inclusive market.

Individuals in the informal economy work in the world of “extra legality,” meaning that they have no legal identity, no fungible property, no structured legal organizations, no credit, no capital, and thus no way to prosper.

Indeed, everywhere the ILD works, we find large extra-legal sectors that comprise a second, parallel economy. For example, we found that:

- Ninety percent of Egypt’s urban real estate and more than 80% of the nation’s rural sector is extra-legal; 82% of Egypt’s entrepreneurs are extra-legal; and the extra-legal economy employs about 40% of Egypt’s workers;
- In Tanzania, 98% of the businesses and 89% of the property are extra-legal;
- In 12 Latin American countries, an average of 92% of enterprises, 76% of rural properties, and 65% of the dwellings are in the extra-legal economy.

A lack of crucial legal institutions; costly, burdensome regulations; and excessive bureaucracy force people to operate outside the law. For example:

- In Egypt, we have found that it takes more than 500 days and costs the equivalent of 27 minimum monthly salaries to open a bakery, and more than 10 years of red tape to convert a sandy piece of land into a commercially legal vehicle.
- In Tanzania, the procedures for valuing, planning, surveying and titling property can take 8 years, and land allocation for urban purposes on the mainland 7 years (9 years in Zanzibar).

Regularizing assets in Mexican shanty towns can take up to 6,000 days, 96 bureaucratic steps and costs US$ 88,000.

Buying, registering, titling and obtaining building permits for a plot of land in Guatemala can take almost 12 years and cost US$ 9,312 – more than twice the average per capita income.

In Ecuador, it can take nearly four years to establish collateral and obtain credit.

People do not stop engaging in transactions because laws are complicated. Instead, they develop their own institutions to secure and transfer property, enter into partnerships, guarantee credit contracts and resolve conflicts.

In Tanzania, we have found thousands of documents proving that a new legal economic order rooted in Tanzania’s indigenous culture could be created. These includes written titles, mechanisms to keep documents, business organizational charts, identification systems, agreements to establish partnerships, etc.

In many Latin American countries, the Institute of Liberty and Democracy has also detected extra-legal practices and documentation, such as sales receipts with witness signatures in Buenos Aires shantytowns; sealed contracts ceding possession of corresponding lots in informal settlements in Bogota; rental contracts with built-in promises to sell in San Salvador; and certificates of usufruct recognizing dwellers extra-legal ownership issued by neighborhood committees in La Paz.

To address this separation between formal law and the extra-legal reality, the Institute of Liberty and Democracy has designed and executed a 5-stage programme that provides a comprehensive approach to bridge the gap between the two economies that exist in many countries (see Figure 1). The result is one inclusive economy under a single rule of law.

The awareness stage makes the integration of the poor and their assets a top priority on the government’s agenda. The diagnostic stage analyzes the problem and determines its causes. By using extra-legal practices as a basis, eliminating institutional obstacles and generating consensus and feedback among stakeholders, the reform stage concentrates on designing laws that are applicable to all citizens. The implementation stage puts the reforms approved into practice. Finally, the capital formation stage establishes the bases for the development of new products and government actions.

This programme has produced significant benefits in the countries where it has been applied, even if only partially.

For example, by the end of 2003, the real estate formalization system designed by the Institute of Liberty and Democracy for El Salvador brought 1 million poor under the rule of law. The programme also helped to peacefully settle former wartime combatants and refugees on productive land, reducing incentives to violence. The El Salvador property registry now records over US$ 800 million of credit backed by mortgages at interest rates of 6 percent with maturities of up to 30 years. Property procedures are now simple and clear and the formalization system has also been crucial in efforts to resettle victims of recent earthquakes.

In another example, between 1991 and 2004, the poor in Peru obtained US$ 9.4 billion in net benefits – equivalent to an average annual return of 173 percent.

The design and implementation of efficient legal institutions for the formalization of property rights and the development of legal businesses are thus key to unleashing the economic potential of the poor.
More and more youth in the informal sector

Around the world many countries are so poor that young people have little choice but to work in the informal sector without hope of better career or education prospects. This is borne out in research by UN-HABITAT for its latest *State of the World’s Cities* report.

We live in a youthful world. Almost half of the global population is under the age of 24; 1.2 billion people on the planet are younger than 15. While the overall share of children and youth in the global population is shrinking as fertility rates decline, in absolute numbers, there are more young people today than ever before.

Fully 85 percent of the world’s working-age youth, those between the ages of 15 and 24, live in the developing world –primarily in Southern Asia and Africa. Within developing regions, it is the least-developed countries that remain younger than the rest of the world: in 2005, the global median age was 28 years, but in 10 least-developed African countries, the median age was 16 or younger.

In cities of the developed world, more jobs are being created in the financial sector and in information management as a result of globalization, while in the developing world, trends point toward an increasing “informalization” of the urban economy, as the formal sector fails to provide adequate employment opportunities for the number of young people and adults seeking work.

According to the ILO, approximately 85 percent of all new employment opportunities around the world are created in the informal economy. In some countries, employment in the urban informal sector has risen sharply over the past decade. Lithuania, for example, experienced a 70 percent increase in urban informal employment as a percentage of total employment between 1997 and 2000. The Economic Commission for Latin America and the Caribbean estimates that urban informal employment in that region increased from 43 percent in 1990 to 48.4 percent in 1999.

The informal economy can afford youth a necessary pathway to legitimate work by conferring experience and self-employment opportunities. Tracking how many youth participate in the informal sector is difficult for a number of reasons, however, and limited data currently exists. But some trends are beginning to emerge. UN-HABITAT analyses indicate that the majority of young people working in the urban informal sector live in slum areas. For example, in Benin, slum dwellers comprise 75 percent of informal sector workers, while in Burkina Faso, the Central African Republic, Chad and Ethiopia, they make up 90 percent of the informal labour force.

When youth seeking work fail to find productive, decent livelihoods, they can become socially excluded and enter a cycle of poverty, experiencing high rates of unemployment across their life spans. The importance of helping youth find productive and decent employment has therefore become a primary motivation of international youth policymaking and development efforts.

Many countries in the developing world are experiencing distinctive “youth bulges”, which occur when young people comprise at least 40 percent of the population. There has been increasing concern among policymakers that the frustrations accompanying long-term unemployment among large populations of young men in urban areas may feed political and ideological unrest and provoke violence.

**Percentage of young women and men working in the informal sector in selected African countries**

![Percentage of young women and men working in the informal sector in selected African countries](image-url)
Informality: the bedrock of African cities

Winnie V. Mitullah, Associate Professor of Development Studies, Institute for Development Studies (IDS), University of Nairobi, Kenya says that, over half of Africa’s urban population lives in informal settlements and far more people rely on the informal economy to make ends meet. At the same time, many in the formal economy are increasingly supplementing their incomes by engaging in informal activities.

The movement between the formal and informal economy dispels the myth of the divide between formal and informal economy. It makes a mockery of the ongoing attempt by governments to formalize the informal economy. The two sectors form a continuum and workers operate within the continuum without worrying about the ‘divide’.

In spite of the importance of the urban informal economy, the sector has not been given the recognition and protection which it deserves. The branding of the sector ‘informal’, has been a strategy to sideline it. The question to ask is – what is informal about a sector that provides employment and income to over 60 per cent of the urban population? Indeed, African governments should concentrate on ensuring that workers within the continuum are protected, and infrastructure and support services are in place.

Most studies do not offer detailed information on the size of the urban informal economy, their composition, organization, competitiveness and linkages to the formal economy. Even the Local Authorities who collect substantial revenue from the economy do not maintain records of the numbers and the contribution of the sector to the urban economy.

The most visible manifestation of informal economic activities is street vending and informal trade. In almost each and every city in Africa, the streets, pavements and roadsides are awash with women and men trading in all sorts of commodities and goods. In many cases, they have been engaged in street vending for long periods of time. For example, an estimated 60 percent of Nairobi’s street vendors have been engaged in this activity for one to nine years, and another 30 percent for 10 to 19 years (see Figure 1).

Most of these service providers are in conflict with urban authorities, and there have been instances of street battles with the enforcement arm of Local Authorities.

There are also formal firms which exploit the concept of informality by hiring workers on a casual basis, while domestic labour is subjected to long working hours for salaries below the government minimum. Such workers only have weak associations which are welfare based and not entitled to any work related benefits. However, these associations tend to be weak and hardly engaged in advocacy and workers rights. It is only recently that, informal workers have begun adopting new strategies of organizing which include advocacy for their rights as workers.

A critical challenge relating to urban informality in Africa is the allocation and use of contested urban spaces. Most informal workers conduct their economic activities in spaces not officially allocated for such purposes. This has been a source of conflict between the urban governors and the informal workers. The governors have continued to apply colonial regulations which provide very minimal space for indigenous economic activities. Over the years, they have held on to the view that informal economic activities should be formalized through punitive measures and control. However, the informal activities have continued to increase as economic opportunities within the formal sector dwindle, in the midst of the neo-liberal reforms taking place in Africa.

Urban development in Africa has to adopt a holistic approach which not only accommodates the informal economy but also provides for it in terms of planning and management of cities. The lack of a holistic approach has exposed informal workers to an unregulated environment, full of harassment, intimidation and lack of protection of workers rights.

Turning around the economies of African cities depends on how respective urban authorities handle the informal economy and its workers. These workers constitute a majority, and urban economic development, including the ongoing poverty reduction programmes must put them at the centre of development if growth and sustainable livelihoods are to be realized in African cities.
Bringing the informal economy into urban plans – a look at Warwick Junction, South Africa

Caroline Skinner, a Research Fellow at the School of Development Studies of University of Kwa Zulu-Natal in South Africa and Richard Dobson, who works for an NGO that supports street traders called Asiye Etafuleni (Zulu for ‘Bring it to the Table’) explain how local government has experienced some success in integrating informal work into urban plans in Warwick Junction, in eThekwini.

Warwick Junction is on the edge of the inner-city is eThekwini’s (Durban’s) primary public transport intersection. On an average day it accommodates 460,000 commuters, and as many as 8,000 street traders.

Given the confluence of rail, taxi and bus transport, it has always been a natural market for street vendors. At the height of white rule in the apartheid era, however, informal trading was harshly controlled. It was only in the late 1980’s that vendors were allowed to operate. By the mid-1990’s nearly 4,000 traders were working in the area and it had become, through lack of management, a crime and grime hotspot.

In 1997 the city council launched an area based urban renewal initiative called the Warwick Junction Project to examine safety, cleanliness, trading and employment opportunities and the public transport efficiency. It set up special teams to deal with issues as diverse as kerbside cleaning, ablution facilities, child care facilities, pavement sleeping, and formalisation of the informal drinking outlets.

For many years the area had been a hub for traders of traditional medicinal herbs. In the late 1980’s and early 1990’s they would frequently be seen sleeping under plastic sheets at night. The first significant capital expenditure in Warwick established a Herb Traders Market with shelter, water and toilet facilities. Today it accommodates nearly 1,000 traders. In 1998, the first year the market operated, an annual turnover estimated at the equivalent of US$23.6 million was reported. The cumulative employment generated, mostly people gathering medicinal products, was 14,000. The city council spent less than half a million dollars on this infrastructure but through this supported not only a significant contributor to the city’s economy but also an employment generator.

In another intervention, city council officials concerned at open fires for corn and meat barbeques, worked with street cooks to design and build appropriate infrastructure that today is used by more than 100 cooks generating a weekly turnover estimated at US$140,000 for a capital outlay of only US$6,250.

In a further example of change for the better, in the late 1990’s there were over 500 women collecting cardboard in the inner city who were being exploited in their precarious existence by unscrupulous middle men. The project established an inner city buy-back centre at Warwick Junction so that the cardboard could be sold directly to the recycling company. Although their incomes remain low, this saw an increase in their earnings of 300 percent.

Two core concerns of the project were cleanliness and crime. It was agreed with the traders that the area would be hosed down at night twice a month, while those using the area would also help with day to day cleaning.

To fight crime, a body called Traders Against Crime helped arrange training sessions with the police, resulting in a significant reduction in both petty and more serious crime in the area. An indication of this is that during the first 18 months of Traders Against Crime, there was only one murder in the area—compared to the 50 the previous year. The city demonstrated commitment to incorporating the informal economy and invigorated unprecedented levels of volunteerism.

The Warwick Junction Project worked well because the staff employed are dynamic and because eThekwini city council is relatively well off. The project has shown a shift in mindset to regard the informal economy as an economic asset. It also showed how by adopting a sector by sector approach to supporting the informal economy, informed by an understanding of economic dynamics, can bring success.

The project for example demonstrates that interventions to enhance the livelihoods of cardboard collectors are very different from meat grilling. The third is the importance of participatory engagement.

“The Council afforded informal traders the opportunity to participate on a sustained and continuous basis in negotiations about their needs and priorities,” said one trader. This was conducted, “in a low key way, often on an issue-by-issue basis”. Sustained interaction with the traders in a participatory manner allowed the project to build on the energy and dynamism of what was already there. Finally, the Warwick experience demonstrates the advantages of an area based approach to management of the informal economy.
The overwhelming impression is of streets literally bursting at the seams, of overburdened urban infrastructure and services tottering on the edge of collapse. And not least, of frustrated officials swimming in the deep waters of despair.

This image is driven by throngs of unskilled, undereducated and usually ill-prepared migrants who, in anticipation of securing a better life on the streets of the continent’s swelling urban centres, continue to stream daily into Africa’s cities.

With an annual urban growth rate of 4.58 percent, the number of city dwellers in sub-Saharan Africa has been growing at a much faster rate than the 1.78 percent at which the region’s total urban population – itself growing at almost double the total population – is increasing.

In Nigeria, the most populous country in Sub-Saharan Africa with a population currently estimated at 140 million, estimates indicate that 43.5 percent of the population already live in urban areas. This is up from 39 percent in 1985, with projections that the urban population will reach 50 percent in just three years by 2010 and 65 percent by 2020.

Such are the figures that they support the description of Sub-Saharan Africa as “a region facing very rapid population growth and accelerating urbanisation, without the requisite economy to produce the public and private resources necessary for housing, infrastructure and urban employment at the scales required.”

Some official estimates indicate that the informal economy in Nigeria accounts for roughly a third of the country’s GDP and as much as 90 percent of new job creation.

Besides, informal operators and employees account for about 57.9 percent of the urban labour force, or more than double the 25 percent recorded in the mid-1960s. Put in other words, almost two thirds of all workers are engaged outside the formal sector.

With more than half the working population unemployed in most African cities, the informal sector usually becomes the only option open to a large number of individuals seeking an income. And with anything from half to two-thirds of the population living on or below the poverty line, the importance of this sector is elevated to the role of a crucial lifeline.

In Lagos, informal economic activity according to official estimates, accounts for between 50-75 percent of state economy and largely employs artisans, petty traders, mechanics, carpenters, dress-makers, hairdressers and retail traders.

Here, survival is depicted for instance, by women who wake up early each morning, slice small loaves of bread into twenty even tinier pieces, and spread a thin coat of margarine on each for sale to school children who would otherwise not have been able to afford the whole loaf.

There are also those who wait at markets to wash mud off the feet of shoppers for a token fee, which, at the end of each day amounts to enough money to feed the children back home.

Some others simply turn over a startup capital sometimes as low as $50. They do this by buying one or two packs of sweets, cigarettes or anything else that could be needed by a cab driver, an artisan or the woman seeking to keep her fretting baby quiet; and hawk the contents on the streets. Usually, commuters are assured that they could buy a household’s entire domestic needs from street traders in the comfort of their vehicles, without actually stepping into the shops that line the highway.

But to the housewife who relies on the neighbourhood kiosk when she runs out of supplies after conventional shops would have closed, the phenomenon also shows that the traditional African lifestyle is not always captured in contemporary city planning or economic structures, which are usually designed in line with foreign formats.

Researchers have expressed concern, however, that vast revenue and management potentials are being lost by municipal authorities and development planners unable to harness the prospects and versatility inherent in the informal economy.

Arguments that promote the dominance of the formal economy tend to claim that because the informal economy is easy to enter and requires little money and skills, it requires little or no form of official support. Others with contrary views, however, also blame the large number of regulations and bureaucratic procedures of different institutions and levels of government, which they believe end up stifling entrepreneurship and inhibiting the realisation of the full potentials of the informal economy.

The biggest challenge therefore, is evolving a new way of managing the city to enable it tap the potential inherent in the size and innovation that drive the informal economy. Facilitating upward mobility by informal operators would also enable them transmit into formal sector operations with time, thereby contributing more substantially to official revenue sources and preventing cities remaining grounded in the mire of under-development.
Looking at the urban informal economy in Sri Lanka

Fikreth Shuaib, Programme Manager at the Foundation for Development Cooperation of Australia, looks at the informal economy in the Sri Lankan capital, Colombo, from the perspective of street vendors, home-based workers and collectors of recyclable materials.

The urban informal economy in Colombo is divided like two teams with formal players on one side and informal players on the other. They also operate on both formal and informal rules. On the formal side are the Colombo Municipal Council (and here a distinction must be made between the council bureaucrats and its elected politicians), national and provincial government agencies and departments, NGOs, trade unions, the private sector, the media and politicians. The informal players include the family and friends of informal workers, and the pathalaya (illegal underworld).

There are two distinct relationships between the formal and informal players. The first is a set of ‘complementary’ relationships. These are evident when two or more players have similar objectives, thus enabling informal workers access to goods and services from both or all of them simultaneously. For instance, home-based workers patronise both formal and informal players in a complementary and mutually supportive way to get credit facilities. The complementary players include family and friends; microfinance organizations; local NGOs, and others.

The second arise when informal workers are forced to make difficult choices: For instance, when Council bureaucrats try to control or restrict the activities of street vendors, while Council politicians were assisting and protecting them. Thus, the vendors substituted relationships with the politicians for relationships with the bureaucrats to ensure that they are able to operate without hindrance. Similarly, for protection and help the vendors opted for the pathalaya over the formal players, the Urban Development Authority and the police.

When it comes to the rules of the game, there are formal rules which include laws and regulations, declarations, guidelines and strategies. The informal rules include social norms, moral rules and conventions. The relationships between the formal and informal ‘rules of the game’ can also be seen as complementary or substitutive.

The complementary rules refer to formal and informal rules that provide common yet varying degrees of positive outcomes for the informal sector in terms of the provision of goods and services such as credit facilities and training opportunities. The rules are mutually reinforcing. This type of complementary relationship can be observed in three informal sub-sectors in Colombo, namely street-vending, home-based work and recycling. For instance, in the case of home-based workers, the private sector (shop-keepers) operates formally through market-based transactions, and informally through the provision of marketing, credit and social security to informal operators. Similarly, the politicians operate through formal and informal channels such as political patronage for the latter and political mandate for the former.

Substitutable rules refers to the conflicting nature between some formal and informal rules, and hence the substitution of one for the other that the informal economy is forced into. This type of relationship was found in all three sub-sectors and particularly involving Council rules. In the case of recyclable materials collectors, by-laws legally prevent them from collecting any recyclable waste at all, whereas informally, the bureaucrats encourage their involvement to act as insurance against strikes by Council staff and private sector contractors. Similarly, home-based workers opt for the informal rule of paying ‘bribes’ to circumvent complying with the formal Business Names Ordinance that is generally considered a time consuming and complex regulatory procedure for an average informal worker.

This institutional analysis of the informal economy has revealed three interesting findings. Firstly, player behaviour is subjected to conditions that are beyond the widely accepted formal assumptions of the need to overcome imperfect information and to provide incentives. Secondly, both the players and rules of the game exhibited two types of powerful relationships that can best be described as complementary and substitutable.

Thus, the third finding is that a supportive institutional framework for the informal economy in developing countries needs to account for these intricate relationships between the formal and informal players and rules of the game.
In 1972, the Textile Labour Union (TLA), a trade union started by Mahatma Gandhi in 1918, appointed a young woman lawyer, Ela Bhatt, to help uplift poor self-employed women in Ahmedabad by teaching them to improve their skills.

The union viewed this purely as a social service rendered to the poor. However, Ela Bhatt went far beyond her mandate and started unionising the women, naming the group the Self-Employed Women’s Association (SEWA). In most Indian languages, the word *sewa* means ‘to serve’. SEWA was formed to serve the interests of self-employed women. With a membership of over nearly 1 million members in 2006, spread over 9 states, SEWA is now one of the largest trade unions in India. Its members are street vendors, waste recyclers, home-based workers, agricultural and rural non-agricultural workers, workers in small-scale industries, among others.

When a trade union tries to enter a new area it usually groups together a few workers from the industry and then frames a charter of demands aimed at eventual recognition. But SEWA starts from below. Its union organisers start by conducting a survey on the living and working of the workers. For example, if SEWA decides to initiate a union among women street vendors in a city, its union activists will start their work by conducting this survey. An analysis of the data will give them an idea of the people and the problems they face. It also helps the activists contact the women in the area at the individual level.

Then they arrange special classes to explain the role and functioning of trade unions. Only after the workers are convinced of the need for a trade union, does SEWA starts its membership drive. The other strategy is of combining other agencies in enhancing trade union work. In most cases SEWA tries to initiate the women into forming co-operatives. Such co-operatives help the women to become owners of their labour.

Here’s an example of how it works successfully for waste foragers. These women form the lowest strata of the self-employed because they have to rummage through garbage to search for recyclable paper, plastic, glass and pieces of scrap. This is sold to the scrap dealers at very low prices. After unionising these women, SEWA’s first task was to provide them dignity at their work and also find alternate employment. The first was taken up through negotiations with the municipal authorities and the police to prevent them from harassing the women. They were issued identity cards and were provided uniforms. The second task, namely, providing alternate employment, was done through co-operatives.

The union helped its members form different types of co-operatives where they could get work collectively. One of these is involved in catering at marriages or other occasions. The co-operative arranged for training of its members in preparing food and taking care of its nutritional value, hospitality and interior decoration. Another co-operative is engaged in cleaning and maintenance of offices and department stores. This co-operative takes up contracts for doing these activities. It also negotiates with municipal and government offices for collecting waste paper. In this way, the union and the co-operative work together to achieve the common goal of improving their economic status and living with dignity.

Besides co-operatives, SEWA has introduced other schemes such as insurance (health and home), provided for banking services, through its own co-operative bank and has initiated housing schemes in the slums. All these factors have helped spread SEWA’s membership among a wide section of self-employed women.

From its inception SEWA focused on the problems of the informal economy through national and international forums and it has helped form both national and international unions. These include the National Association of Street Vendors of India (NASVI), Homenet (an international union of home-based workers), Streetnet (an international consortium of street vendors) and Women in Informal Employment: Globalising and Organising (WIEGO—an international research and advocacy agency). Ela Bhatt was nominated to the Rajya Sabha (Upper House of Parliament) by the President of India. As an MP, she framed a comprehensive bill to provide for rights of informal workers which was introduced in the House but never discussed. Ela Bhatt was later appointed by the government as chairperson of the National Commission on Self-Employed Women. The commission’s report, *Shram Shakti* (Labour Power), published in 1988, was a landmark as it brought to the forefront the contribution of this section of workers to the national economy and problems relating to their work and wages. The planners started taking note of the informal economy.

Today, SEWA is recognised as a National Trade Union Federation. Another major recognition came in 2006 when the International Confederation of Free Trade Unions (ICFTU) granted SEWA full membership.

However, the success of SEWA has also taken its toll. In its home state of Gujarat, where it still retains its highest membership, officialdom has been seeking an end to its activities. SEWA’s members are not put off by frequent evictions of street vendors or the stopping of programmes for their livelihood. Their past experiences of struggle have shown that every defeat makes them stronger and more determined to succeed.

In this article, Renana Jhabvala, National Coordinator of the Indian Self-Employed Women’s Association (SEWA) explains how the movement evolved into one of the giants of India.
Looking at informal employment in Latin America

Latin America is birthplace to one of the most influential ideas to inform the debate over the urban informal economy: that excessive regulation on the part of the state encourages small-scale entrepreneurs to seek refuge in informal economic activities, writes Sally Roever of the Institute of Social Studies, in The Hague, The Netherlands.

This idea was rooted in a historical experience that witnessed the construction of legalistic, interventionist States as part of the attempt at ‘late development’ in the 1960s and 1970s. The claim that regulations were excessive and the informal economy was large during that period, had abundant empirical support.

Three decades later, the idea remains fashionable in policy circles, but broad over-time and cross-regional comparisons suggest there may be additional forces driving informal economic activity. First, the introduction of market-oriented reforms has scaled back Latin American states, and yet the size of the informal economy continues to grow.

Informal employment in Latin America, 1999*

<table>
<thead>
<tr>
<th>Country</th>
<th>% of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>42.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>37.7</td>
</tr>
<tr>
<td>Chile</td>
<td>32.4</td>
</tr>
<tr>
<td>Colombia</td>
<td>46.9</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>40.0</td>
</tr>
<tr>
<td>Ecuador</td>
<td>52.5</td>
</tr>
<tr>
<td>Honduras</td>
<td>55.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>35.3</td>
</tr>
<tr>
<td>Panama</td>
<td>32.3</td>
</tr>
<tr>
<td>Peru</td>
<td>48.2</td>
</tr>
<tr>
<td>Uruguay</td>
<td>35.6</td>
</tr>
<tr>
<td>Venezuela</td>
<td>46.6</td>
</tr>
</tbody>
</table>

Source: UN-HABITAT (2006) op.cit

Among the most relevant market-oriented reforms at the macro level are efforts to streamline regulatory frameworks that affect economic exchange, initiatives to protect private property and enforce contracts, and reductions in the bureaucratic barriers to register businesses. But despite these reforms, the available data show a slow but steady increase in informal employment in the region.

According to the ILO Director-General, Mr. Juan Somavia, seven of every 10 new jobs in Latin America are being created in the informal economy. As Table 1 shows, the informal economy already accounts for a considerable share of total employment in many Latin American countries. Urban areas are driving this growth, as they continue to absorb rural migrants escaping difficult economic conditions in the countryside.

Second, Latin America’s informal economy is smaller than that of Sub-Saharan Africa, while the latter is made up of states with significantly less interventionist histories. For example, World Bank data from 2004 estimate that the average time to start a formal business in Latin America is just over 90 days, versus 60 in Sub-Saharan Africa. This difference in bureaucratic barriers – notwithstanding reforms aimed at reducing them in Latin America – might imply a larger informal economy in Latin America than in Sub-Saharan Africa. Yet informal employment constitutes 51 percent of all non-agricultural employment in Latin America versus 72 percent in Sub-Saharan Africa, suggesting that it is not bureaucratic barriers alone that encourage informality.

Third, it is widely acknowledged that Latin American states’ capacity to actually enforce laws remains low. ‘Thus, even if the quantity of regulations could theoretically discourag formal entrepreneurship, it is unlikely to do so in practice if entrepreneurs know that the regulations will not be enforced.’

The experts, Mr. Miguel Centeno and Mr. Alejandro Portes describe this gap as ‘the permanent contradiction between the voluminous paper regulations that [Latin American states] spawn and their inability to enforce them in practice.’ ‘This enforcement gap’ raises the question of whether entrepreneurs who operate outside the realm of state regulation do so for some reason other than to avoid rules that will likely not affect them.

What explains the persistence of informality in Latin America, then? One possible answer is that the quality of state measures, rather than the quantity, creates the conditions for widespread informal entrepreneurship. In the micro-enterprise sector, for example, several Latin American governments have introduced reforms to promote small-scale enterprises.

These include reductions in requirements for obtaining licenses and permits, increased entrepreneurial training, and offers of microcredit. But these initiatives are often relevant or accessible only to entrepreneurs who already have a solid foundation of skills and capital, leaving behind the masses of self-employed workers who rely on informal work for their survival. As the poorest segments of society continue to bear the brunt of market-oriented reforms, the ranks of low-skilled entrepreneurs have swollen beyond the capacity of states to lift them into the formal realm.

A second explanation of the persistence of informal employment in Latin American cities is the tendency of governments to approach the problem by issuing laws, ordinances and decrees formalizing the informal sector. ‘These measures implicitly view informality as a way station on the road to formality. They assume that regulations attempting to eliminate informal economic behaviour can be successful in the absence of additional measures to combat the conditions that make successful entrepreneurship difficult in the first place: low or non-existent health care coverage, social insurance, and child care support; inadequate education and training; and limited access to other forms of social protection.’

Finally, making labour standards more flexible in the region has created a new class of urban informal workers: those who are informally employed by formally registered enterprises. ‘These workers are neither fully counted in estimates of urban informal employment nor affected by efforts to reduce barriers to formal enterprise registration. Home workers who subcontract to larger enterprises and workers in export processing zones fall into this category.

Once efforts to improve statistics on the informal economy capture these workers, estimates of informal employment in urban Latin America will likely rise further still.'
According to various recent estimates by the Russian Office for Statistics (Rosstat), the Russian Ministry of Economic Development, and polls conducted by the Russian Centre for Public Opinion, up to 40 percent of the population receive “grey” remuneration – salaries that are not fully declared and paid all or in part in cash.

In general, both large and small businesses are involved in the practice, and in big cities such as Moscow or St. Petersburg it is more widespread than in the other Russian regions.

A direct violation of the law, remuneration in cash has other obvious disadvantages: workers cannot claim proper medical insurance, maternity allowance, unemployment benefits, or pension that are often linked to the level of (official) salary. Recently, it has also become difficult for them to obtain consumer credit. So why then do firms and its employees adhere to such a practice?

At first sight, an obvious reason underpinning many informal activities is the avoidance of taxes and high labour costs. Indeed, according to the Russian press a unified social security tax levied on employers is often referred to as the main cause of the phenomenon of grey wages.

Just two years ago the rate of this tax was 35.6 percent of the payroll. It was subsequently reduced to 26 percent in an attempt by the government to make employers pay wages formally. The effect of such a change was mixed, because some employers, normally large enterprises, did indeed start paying formally, whereas small and medium-sized businesses kept sticking to the practice of paying grey wages. It is estimated that only a reduction of the social security tax to around 15 percent could eradicate the phenomenon altogether.

Such a radical decrease is not likely, however, as even the drop from 35.6 percent to 26 percent has already reduced the funds available for social security, medical insurance and pension needs. Doubts prevail also as there is not much trust among the population in the effectiveness of non-budgetary funds, while the practice of grey salaries also helps employees avoid income tax.

The Russian Federal Tax Authority has also approached the problem by trying to increase pressure and clamping down on enterprises where the official wage is lower than an average industry level. But, is this really a way to tackle the problem?

In my opinion, the aforementioned treatment of the grey-wage practice, is neither effective nor efficient. This is because the true cause of informality in Russia lies not in high payroll taxes per se, but in total costs of doing business of which more than 60 percent, by estimates of the European Bank for Reconstruction and Development, constitute unofficial costs such as bribes to bureaucrats or other extortionary payments. From this perspective firms avoid formal contracting, not because of higher labour costs, but because by paying higher wages officially they become desirable targets of corrupt officials.

Thus, bringing the formal part of workers’ remuneration down and creating an impression of lower profit margins helps companies avoid extortion and rent-seekers.

Recent research conducted at the University of Oxford shows that firms might prefer to create informal jobs (or pay a grey wage) to avoid the costs entailed when fully declared employees change jobs or leave. Indeed, paying a fully declared salary implies that in a corrupt environment, a company is likely to bear a higher burden of extortionary payments. By contrast, informal contracting implies lower costs of this nature and allows the firm to be more flexible in wage negotiations and other aspects of employment.

The general solution to the problem of grey remuneration thus lies not only in lowering the social security tax rate, a policy which is currently widely discussed in the Russian press, but also and mainly in the reduction of excessively high unofficial costs of running a business.

In other words, fighting corruption, bribe-taking, and making the economic environment friendlier to investment will see the problem of grey wages go away.
The term ‘informal sector’ arose almost four decades ago to describe the unregulated activities of the urban poor in the developing world. But the problem of proliferating urban masses, supporting themselves in invisible ways and at some perceived risk to public safety, is an older one.

In the eighteenth century, Scottish economists wrote about the ‘riff raff’ of Glasgow and Edinburgh. Later, the inhabitants of English city slums were called ‘the dangerous classes’. A journalist, Mr. Henry Mayhew documented the economic ingenuity of London’s poor in great detail. But Mr. Martin Scorsese’s film, ‘Gangs of New York’ showed how criminal gangs and political corruption were rampant there in the mid-nineteenth century.

The flood of migrants into cities of the developing world provoked alarmist reports of mass unemployment there around 1970. At the time, it was also generally agreed that only the State could effectively promote and manage development. Where were all the jobs going to come from? Policy-makers at both national and international levels were anxious to head off urban riots and worse.

In a paper presented to a 1971 conference on urban unemployment in Africa, based on fieldwork in the slums of Ghana’s capital, Accra, I argued that the urban poor were not ‘unemployed’. They were working, although often for low and erratic returns. ‘Informal’ incomes, unregulated by law and invisible to bureaucracy, were a significant part of urban economies that had grown up largely without official knowledge or control.

Soon afterwards the International Labour Office published a report entitled, *Incomes, employment and equality in Kenya* featuring ‘the informal sector’ as a potentially major contributor to the national economy, one moreover that reduced the impression of inequality given by formal-sector unemployment statistics.

If my paper was an attempt to impress development economists with an ethnographic account of formal and informal economy in the lives of Ghana’s urban poor, the ILO report enabled ‘the informal sector’ to organize research and planning across a wide range of initiatives. The concept’s birth thus had a double provenance that has led to some confusion over authorship since.
The paradox of regularisation

Governments and municipal authorities should make concerted efforts to ensure that the administrative and legal costs of incorporating and running businesses are kept minimal if they want to encourage micro informal enterprises eventually to regularize their activities.

Improved rates of regularisation will depend on whether informal operators perceive the regulatory costs of entry and operation to be lower than the potential benefits of regularisation. Such potential benefits include recognition of property rights, greater access to credit and access to basic urban services.

Many street vendors in the cities of developing countries are willing to regularise their informal activities, provided local authorities recognise their legal status, offer them basic urban services and fiscal incentives available to larger, formal enterprises, and enforce transparent agreement over rights and responsibilities. Indeed, in a 2006 report entitled Innovative policies for the urban informal economy, UN-HABITAT proposes a menu of policy options ultimately aimed at facilitating the regularization of informal enterprises or at least reducing the costs of working informally.

Despite the benefits of gradual regularisation of the informal economy arising from a streamlined regulatory environment, regularisation can have adverse effects on income and employment levels. Because urban informal enterprises enjoy lower administrative and legal charges – as well as greater flexibility in hiring new employees – they are also able to generate large numbers of urban jobs at low costs.

In addition, there are limitations to the regularisation of the informal economy as a whole, even if its costs are kept minimal. Such limitations have been identified as the inability of many municipal authorities in developing countries to process the vast volume of license applications, and a lack of public funds to provide all informal enterprises with the types of incentives available to larger, formal businesses.

Source: UN-HABITAT
Measuring the size of the informal economy

As informal economic activities are a fact of life around the world, most societies attempt to control them by various means. These range from punishment and prosecution to economic growth or education. However, Friedrich Schneider, Professor of Economics at the Johannes Kepler University in Linz, Austria, argues effective decisions can only be made if a country knows more about the extent of the informal economy and who is engaged in informal activities, and the frequency with which these activities are occurring.

Unfortunately, it is very difficult to get accurate information about informal activities in the goods and labour market because those engaged in these activities do not wish not to be identified.

Since the informal economy includes unreported income from the production of legal goods and services – either from monetary or barter transactions – it can be defined as all economic activities which would generally be taxable were they reported to the State (tax) authorities. Hence, doing research in this area can be considered as a scientific passion for knowing the unknown.

There have been many obstacles to measuring the size of the informal economy, to analyzing its consequences on the official economy and examining the interaction between corruption and the informal economy.

But as research shows, some progress has been made. Table 1 provides estimates of the size of the informal economies in 145 countries for three periods (1999/2000, 2001/2002 and 2002/2003) using the DYMIMIC and the currency demand approach. Moreover, some (new) knowledge and insights are gained with respect to the size and development of the informal economy in developing and developed (OECD) countries, those with economies in transition, as well as Pacific Islands and Communist countries, leading to four major results:

The first important result is that for all countries investigated, the informal economy has reached a remarkably large size as the summarized results show in Table 1.

The second result is that informal economies are a complex phenomenon present to an important extent in all types of economies (developing, transition and highly developed). People engage in informal economic activity for a variety of reasons, among the most important of which we can count are government actions, most notably, taxation and regulation. With these two insights goes a third, no less important result: a government aiming to decrease informal economic activity has to first and foremost analyse the complex relationships between the official and informal economy – and even more important – among consequences of its own policy decisions.

Considering a public choice perspective a fourth major result for highly developed countries is that a government may not have a great interest to reduce the informal economy because of the following three factors:

(i) tax losses may be moderate, as at least two-thirds of the income earned in the informal economy is immediately spent in the official economy,

(ii) income earned in the informal economy increases the standard of living of at least one-third of the working population, and

(iii) people who work in the informal economy have less time for other activities like going to demonstrations and other forms of civil protest.

Considering these three facts, it is evident that one of the big challenges for every government is to undertake efficient incentive orientated policy measures to make work less attractive in the informal economy and hence to make the work in the official economy more attractive. In a number of OECD countries this policy direction has been successfully implemented and this has led to a reduction in the size of the informal economy.

<table>
<thead>
<tr>
<th>Countries/Year</th>
<th>Average size of the informal economy (value added in % of official GDP using DYMIMIC and currency demand method)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly developing countries:</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>41.3 (37)</td>
</tr>
<tr>
<td>Central and South America</td>
<td>41.1 (21)</td>
</tr>
<tr>
<td>Asia</td>
<td>28.5 (28)</td>
</tr>
<tr>
<td>Highly developed OECD countries</td>
<td>16.8 (21)</td>
</tr>
<tr>
<td>South Pacific Islands</td>
<td>31.7 (10)</td>
</tr>
<tr>
<td>Communist countries</td>
<td>19.8 (3)</td>
</tr>
<tr>
<td>Unweighed average over 145</td>
<td>33.6</td>
</tr>
</tbody>
</table>

Source: Own calculations

Note: The number of countries in each region appears in brackets.
Women eking out a living in Nairobi’s informal economy

Most women who live in slums and low-income settlements in Nairobi are in business for themselves. One of their biggest worries is finding credit to maintain or expand their existing business operations. It is even more difficult when they lack the education to find out what is out there for them, write Ananda Weliwita, Yejin Ha, and Lucia Kiwala, the chief of UN-HABITAT gender unit.

Borrowing from the formal banking sector is almost impossible for men and women in the informal sector. One reason is that their business operations are small and unregistered. Another reason is that they lack documented data on their business operations and performance. Third, and most importantly, they lack acceptable collateral. Since commercial banks are reluctant to lend to urban informal entrepreneurs, they have no other alternative but to borrow money from next of kin and informal moneylenders, often at excessively high interest rates.

For various reasons, the women find it even more difficult to borrow money from formal lenders. The structure of the economy and the marketplace favour men who monopolize wholesale markets and the supply of goods and credit. Women entrepreneurs are generally – but mistakenly – considered high-risk borrowers. Although there are many state-sponsored programmes to provide small-scale enterprises with credit facilities, little, if any, credit reaches the poor women entrepreneurs in the urban informal economy. Providing them credit will certainly help reduce urban poverty and increase the welfare of their families.

With financial assistance from the government of The Netherlands worth US$ 50,000, UN-HABITAT set up a pilot-level revolving credit fund in 2004 for the benefit of poor women entrepreneurs who are members of the Kayole Jua Kali Association in Embakasi Division, a low-income area in Nairobi. The Kayole Association is a community-based organization of poor urban micro-entrepreneurs with a membership of about 200 of whom about 120 are women. These entrepreneurs are involved in a number of small business activities known as Jua Kali (‘under the hot sun’) activities. They include making building construction materials and products, leather-work, handicraft, motor vehicle repair and mechanics, wood work, textiles and managing snack and food stalls and street vending.

The credit fund lends money to members based on the Grameen banking concept. Members of the Association are divided into smaller groups of five known as Watanos. Members in a Watano co-guarantee each other's loans.

The average loan size is approximately equivalent to US$ 300. Members can borrow money from the fund at a weekly interest rate of 0.3 percent, which is equivalent to an annual interest rate of 15.6 percent.

Loan repayment begins after a grace period of four months and must be completed within a four month cycle. The loan recovery rate so far has been quite satisfactory, at around 90 percent. This shows that Kenyan women entrepreneurs – like their counterparts in most other developing countries – are in fact very low-risk borrowers.

The project has so far had tangible impacts on the borrowers' business operations and on the welfare of their families. At present, more than 100 members of the Kayole Association, mostly women, are active members of the credit fund. Although the project is still in its infancy, there is clear evidence that borrowers' earnings from their existing enterprises have significantly increased as a result of the project. The credit programme has helped many borrowers expand and diversify their existing business operations, and in some cases start new ventures. However, its long-term viability and sustainability will largely depend on the organization and mobilization of members, efficient management and most importantly the strong leadership of the project.
**Innovative Policies for the Urban Informal Economy**

ISBN: 92-1-131846-7  
HS: 852/06E  
Language: English  
Price: US$ 10.00  
Publisher: UN-HABITAT

This report identifies and develops national or municipal regulations and policies aimed at improving the operational efficiency of the urban informal economy and strengthening its income- and employment-enhancing effects on the urban poor. The proposed policies and recommendations contained in the report are based on detailed analyses of existing municipal by-laws and national policies on informal economic activities in selected developing country cities in Africa, Asia and Latin America, namely Bangkok, Delhi, Durban, Lima, Mexico City and Nairobi. Each case study primarily examines innovative experiences of regulatory reform and identifies successful reform policies that could serve as models for other developing country cities.

**We Are Poor But So Many: The Story of Self-Employed Women in India**

Author: Ela Bhatt  
Language: English  
Price: US$ 45.00  
Publisher: Oxford University Press

In 1972, Ela Bhatt founded the Self-Employed Women’s Association (SEWA) to bring poor women together and give them ways to fight for their rights and earn better livings. Three years after SEWA was founded, it had 7,000 members. Today it has a total membership of 700,000 women, making it the largest single primary trade union in India. The book provides fascinating accounts of the struggles of women in the informal sector in India. The author asserts that the poor do not need charity; they need work so that they can live with dignity. This book should be of interest to policy makers as it may open their eyes to reality. Academics and activists would certainly find it inspiring. Bhatt led SEWA to form a cooperative bank in 1974 - with a share capital of $30,000 - that offered microcredit loans to help women save and become financially independent. Today the SEWA Cooperative Bank has $1.5 million in working capital and more than 30,000 depositors with a loan return rate of 94 percent. Through years of organization and strategic action, Ela Bhatt developed SEWA from a small, often ignored group into a powerful trade union and bank with allies around the world.

**Membership Based Organizations of the Poor**

ISBN: 9780415770736  
Language: English  
Price: US$135.00  
Publisher: Routledge

With contributions from leading experts, this work explores questions about membership based organizations of the poor. Looking at their successes and failures, it uses studies from both developed and developing countries. Several chapters are case studies about membership-based organizations of the poor. They include Cooperatives and the Emancipation of the Marginalized: Case Studies From Two Cities in India by Sharit Bhowmik; Shack/Slum Dwellers International: One Experience of the Contribution of Membership Based Organizations to Pro-poor Urban Development by Celine d’Cruz and Diana Mitlin and Informal Governance Procedures and the Exit Option Among Lima’s Street Vending Organizations by Sally Roever.

**The Shadow Economy**

ISBN: 0-521-814081  
Author: Friedrich Schneider, Dominik H. Enste  
Language: English  
Price: US$ 65.00  
Publisher: Cambridge University Press

Illicit work, social security fraud, economic crime, and other shadow economy activities are fast becoming an international problem. Friedrich Schneider and Dominik H. Enste use current demand, physical input (electricity) method, and the model approach, to estimate the size of the shadow economy in 26 developing, transition, and OECD countries. They argue that during the 1990s the average size of a shadow economy varied from 12 percent of GDP for OECD, to 23 percent for transition, and to 39 percent for developing countries. They examine the causes and consequences of this development using an integrated approach explaining deviant behaviour, which combines the findings of economic, sociological and psychological research. They suggest that increasing taxation, social security contributions, rising state regulatory activities, and the decline of the tax morale, are all drivers behind this grown, especially in OECD countries. They propose a reform of state institutions to improve the dynamics of the official economy.

To order these and any other publications, go to [www.unhabitat.org](http://www.unhabitat.org) and click on publications.
Governments give UN-HABITAT a new boost

Members of the UN-HABITAT Governing Council reaffirmed fresh support for the agency at the close of its twenty-first session 16-21 April after passing 10 resolutions aimed at taking the battle against urban poverty closer to slum dwellers than ever before. UN-HABITAT’s Executive Director, Mrs. Anna Tibaijuka, said in a closing speech that 911 delegates from 92 countries were joined by 231 representatives of NGOs and 61 representatives of local governments and their associations. The five-day meeting also included representatives of various UN bodies, international financial institutions, professional associations, women and youth groups, and the private sector.

The Governing Council meets every two years to set the agency’s work programme and budget. The governments gave the agency the go-ahead to set up experimental financial mechanisms for pro-poor housing and infrastructure, and approved a new Medium-term Strategic and Institutional Plan. “I have said on numerous occasions that these two initiatives are instrumental to the future of UN-HABITAT, and that this Governing Council could well prove to be a watershed. The Medium-term Plan consolidates the gains we have made since UN-HABITAT became a fully-fledged Programme,” Mrs. Tibaijuka said. She said the financial resolution would enable UN-HABITAT to strengthen its role as a pre-investment catalyst for bringing local initiatives in pro-poor housing and infrastructure to scale. Other resolutions included new guidelines on Decentralisation and strengthening of local authorities, Guiding principles for providing basic services, a resolution on Arctic cities, Urban youth development, and the approval of the biennial work programme and budget.

UN-HABITAT joins with Coca-Cola for clean water and sanitation

Mrs. Tibaijuka signed an agreement in April with Coca-Cola India announcing that they will collaborate to improve community access to water and sanitation in India and Nepal. “Our partnership with Coca-Cola, India, is an innovative example of how public-private-community partnerships can help meet the challenge of the Millennium Development Goals, especially those committed to halving the number of people not having access to clean water and adequate sanitation by the year 2015,” she said. Mr. Deepak Jolly, Vice President for Coca-Cola, India said, “Water management remains a priority and we are delighted to enter into this partnership with UN-HABITAT.”

Forced evictions on the increase world-wide

UN-HABITAT’s Advisory Group on Forced Evictions launched its second report in April during the 21st Session of the Governing Council. A key finding is that forced evictions over the past three years have increased dramatically in frequency, in number and in the level of violence. They appear to have become a common practice in lieu of sustainable urban planning and inclusive social policies, both in many developed and developing countries. Evictions, often at massive scale, have been taking place or are to take place in at least 60 countries. The report was presented by Ms. Leticia Osorio, Coordinator of Americas Programme of the Centre on Housing Rights and Evictions (COHRE), and Mr. Cesare Ottolini, Coordinator of the International Alliance of Inhabitants (IAI).

Strengthening ties with China

China’s Vice Minister for Construction, Ms. Wenjuan Fu renewed her government’s commitment to work with UN-HABITAT towards sustainable urbanization during a meeting in April with Mrs. Tibaijuka. They discussed several joint initiatives including preparation for the fourth session of the World Urban Forum scheduled in Nanjing, China, from 13-17 October 2008.

Saudi funding for Palestinian housing

The Saudi Committee for the Palestinian People’s Relief has disbursed US$ 6.3 million through UN-HABITAT to help provide housing and shelter for Palestinian widows and women living in poverty in the West Bank town of Al Khalil, also known as Hebron.

Spanish funding for UN-HABITAT work in Africa

The Government of Spain has committed new funding in March of US$592,000 for UN-HABITAT’s Rapid Urban Sector Profiling programme in the Democratic Republic of Congo, Mozambique and Senegal.

UN-HABITAT honours Bahrain’s Prime Minister

Bahrain’s Prime Minister Sheikh Khalifa bin Salman al Khalifa in March was awarded the 2006 Special Citation of the Habitat
Scroll of Honour Award for his efforts in improving the lot of the urban poor. UN-HABITAT, cited his “impressive efforts in lifting the living standards of all Bahrainis through an active focus on poverty alleviation and modernization while preserving the cultural heritage” of his country.

Joining hands with East African youth

Over 60 representatives from cities across East Africa met in Kampala, Uganda early March to explore how to advance youth leadership in a region where more than half the population is under 24. Sponsored by UN HABITAT, the Government of Uganda and the City of Kampala the meeting was held under the frame-work of the Global Partnership Initiative (GPI) on Urban Youth Development in Africa. It came as regional leaders are seeking strategies to advance common development goals. Participating countries include Rwanda, Uganda, Kenya, Tanzania, Zambia, Mozambique with support from the Canadian NGOs and the Government of Norway. The meeting was told that the world’s young people (12-24), now numbering more than 1.3 billion, must be seen as a vanguard for development as well as key agents of innovation and positive social change. The challenge is clear: while at the same time recognizing young women and men as agents of change of today, they must be cultivated as the leaders of tomorrow.

Upcoming events

High-level Committee on South-South Cooperation, New York, 29 May – 1 June 2007

High-level dialogue on financing for development, UN General Assembly, New York, (3 days) October 2007
With its worldwide circulation online and in print, in five languages – English, Spanish, Russian, Chinese, and Arabic – Habitat Debate has a readership of about 35,000. Distributed to some 20,000 institutions, it is an ideal advertising medium for all spheres of interest to people and corporations working with cities, in cities and for cities around the world.

In addition to its distribution to the world’s leading mayors, government ministers, architects, urban planners and key global urban policy makers, Habitat Debate also reaches leading universities and research institutions.

Four times a year, Habitat Debate, UN-HABITAT’s flagship magazine, carries a series of authoritative articles by the world’s leading experts on global urban developments, looking objectively at both the good and the bad of our rapidly urbanising world.

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