

Prosperity for all

Enhancing the informal economy through
participatory slum upgrading





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Foreword



Urbanisation is one of our century's most transformative trends. Nearly 54% of the world's population now live in cities, estimated to increase to two-thirds by 2030. The informal economy contributes 30-60% of GDP and provides four in five urban jobs in many countries of the global south. City governments are centrally placed to harness opportunities for sustainable urban development, and while both housing policy and economic development have been extensively debated, their links are less clearly articulated. This report bridges that gap, examining the innovation and enterprise in slums and informal settlements and their potential contribution in urban upgrading programmes.

While slums and informal settlements are deprived urban areas, people also make a living in them, raising families and contributing to the broader urban economy. Slums are often significant centres of local enterprise, much of which is informal. The energy and economic creativity of slum dwellers should be recognised and incorporated into urban improvement activities. The launch of the report *Prosperity for all: Enhancing the informal economy through participatory slum upgrading*

is thus timely in contributing to global development agendas, particularly Goal 11 of the 2030 Agenda for Sustainable Development, which seeks to make cities and human settlements inclusive, safe, resilient and sustainable, and its Target 11.1 to measure progress on ensuring access to adequate housing for all, and to upgrade slums. Developing inclusive and participatory upgrading approaches that incorporate residents' need for livelihoods are core to this agenda.

This report also aligns with the New Urban Agenda (NUA), agreed at the 2016 United Nations Conference on Housing and Sustainable Urban Development. The New Urban Agenda (NUA) is about people, prosperity, peace and partnerships in urban settings, and is an accelerator for the Sustainable Urban Developments. Its commitments include: strengthening resilience in cities, giving special attention to upgrading slums and informal settlements, and promoting decent work for all recognising the contribution of the working poor in the informal economy. The 2018 New Urban Agenda (NUA) review further stresses the importance of integrating partners into its processes of knowledge production and reporting.

This report stems from UN-Habitat Governing Council Resolution 24/11, which seeks to strengthen the UN-Habitat's knowledge base by documenting and disseminating good practices and tools on urban small-scale and informal economies. The report has been developed with the Participatory Slum Upgrading Programme (PSUP), a joint effort of the African, Caribbean and Pacific Group of States, the European Commission and UN-Habitat, to provide innovative and enabling frameworks that support city-wide and participatory slum upgrading. Under PSUP, Community Managed Funds – a key innovation – dedicate a percentage of overall upgrading funds to community-initiated projects through a revolving fund, which to date has led to improved living conditions for over a quarter of a million people.

Despite the wealth of knowledge on slums and informal settlements and the burgeoning urban informal economy, relatively little is known about the intersection between the two. This report addresses that gap, examining the characteristics and potential of the economy and enterprise of slums and informal settlements, and gives good practice examples of the potential and inclusion of how supporting economic enterprise can enhance participatory upgrading in challenging urban areas.

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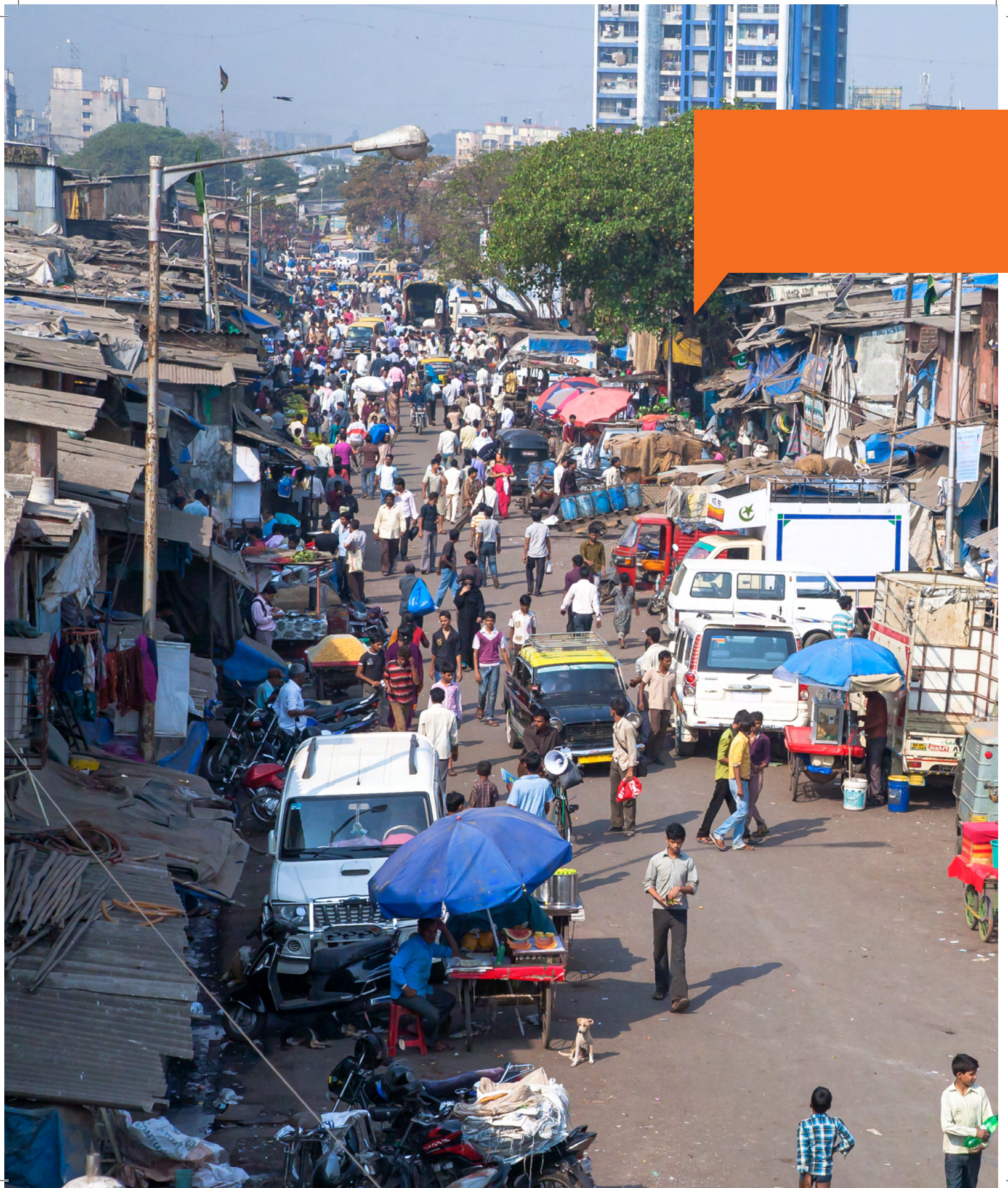
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01.

Introduction

Estimates suggest that a billion people live in slums and informal settlements today, representing about 30 per cent of the world's urban population. In parallel, in many cities of Africa, Asia and Latin America the informal economy is a key source of employment, engaging half to three-quarters of the (non-agricultural) urban workforce.

This report looks at the intersection of slums and informal settlements and the informal economy, to raise awareness amongst communities, local authorities, NGOs and other urban actors of the potential of the local economy in informal settlements – much of which is also informal – as a key component of participatory slum upgrading, to contribute to economic development and poverty reduction. It accompanies the earlier report published by UN-Habitat on *Enhancing Productivity in the Urban Informal Economy* (UN-Habitat, 2017).

Slums and informal settlements are often vibrant centres of economic activity, with a mesh of small-scale enterprises and home-based work that serve both the local populations and the wider city. Yet the focus of settlement upgrading has been on improving land

tenure and infrastructure, with limited awareness of the diversity, networks and specialisms of economic enterprise found in slums and informal settlements. The potential of the informal economy in informal settlements is not yet well-understood – the types, networks and locations of economic activities, its contribution to employment, income generation and economic growth, its gender dimensions – and its potential contribution to slum upgrading and poverty reduction is not well-recognised.

Much has been written both on settlement upgrading and the urban informal economy, but there is little research on the intersection of these two important areas. This report seeks to fill this gap and strengthen the links between settlement upgrading, livelihoods and improved quality of life. It aims to enhance understanding of the importance of the informal economy in slums and informal settlements for both residents and the wider urban economy, and explores enabling approaches that can enhance the livelihoods and local economies of settlements. The report draws on the experiences of the Participatory Slum Upgrading Programme of UN-Habitat and other similar projects and programmes.

The report has five chapters. Following the introduction, Chapter 2 describes the context of slums and informal settlements and the informal economy, and provides a brief overview of UN-Habitat's Participatory Slum Upgrading Programme. Chapter 3 examines the economy of these settlements, exploring the sectors, location and viability of enterprises. Chapter 4 identifies the distinctive attributes of local economies typical of low-income settlements. Chapter 5 examines approaches to urban upgrading and the potential contribution of local economies to participatory slum upgrading. These approaches are illustrated with case studies of settlement upgrading from around the world which have made a positive impact on the local economy.

1 billion people live in slums and informal settlements today, representing about 30 per cent of the world's urban population



02.

The context

The 21st century is witnessing an urbanizing world, but is also witnessing an urbanisation of poverty, as seen in the proliferation of slums and informal settlements and the expansion of the informal economy in many cities of the global south. Chapter 2 sets the scene, discusses the context of poverty faced by many people in cities, the significance of the informal economy, and the participatory-upgrading approach adopted by UN-Habitat in partnership with ACP governments.

2.1 Urban poverty, slums and informal settlements

Urban poverty is multi-dimensional – a condition that includes low income, inadequate housing, lack of access to essential services and exclusion from other benefits of urban society and economic development. To escape income poverty, the urban poor need adequately paid employment and appropriate knowledge, skills and good health. This in turn requires access to education and health care, adequate housing and urban services, but these require an adequate income, rights of access, and recognition of their potential for self-help.

The urban population of many cities in developing countries is growing rapidly. Urban populations are swelled by natural growth, rural-urban and international migration. Many cities, particularly in Africa, are also witnessing a 'youth bulge,' with a large cohort of young people entering the job market. Many of these urban workers seek employment or own-account work in the urban informal economy. The value of their enterprises should not be underestimated, as they produce goods and services for the urban poor, the wider urban population, and for global markets.

The public and the private sector are unable to supply sufficient adequate and affordable housing or to expand infrastructure services for this growing urban population, so large numbers of people live in inadequate poorly-built housing. The United Nations defines a 'slum household' as a group of individuals living under the same roof who lack one or more of the following: (a) durable housing of a permanent nature; (b) sufficient living space; (c) easy access to safe water in sufficient amounts at an affordable price; (d) access to adequate sanitation; (e) security of tenure that prevents forced evictions (UN-Habitat, 2006: 21). UN-Habitat (2016: 13) uses the term 'slums and informal settlements' for areas where many slum households live, but there is no global consensus on a definition for such settlements, as they differ from country to country, city to city and within cities.

Some have criticised the use of the term 'slum', because it has negative connotations and confuses the quality of the housing with the status of its occupants (Gilbert, 2007). Many of the settlements are what Stokes (1962) called 'slums of hope', as their residents expect to improve their quality of life as a result of their efforts. Often, these settlements have developed informally outside the regulatory framework of the city. The meaning of 'informal' is, however, also debated. Roy (2005) argues that many new urban settlements do not follow regulations but that informality in middle class settlements is treated differently from that in poorer areas. Thus, formality and informality are not fixed categories based on a clear criteria, but are rather a continuum, negotiated on a case by case basis.

When an informal settlement of the poor is upgraded, the focus is often on the built environment and physical amenities ('aestheticisation of poverty') rather than people's livelihoods, wages and political

capacities. What is at stake in urban informality is, however, the right to the city, not just access to infrastructure and land. As critical urban theory, the widely-debated concept of the 'right to the city' challenges the dominant role of urban property in capitalist accumulation, and proposes a city and society often termed 'democratic' or 'just' in which all urban residents have collective rights to participate in city life (Harvey, 2008; Marcuse, 2009; Brown, 2013).

Access to adequate housing and to decent livelihoods are both critical in enabling citizens to escape poverty, and housing and livelihoods are closely connected. The economic activities of poor households often take place within the home, which is used both as a place of reproduction (providing protection, privacy and family care), but also production (as an economic asset for income generation, saving, and investment). These two aspects of housing are mutually reinforcing: a good quality house has greater potential for income generation, while a higher income can be used to improve housing conditions. Some governments have concluded that upgrading slums and informal settlements is an important means to improve the quality of life of the poor. Given the close connection between housing and income generation, settlement upgrading should include both physical improvement of the settlement (infrastructure and housing), and development of the local (often informal) economy.

2.2 The informal economy defined

When the term *informal* was introduced in the 1970s it was used to refer to a sector of the economy seen as residual and temporary. Today, there is recognition that the informal economy is neither temporary nor residual. It is the lifeblood of many cities, providing employment for many if not the majority of urban dwellers, and supplies essential and affordable goods and services to both low- and middle-income populations and inputs to the wider urban, national and even global economy. Debates on the economic rationale of the informal economy are on-going (Chen, 2012), but it is argued that informal enterprise is a rational response to a globalised economy (Cross and Karides, 2007). The distinction between formal and informal economies is increasingly blurred. Many governments, faced with fierce global competition, are deregulating economies, while formal enterprises are informalising their contracts with workers or outsourcing production to informal enterprises.

There is no universally accepted definition of the *informal economy*, but the international statistical community has made great strides in the past two decades in establishing a common conceptual framework that is now widely used and consists of three interrelated terms:

- The **informal sector** refers to employment and production that takes place in unincorporated, unregistered or small enterprises.
- **Informal employment** refers to employment without social protection: own-account workers and employers employed in their own informal-sector enterprises; all contributing family workers; employees holding informal jobs, i.e. not covered by legal protection or social security; members of informal producers' cooperatives; and own-account workers producing goods exclusively for final use by their household.
- The **informal economy** refers to all units, activities and workers so defined and the output from them. However, informality exists across a continuum of rights and regulations, such that informal workers may conform to regulatory requirements in some aspects (e.g. paying daily fees), but not in others (e.g. operating from insecure space) (UN-Habitat, 2017: 4).

2.3 The significance of the informal economy

The size of the informal economy in terms of employment and its contribution to the total economy is difficult to measure. In most regions of the developing world, informal employment comprises more than half of all non-agricultural employment: 82 per cent in South Asia, 66 per cent in Sub-Saharan Africa, 65 per cent in East and Southeast Asia, 51 per cent in Latin America and 45 per cent in the Middle East and North Africa. However, regional estimates hide the great diversity within regions – informal employment ranges from 33-82 per cent among Sub-Saharan African countries and from 42-73 per cent among East and Southeast Asian countries (Vanek *et al.*, 2014).

National estimates: Although the earnings and profits may be low, overall activity within the informal economy contributes significantly to the Gross Domestic Product (GDP) of many developing countries.

Table 1: Contribution of the informal sector (excluding agriculture) to GDP in selected countries (%)

Sub-Saharan Africa		Middle East and North Africa		Asia		Latin America	
Benin (2000)	61.8	Algeria (2003)	30.4	India (n/a)	46.3	Colombia (2006)	n/a
Burkina Faso (2000)	36.2	Egypt (2008)	16.9			Guatemala (2006)	32.2
Cameroon (2003)	46.3	Iran (2007)	31.1			Honduras (2006)	34.0
Niger (2009)	51.5	Palestine (2007)	33.4			Venezuela (2006)	18.1
Senegal (2000)	48.8	Tunisia (2004)	34.1				
Togo (2000)	56.4						

Source: ILO, 2013: 22

Table 1 presents estimates of the contribution of informal sector enterprises (rather than informal employment) to GDP in selected countries, demonstrating that these activities are central, not marginal, to the economy of many countries.

City estimates: At city level, estimates are hard to come by, but are important to underpin economic inclusion. The French institute DIAL used 1-2-3 survey methods to produce estimates of the size of the informal economy for 11 cities, using three sequential surveys: a labour force survey using standard ILO indicators; interviews with a sample of informal enterprises, and an expenditure survey (Herrera *et al.*, 2012). However, reliable city-level estimates are often hard to acquire because the sample sizes produced through labour force surveys are usually too small.

Urban policy: Despite the size of the informal economy, many local governments are reluctant to fully recognise informal economic activities and informally developed settlements, as they equate informality with lack of authorisation and illegality, considered inappropriate to modern and globalizing cities. Thus, they fail to support informal enterprises and informal settlements, although such support could make a significant improvement in quality of life and enhance economic outputs. Policies often range from benign neglect to eviction and harassment (Brown and Smith, 2016: 20). Nevertheless, there is growing realisation that urban authorities are unable to offer an alternative to the informal economy or informal settlements, and that it is more productive to collaborate with informal entrepreneurs and settlement residents to upgrade their enterprises, houses and neighbourhoods than to evict or restrict activities.

2.4 Participatory slum upgrading

Many policy approaches to informal settlements have been attempted in recent decades, ranging from eviction in the 1970s and 1980s, through self-help and *in situ* upgrading which recognised informal settlements as a structural phenomenon in the 1990s, to the current approach of enabling policies that deal with issues of inadequate infrastructure and lack of secure land tenure in partnership with residents of informal settlements (UNHSP 2003: 128-132). Latterly participatory approaches that embed joint working between national and local governments and communities in upgrading programmes, with holistic approaches to neighbourhood improvements that include both physical upgrading and improvements to health, education and livelihoods, have become accepted good practice, for example in the approach adopted by UN-Habitat (Box 1).



Box 1: UN-Habitat's Participatory Slum Upgrading Programme (PSUP)

Since 2008, UN-Habitat's Participatory Slum Upgrading Programme (PSUP), launched by the European Commission and the Secretariat of the African, Caribbean and Pacific (ACP) Group of States, has adopted an integrated approach to addressing urban poverty challenges in slums and informal settlements. The programme aims to improve the living conditions of the urban poor by enhancing the capacity of urban stakeholders to understand and collectively address the multi-dimensional nature of the housing challenge and to develop and implement appropriate and sustainable responses. It also aims at devising pro-poor urban policies and regulations and city-wide strategies that integrate informal settlements into the larger urban fabric, and thus realise the potential of their residents.

PSUP addresses the inequitable and uneven urban development patterns represented by slums and informal settlements. It engages communities and key urban stakeholders, placing them at the centre of efforts to improve the lives of slum dwellers. By harnessing the knowledge, skills and capacity of slum dwellers, PSUP promotes beneficiary ownership and control, thereby enhancing project sustainability. PSUP also promotes an inclusive, *city-wide approach* to improving living conditions of slum dwellers fostering a change of mind-set among potential beneficiaries and engendering institutional and planning linkages that promote sustainable urbanization. Integration of slums into the wider city is enhanced by creating strategic partnerships, multi-governance frameworks and financing strategies for increased impact that contributes towards matching the scale of the issue. Leveraging partnerships enables diversification of financing options, and can strengthen governance and institutional structures.

PSUP applies (1) a *cross-sectoral analysis* to understand urbanisation characteristics and challenges; (2) *broad-based and inclusive stakeholder participation* to leverage local knowledge in understanding the local context and to build consensus on urban issues, actively engaging vulnerable and marginalised groups; (3) a *human rights-based approach* based on universal rights-based standards to guarantee development that is equitable, sustainable and fair to all; (4) a *gender-responsive approach* to ensure that all its activities, outputs and outcomes fully involve women and men; (5) *results-based management* to plan, implement, monitor and evaluate the programme, and (6) *South-South cooperation* to encourage knowledge exchange and peer learning amongst participating countries.

A core approach of the PSUP is to *engage local communities to initiate, lead and implement practical projects* which respond to their needs and aspirations, and strengthen local multi-stakeholder networks, involving women and youth, for example through the implementation of Community Managed Funds (CMF). The CMF is a key innovation of PSUP, which dedicates a percentage of the overall funds for slum upgrading towards community-initiated impact projects that improve livelihoods and enhance the informal economy. The funds invested in each CMF, combined with the requirement to have women-initiated projects and local project committees with a substantial proportion of women (40 percent minimum) in leadership roles, have led to direct improvements of living conditions for an estimated 268,000 women and youth living in slums.

Now in its third Phase, PSUP lies at the heart of the Agenda 2030 Sustainable Development Goals (SDGs) philosophy and directly contributes to the five areas of critical importance for humanity and the planet by 2030: **People, Prosperity, Planet, Peace and Partnership**. The PSUP, as a global programme, acts as a unique vehicle to deliver on the concept of "Leaving no one behind of the 2030 Agenda". It is tailored to specifically deliver on SDG 11.1 "By 2030 ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums", as well as *SDG 1, SDG 5, SDG 6, SDG 7, SDG 10, SDG 16 and SDG 17*. The programme further responds to the framework established under New Urban Agenda (NUA) demonstrating through actions on the ground that indeed it is possible to transform the lives of people living in slums, thus motivating countries to further dedicate efforts and resources to upgrade slums and prevent their formation, aiming at solving the dire problem over the period covered by the 2030 Agenda.

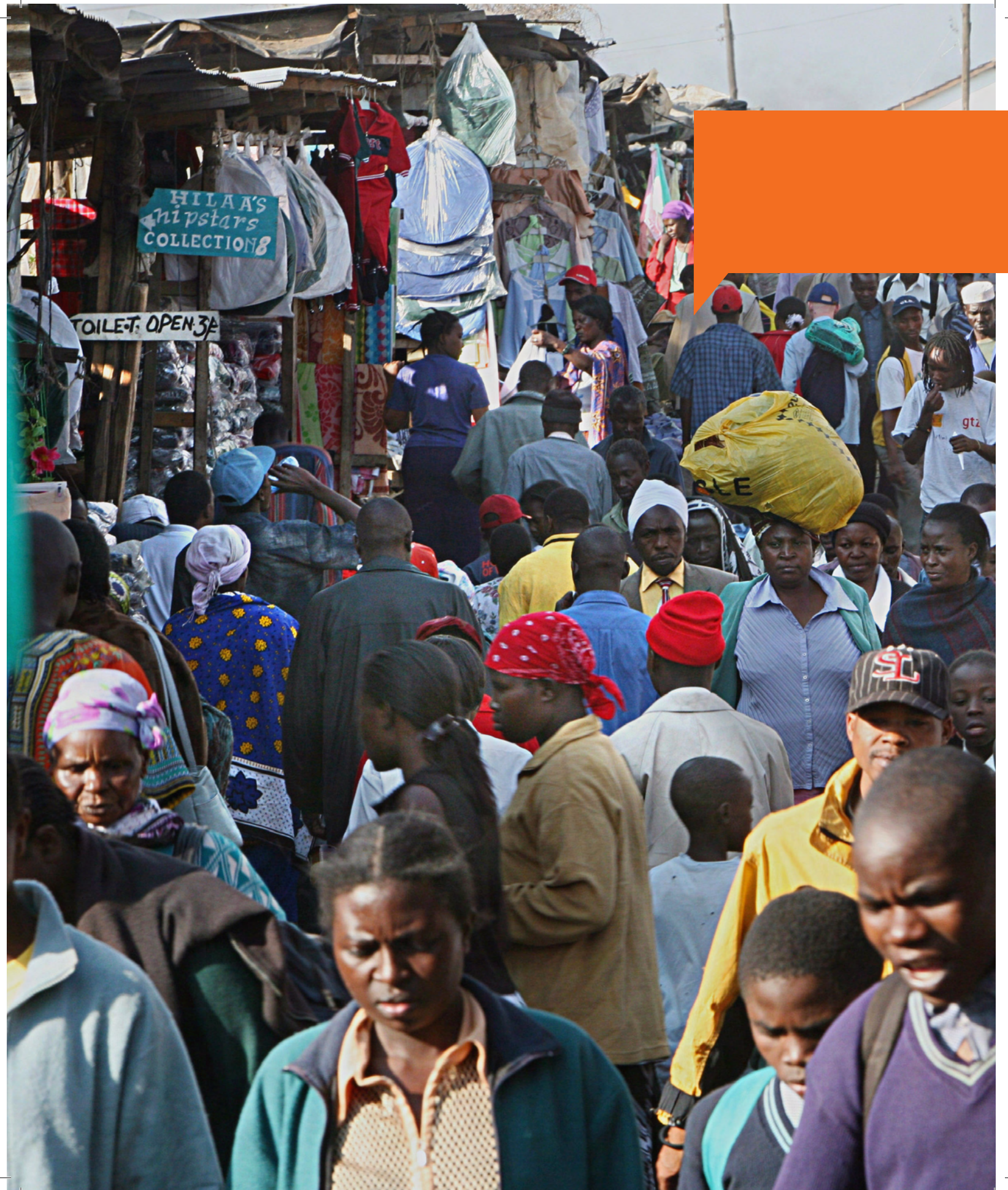
Source: PSUP documents

Although participatory upgrading programmes sometimes include livelihood components, they have not been a major focus of activity. Upgrading the infrastructure in a settlement has an impact on the local economy, and increasing employment opportunities and income in the settlement contributes to continued

improvement of local living conditions. Upgrading already seeks to integrate informal settlements into the wider urban fabric, but should also aim to intensify the linkages between the local economy and the wider urban economy, in order to foster new economic opportunities. This report explores this potential further.

Key messages

- Urban poverty is a multi-dimensional condition that includes low income, inadequate housing, lack of access to services, and exclusion from other aspects of urban living. Access to adequate housing and to decent livelihoods are both critical in enabling citizens to escape poverty.
- To escape income poverty, people need access to paid employment, appropriate knowledge skills and good health. It is thus critical to build on the self-help initiatives that people have already taken to find employment.
- The size of the informal economy is significant, in some lower-income countries contributing 30-60% of GDP, and providing 4 in 5 urban jobs.
- Research shows that slums are full of economic, cultural and social capital. While slums and informal settlements are deprived urban areas, people are also making a living, raising families and contributing to the broader urban economy. The energy and economic creativity of slum dwellers should be recognised and incorporated into urban improvement activities.
- Informal settlement dwellers and informal economy workers contribute to the informal and formal economy – for example providing cheap labour, providing outsourcing for manufacturing, or the payment of small fees for conducting business. While slum dwellers are often perceived as ‘non-contributors’ to taxation, they often pay significantly to local authorities and others for the rights to operate a business.
- Participatory slum upgrading has historically focused on improvements to infrastructure and housing, with limited focus on livelihoods. However, there is considerable potential for upgrading programmes to increase employment opportunities for informal settlement residents, and for an improved local economy to contribute to upgrading objectives.



03.

The economy of slums and informal settlements

Informal settlements and their economies have distinctive features that match the particular conditions, needs and priorities of the urban poor. It is essential to gain a thorough understanding of the local economy of informal settlements and design upgrading approaches that are inclusive, so that upgrading does not undermine this economy. Chapter 3 discusses some of the attributes and sectors of the complex local economy in informal settlements, as the following quote illustrates.

Dharavi [with one million inhabitants possibly the largest informal settlement in the world] is not only a place to dwell, the site is also a huge employer. It is said that the number of people who come to Dharavi every day for work is greater than those leaving it for jobs in the city. The values of the businesses here have been estimated at millions of Euro but no-one can know for sure. A large part of the production never enters the books of an accountant and it is difficult to get an overview even from inside the area. Workshops of all kinds, recycling, plastic industry, food, printing and leather are big businesses. But you can find highly qualified craftsmen in almost any field such as potters, tailors and carpenters along with food and catering services that serve the entire Mumbai area. A lot of products are made for the international market, commonly components will be produced from recycled material before it is shipped off and assembled elsewhere.

(Engqvist and Lantz, 2008: 149).

Informal settlements and their economies differ from country to country, from city to city, and within a city. Some settlements, such as Dharavi in Mumbai or Orangi in Karachi, have large populations; other settlements may nestle between formal housing and have only a few houses. The size of the settlement has an impact on its local economy. Larger settlements generate a demand for goods and services, while smaller settlements are more integrated into

surrounding neighbourhoods. The wider urban economy also affects the local economy of the settlement, as a wealthy city with a vibrant economy offers more opportunities for informal enterprises to supply goods and services outside the settlement than a poorer city.

Enterprise within informal settlements is widespread, and includes both own-account and waged work (i.e. paid work in a formal/informal enterprise), much of which is informal. In larger settlements with a vibrant local economy, workers may commute into the settlement. A World Bank survey (2006: 28, 31) in Nairobi found that almost half (49 per cent) of the adult population of informal settlements were wage employees; of these, almost half had regular jobs, while the other half were casual employees. About 19 per cent of all adults were self-employed either in own-account workers running small enterprises or independent workers such as electricians or plumbers. Around 30 per cent of the households in the slums operated one or more income-generating enterprise.

3.1 Types of enterprises in informal settlements

Enterprises depend on the capital and skills of the entrepreneur, the location, the space and the infrastructure services available, the size and density of the settlement, and the income level of the client base. Gough and Kellett (2001: 240) identified five basic types of activity in informal settlements: (a) space-related activities such room rental and urban agriculture; (b) manufacturing and repairing; (c) retail, particularly convenience stores; (d) personal services such as hairdressing, washing and ironing, and (e) social and community-focused activities such as education and health care.

Income-generating activities take many forms: they can be home-based, operate in a separate structure (a shop, kiosk or stall), be part of an open market, or be itinerant. Street vendors may not have a permanent location: some use carts, while hawkers carry their wares. Some vendors set up shop in the same location every day; others operate in multiple locations that vary by each day. Enterprises in informal settlements tend to be small, owner-operated with perhaps one or two employees and/or unpaid family members. Irrespective of whether they are based in the house or outside, there is often no clear distinction between the budget of the enterprise and the household budget. Broadly speaking, there are two types of home-based enterprises: own-account work and out-sourced work. Own-account work includes a wide variety of activities, such as cooking, tailoring, vending or hair-dressing. Out-sourced work includes sewing or piece-work, production that is often linked to global value chains.

Enterprises in an informal settlement may also specialise in certain economic sectors with a range of related enterprises around that sector, which can be significant in the wider urban economy, such as waste recycling in Dharavi, Mumbai, or furniture making in Keko, Dar es Salaam.

3.2 Location

The spatial location of enterprise in informal settlements is determined by many factors, including accessibility and visibility to customers and clients, and where operators can gain access to space. The main access roads into a settlement, particularly where these are improved, are particularly attractive commercial locations (Doyle, 2018). Some entrepreneurs do not operate from fixed locations (e.g. hawkers, transport operators, or day labourers).

Street-based enterprise

In many cities, street vending thrives because of the service it provides to the urban population. Street vendors provide goods and services, particularly food, at affordable prices to the urban poor, but also to middle-income populations. Street vending, kiosks, small shops, and local markets are all common in informal settlements, but their occurrence depends on the availability of space and the size of the settlement. Realizing the value of commercial plots, informal real estate developers in Karachi who (illegally) plan and develop slums and informal settlements on public land, set aside plots for shops

along main roads in the informal settlements. They retain the plots until the settlement consolidates and the demand for space for shops and workshops rises. This enables them to fetch a high price by selling 'user rights' for those informally planned commercial plots (Ahmed, S. 2017).

Vending of cooked street food is in ubiquitous for a number of reasons. There may be a local custom of eating out – food vendors form a part of the urban cultural tradition, and eating out is an important form of socialisation. The urban poor, but also middle-income populations, often work long hours and sometimes hold two jobs – this leaves many with little time to cook and makes them dependent on street food vendors. The urban poor buy their food on a daily basis and such a service is offered by street food vendors (Stutter, 2017). Often, street vendors subsidise the cost of living for large sections of the city population which is important as government try to keep wages down in order to keep the urban economy competitive (Bhowmik, 2005: 2256, 2259).

Home-based enterprise

There are many ways of using the home for enterprise. Lipton (1984) notes that a home-based enterprise takes its advantages from the interchangeability of two key resources: space and labour. Without any functional loss, space in the house used for reproduction (sleeping, cooking, resting, childcare) is easily converted into space for production (shop, workshop). Similarly, time spent in domestic work can be converted into time spent working in the shop or workshop, as and when domestic work permits. Cooking to feed the household is extended to produce food for sale, and food for sale that is not sold by the end of the day is consumed by the household.

For small home-based retailers, having family members as employees reduces labour costs, provides flexibility in working hours to accommodate fluctuations in customers. It lowers the risk of theft and of reporting any malpractice, since family members are less likely to make a complaint (D'Andrea et al, 2004: 9). A typical arrangement in home-based enterprises is for children to work in a home-based shop after school, to allow the main operator to do other activities such as buying new stock (Gough et al, 2003: 262). The involvement of children in family enterprises is sometimes seen as a form of child labour and a distraction from schooling but, from studies in Dhaka, Zahir (2016: 15) found that children also learn skills in a particular trade and develop a sense of responsibility and belonging from an early age.

There are many additional advantages of using the house for income generation. The operator does not have to pay rent for work space. Working at home saves transport costs and travel time which are important for the poor, as every penny and every minute counts. Investments made to improve the house benefit both living and working conditions. Working at home makes care of children or the elderly easier, especially where social security nets are limited. Operators working at home may accept lower earnings if it benefits their children or strengthens their community safety net. The use of the home for informal economic activities is particularly important in societies where cultural norms limit the mobility of women outside the home (e.g. in Bangladesh, men work outside the home and both women and men may work at home).

There are two broad locations for home-based enterprise: those with homes inside a settlement may cater for a local market or undertake outsourced work. However, some homes strategically located on a pedestrian or vehicle thoroughfare may attract a wider clientele, so can be used for a shop or vending – the use of these valuable spaces in informal settlements may be bought and sold, but there are many instances where the use rights of space are inherited. Such customary inheritance can make it difficult for newcomers to gain access to a commercially lucrative space (Ghafur, 2002: 41).

3.3 Sectors

Room rental

In some informal settlements, many urban residents rent space, particularly new migrants to urban areas, rather than living in housing where they have *de facto* (if informal) occupancy rights. Informal workers also often rent workspace – often the front room of a house. Rental space provides low-cost and flexible accommodation for burgeoning urban populations, and an income asset for those with recognised occupancy rights. For example, in June 2014 Namibia recorded the second highest house price increase in the world after Dubai. This included renting of backyard rooms in slums and informal settlements. For example, in Walvis Bay where many occupants of backyard shacks are renting, inhabitants indicated the need for formal tenure (PSUP Namibia activity report).

Room rental is widespread in some informal settlements, and letting rooms is an essential component of settlement consolidation, and provides



Backyard shack in Walvis Bay

a source of low-cost housing for tenants. Many households let out a few rooms and live on the same plot as their tenants (Datta, 1995: 1, 5-6). Planners sometimes argue that the settlement layout and infrastructure were not designed to accommodate additional households on a single plot. Those concerned with poverty reduction argue that rental meets a housing need. The positive results for the family are significant: (a) the plot is an economic asset; (b) housing conditions are improved; (c) income poverty is reduced, and (d) the housing stock is increased.

A house is thus an economic asset that can be used to generate rental income. For example, if a family is awarded a plot in an upgrading scheme, they may build a temporary shack to live in during construction. Once they have constructed one room this is often rented and the income used to build the next room, while the family remains in the temporary accommodation. The final house may thus be entirely rented, producing sufficient income for the family to move to a middle-income neighbourhood. The provision of low-cost rental housing should be welcomed by the authorities, as rental housing is a critical segment of the urban housing market.

Rooms are also rented for employment use. Tenants may rent the front room for a shop or workshop. Where the tenant is related to the homeowner, the room may be an integral part of the house; if they are not related, the rental room may have a separate entrance to the street. Letting rooms is often not planned when the house is built; a room is added after some time and is rented out to earn some extra income (Hoffman et al, 1991: 192-193).

In some cities, rental housing consists of just one or two rooms in an owner-occupied house; in other cities, rental housing is the dominant form of housing in informal settlements. A study of informal settlements in Nairobi found that 92 per cent of the households were rent-paying tenants, while only 8 per cent were owner-occupiers. Even within the small group of owner-occupiers, 60 per cent rented out at least one room and were resident landlords. The vast majority were absentee landlords or rather absentee 'structure owners', because few owned the land. Housing conditions in the informal settlements of Nairobi were poor with regard to tenure, infrastructure, dwelling quality and neighbourhood, but the business of being a slum landlord was very profitable. In a large informal settlement, Kibera, it took only 9.75 months for a landlord to recoup the investment in constructing a room (Gulyani and Talukdar, 2008: 1921, 1924, 1929).

Services and transport

The service sector is an important part of the economy in informal settlements. This includes personal services such as hairdressing and beauty parlours, washing and ironing, convenience stores, retail sale of fresh and cooked food and beverages, clinics and dentists, new and second-hand clothing, and repair of motorcycles, mobile phones or electric and electronic appliances. Customers are both settlement residents and passers-by.

Box 2: Wider benefits of improved sanitation in Mzuzu, Malawi and Bissighin, Burkina Faso

Salisbury Lines, Mzuzu, Malawi: In the neighbourhood of Salisbury Lines, according to a baseline survey conducted in 2011 and updated in 2015, almost 8 in every 10 households used 'unimproved or poor sanitation' which forced many people to pay for use of safe and clean sanitation. As a result, the people of Salisbury Lines prioritised construction of toilets as part of PSUP Phase III. The sanitation challenge in Salisbury Lines was not just about moving more households up the sanitation ladder but also using an appropriate technology that would ensure that the households do not regress to paying for use of sanitation.

Bissighin Market, Burkina Faso: Bissighin's informal market is the only commercial centre serving Bissighin and its hinterland (Bassinko, Marcoussis, Silmiougou). Bissighin market was created as a popular initiative, but built without a public toilet, which became an important concern for the storekeepers and customers who had to walk long distances to reach a toilet. The construction of a public toilet was a community initiative under the scope of PSUP and the aim was to i) improve the community access to a basic service, ii) improve hygiene and the health of the population and iii) reduce the time spent by storekeepers and customers searching for a place to meet their needs, which had obliged some of the storekeepers to leave their store unattended hence losing out on custom.

Source: PSUP programme documents

Informal transport is a critical service in cities where rapid urban growth strains formal public and private transport and mass transit systems are too expensive for the urban poor. Motorcycle taxis and minivans are prime examples of informal transport services and are often among the first economic activities to emerge in a new informal settlement. Informal settlements and slums are often located in places that are difficult to reach by formal public transport, as narrow, winding streets and unsurfaced roads make it impossible for larger vehicles to enter the settlement. The informal transport sector is also a major source of employment: using small vehicles, owned or leased, the sector fills the gap left by formal transport, taking passengers and goods to hard-to-reach destinations.

Due to the lack of adequate infrastructure, private vendors set up small businesses selling water and electricity or cleaning and maintaining toilets. Water vendors have been praised for their entrepreneurship and their ability to reach the poor in areas that are difficult to serve with conventional infrastructure. Because water vendors tend to charge more than the public utility, they are also often scorned for exploiting people's basic needs for water, and water vending is actively discouraged by governments in some cities. Water vendors may operate a water kiosk where they sell water from a shallow well, a borehole, a commercial water connection or a house connection. Consumers may carry the water to their homes themselves, but vendors may also carry water in containers loaded on bicycles, hand-pushed, animal-drawn or motorised carts to the houses and small businesses (Kjellen and McGranahan, 2006: 1-2, 19).

In many cities in developing countries, the sewerage system covers only the old city centre, or there is no sewerage system at all. Most informal settlements have no sewerage system; excreta and wastewater are disposed on-site. People may use pit latrines and drain their wastewater on the open ground; when the pit fills up it needs to be emptied or another pit needs to be dug. Emptying is often done manually or by suction trucks. Septic tanks are a better sanitation option than pit latrines, but they are more expensive, require more space and also need to be emptied regularly. Emptying pit latrines and septic tanks is an opportunity for entrepreneurs to establish a business. In some informal settlements, the government has built toilets which are leased to private operators who charge residents for use; in other cities, private entrepreneurs have built and operate toilets (Kjellen and McGranahan, 2006: 6-7) (Box 2).

Construction and manufacturing

In a new or consolidating informal settlement, construction is an important sector of the informal economy. The sector includes both construction workers such as carpenters, plumbers and masons, and the producers and vendors of building materials, a process that can be harnessed in upgrading (Box 3). In Karachi, the block-maker is usually part of the team of informal entrepreneurs that designed the layout and organised the occupation of public land for the establishment of an informal settlement. Once people start moving onto the site, block-makers sell building materials, as well as loans for materials and house construction as they have a commercial stake in the success of the settlement.

In informal settlements in Dhaka, as in other developing country cities, home-based manufacturing accounts for a significant part of urban informal employment and cuts across different branches of industry. The type of manufacturing depends on the larger economy and may be gender-specific. In Dhaka, women workers are mostly involved in cooking, stitching, manufacturing bamboo products, pottery, broom making, while men do traditional painting and woodcarving. Increasingly, women are involved in garment making, as garment factories outsource their production to informal (often home-based) enterprises. Women's participation in the labour force is pivotal for survival of most households. Women in home-based work can be divided into two categories: self-employed workers and sub-contracted workers. In Bangladesh the majority are sub-contracted workers, working directly or through middle-men, typically on piece-rates. The distinction between self-employed and sub-contracted home-based workers lies mainly in the level of decision-making power (Ahmed, 2017: 164).

Urban agriculture

Urban agriculture can be found in many slums and informal settlements where space is available. Urban agriculture can be undertaken on the plot itself, on open strips of land along roads or railway lines, on larger open spaces in or near the settlement or on balconies or roofs. In the city, agriculture often involves the cultivation of fruit and vegetables and the production of eggs, milk and meat from small animals, for own consumption or sale. Although production per producer is often small, a large number of producers in a city can make the overall contribution to the urban economy highly relevant. The importance of urban agriculture goes far beyond the generation of income for the producers. It adds to the quality and amount of food consumed by the urban poor, as they often face

Box 3: Community Managed Funds in Majengo- Kilifi, Kenya and Nkol-Bikok, Cameroon

Construction training in Majengo, Kilifi county, Kenya: Training proposed by the Residents Committee of Manjengo, under the Community Managed Funds upgrading initiative, focused on building interlocking Stabilized Blocks (ISSB), was attended by 60 participants, all from Majengo informal settlement. This exciting initiative was conducted by the Ministry of Housing, through the Kenya Slum Upgrading Programme (KENSUP), with the objective of providing alternative building materials to the community at affordable prices. The Residents Committee is selling the blocks at subsidized rates to the community, so as to sustain the initiative. The group came from an array of backgrounds including masonry, welders, casual labourers and other residents.

Youth construction training in Nkol-Bikok, Cameroon: In another example of Community Managed Funds, two youth training workshops in civil engineering and electrical engineering were attended by 50 young people. Participants were then given the opportunity to implement their new skills by installing street lamps in the community and repairing the defective ones. Installing streetlights throughout Nkol-Bikok was a core part of the slum upgrading programme, so young people from the community learnt both how to install the street lamps and to repair them when needed, which enhanced capacity building in the low-income areas, and contributed to successful implementation of PSUP pilot projects. Road and drainage improvements were also undertaken by local young people, including development of 2.5 km of laterite lanes (gravel roads), construction of drainage channels, channel cleaning, and planting.

Source: PSUP programme documents

food insecurity and malnutrition. Access to affordable nutritious food, like access to adequate housing, enhances health and productivity and contributes to poverty reduction (De Zeeuw and Dubbeling, 2009).

3.4 Dynamics of enterprise in informal settlements

The importance of informal economic activity for households is often fundamental to household income, although in some cases it may provide a second income (Gough and Kellett, 2001: 240). Rogerson (1996: 171) made a distinction between survivalist activities and entrepreneurial activities; Ranis and Stewart (1999: 263) distinguished relatively stagnant, traditional enterprises and more dynamic, capital-intensive and modernizing enterprises, but recognised that it is difficult to draw a dividing line. Survivalists start a small-scale enterprise because they are not able to engage in any other, more remunerative formal or informal employment. They may start their business based on trial and error – they see others earning an income and simply copy the initiative. Some enterprises can be started with little capital

investment and few skills but have limited opportunities for growth; others – for example in more profitable locations – may require contacts or payments to become established. For some, establishing an informal enterprise is a deliberate choice and the income earned through an informal enterprise is only one factor in the decision to set up the business.

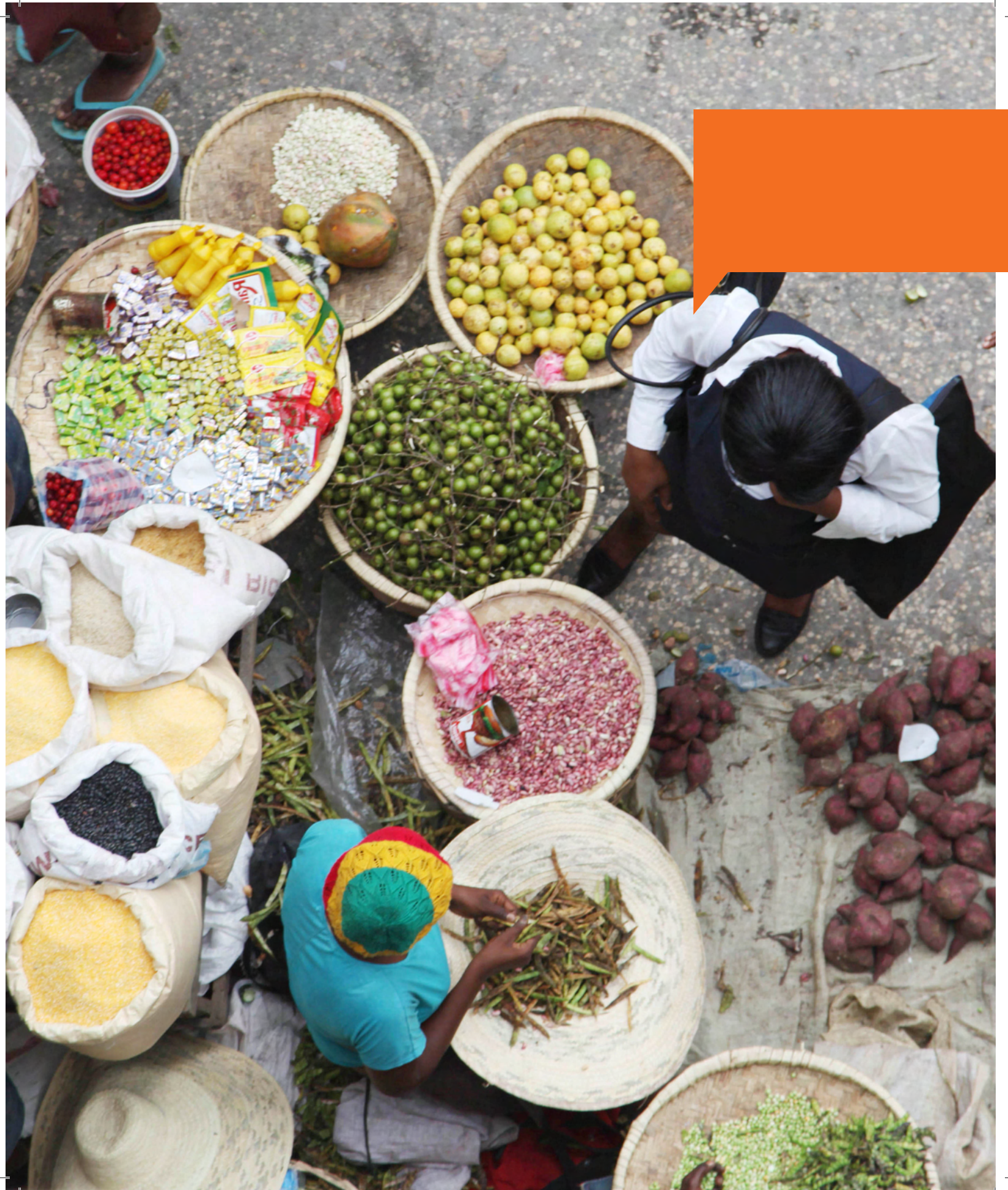
More dynamic enterprises in slums and informal settlements are established by true entrepreneurs who constantly seek opportunities to increase the return on the investment despite the constraints of informality. With the right circumstances, such growth enterprises have the potential to develop into larger, possibly formal, enterprises. The early years are the most difficult phase in enterprise development and insecurity of tenure and rent pressure can exacerbate the problem (Mead and Liedholm, 1998: 65; Rogerson, 2001: 120; Gulyani and Talukdar, 2010: 1723-1724). However, low income is often a function of limited skills and assets rather than the formality or informality of the activity (La Porta and Shleifer, 2008: 35-36). Over time, entrepreneurs can develop the networks that facilitate the business operations. Greater familiarity with the local economy can help operators identify appropriate business opportunities or the right sector in which to invest, and improve their ability to navigate the complex economic networks in the settlement and other parts of the city (Gulyani and Talukdar, 2010: 1723-1724).

Some people prefer to work from or near the home rather than outside the settlement for a variety of reasons. A worker with limited skills and assets who can earn very little in the formal sector may prefer to be independent as an informal job offers a measure of autonomy that formal jobs may not have (Maloney, 2003: 15; Temkin, 2009: 137). There are also savings on transport costs and travel time which count particularly for the poor, while the presence of male family members may also make women feel safer in informal settlements.

Zaaijer and Sara (1993: 130-131) conclude that there are both demand and supply side obstacles that impede the productive potential of settlement-based economic activities. Supply-side restrictions include lack of land and adequate public services, lack of educational training and health, lack of access to credit, and a restrictive regulatory framework. Demand-side restrictions include limitations on the provision of inputs and services from other enterprises (production linkages), and on consumer demand for their products and services (consumption linkages). Consolidation of the settlement (as well as gentrification) enhance opportunities for economic growth and diversification. The location of the settlement is important to derive economic benefits from production linkages with the formal sector through delivery or subcontracting or consumption linkages with middle- or higher-class consumers (Baken et al, 1991: 12-13).

Key messages

- Informal settlements and their economies have distinctive features that match the particular conditions, needs and priorities of the urban poor. Enterprise within informal settlements is widespread, and includes both own-account and waged work. In larger settlements with a vibrant local economy, workers may commute into the settlement.
- Income-generating activities take many forms: they can be home-based, operate in a separate structure (a shop, kiosk or stall), be part of an open market, or be itinerant. Enterprises in an informal settlement may also specialise in certain economic sectors (such as waste recycling in Dharavi, Mumbai).
- Flexibility is key. Informal economic activities are often the only feasible way to earn a living for slum and informal settlement dwellers. Ways of undertaking business are adapted to a fast and ever-changing business environment and the circumstances of the entrepreneur.
- *Location:* The location of activities is important. Home-based enterprises derive advantages from the interchangeability of space and labour, and benefit from help from unpaid family members, often enabling women to combine caring and income-earning roles. Public space is an important place of work. Street vending, kiosks, small shops, and local markets operate outside the home, but depend on the availability of space and the size of the settlement.
- *Sectors:* An enormous variety of enterprises can be found in informal settlements, but some of the most common include: room rental (for both living and work space); services (including hairdressing, beauty parlours, food sale etc.); street vending; informal transport (often motorcycle taxis); construction and manufacturing, and urban agriculture.
- Skills: Informal workers often face impediments to growing their livelihood activities to more secure productive businesses. While many have honed entrepreneurial skills, most have limited skills to expand and lack access to critical business, marketing, and employment networks.
- Productivity: Some enterprises in informal settlements are survivalist with limited growth potential, while others are dynamic, established by entrepreneurs who constantly seek opportunities to increase their return on investment. It is critical in upgrading to understand both the demand and supply side obstacles that inhibit entrepreneurial enterprises from expanding.



04.

Distinctive features of the economy in slums and informal settlements

There is now increasing recognition that small and informal enterprises, while operating within a capitalist market economy, offer elements of social support and networks that are combined with the profit-oriented motives typical of formal enterprises. Chapter 4 explores these features: the networks and social capital within the informal settlement, gender issues, and the disruptive economic effects of relocations and evictions – the impacts of these have been much less widely explored than housing evictions.

4.1 The solidarity economy

Informal enterprises play a crucial role in developing economies, as they provide livelihood to billions of poor people and make significant contributions to the urban and national economy. Providing the appropriate assistance requires an understanding and a recognition that informal entrepreneurs may not be driven purely by self-interest, profit maximisation and the capital accumulation.

Increasingly it is now understood that informal enterprises and workers often support each other's businesses through solidarity and social networks. Entrepreneurs may value solidarity, cooperation and mutuality above unfettered competition, and individual and collective well-being may well be prioritised over profit maximisation (Miller, 2010: 6). For example, if a street vendor is at a funeral a neighbour may mind the business, or an own-account worker may employ a nephew or niece to give them job training. This approach reduces individual profit but ensures that income-earning capacity is shared. Thus, the shared economy provides opportunities to secure livelihoods for many people (Doyle, 2018). Solidarity and shared

income-earning may also add to improved quality of life (Stutter, 2017). Taxing entrepreneurs or forcing them to comply with inappropriate government regulations may put many enterprises out of business, with dire consequences for the owners, workers and their wider support networks. From the viewpoint of poverty reduction, strategies that recognise their strengths and constraints and assist them to become more productive are more desirable than calling them illegal and seeking to eradicate them.

Some economists argue that informal enterprises are inefficient and unproductive (Farrell, 2004; Straub, 2005; Kenyon and Kapaz, 2005; Dijkstra, 2006; La Porta and Shleifer, 2008), as they lack: (a) benefits that enhance productivity such as access to infrastructure services or judicial protection against crime and fraud, and (b) benefits that facilitate interaction with other enterprises and the government such as contract and property rights' enforcement (Straub, 2005: 2-3), and may have to pay more for services such as access to credit. However, these arguments simplify the motivation of informal entrepreneurs to competition and profit maximisation, and ignore the critical role and value of trust, social capital and community networks in the informal economy of the poor. For example (Stutter, 2017) in her study of street-food vendors in Hanoi, reported high levels of trust between vendors, suppliers and customers, and that their interactions in their work contributed to their happiness.

Operators of informal enterprises often rely on social capital that they develop within the informal settlement and also with economic actors outside the settlement. Social capital is defined as the ability of actors to secure benefits by virtue of membership in social networks or other social structures (Portes, 1998: 6). Without

protection by the judicial system, enterprises may not function efficiently in economic terms, but trust, personal relationships and other networks can make an enterprise sufficiently profitable to give the owner and the workers a decent income. Karaan and Myburgh (1992: 291) observed, for instance, that informal traders in Cape Town clustered together at strategic locations, and while competing with each other also helped each other sell goods, extended small loans to each other, recommended the next trader when out of stock and even assisted newcomers to set up shop.

Networks of trust

The economy in informal settlements is highly adapted to the living and working conditions of low-income producers and consumers. Networks and trust are important to small and informal enterprises, who may obtain goods and supply customers on credit. Buying on credit requires a relationship between buyer and seller based on trust rather than on pure commerce; the spatial proximity builds that crucial emotional proximity and social capital. By providing products in small amounts and extending credit for purchases, local stores make goods from the formal economy available to low-income consumers, although this may limit the growth potential of the shop. Pay-per-use is another way of doing business: rather than selling a mobile phone, a trader rents out a phone, and the customer provides the SIM card, so the customer does not have to bear the full capital cost (Karamchandani et al, 2011: 3). However, trust networks take time to establish, and newcomers are sometimes excluded.

Networks may also benefit specialist sectors. For example, a complex network of businesses supports the furniture-making sector which is a specialism of Keko, and informal settlement in Dar es Salaam – these include wood suppliers, carpenters, painters, upholsterers, transporters and equipment suppliers – all within the settlement (Doyle, 2018). Relying on social capital, operators of informal enterprises obtain their supplies from a single supplier rather than comparing options to find the best deal. A lasting trade network assures trust, favours and predictability, which are more valued than the availability of the same goods at a lower price elsewhere (Dannhaeuser, 1980: 161-163, 167).

The need for credit is often a prime motive to develop a personal relationship. This applies even for large loans for which moneylenders may charge high interest rates to compensate for the risk of default in loan repayment (another ‘poverty penalty’). Despite the high interest rates, a borrower first

needs to establish a ‘credit history’ with the lender. De Soto (2000: 6) argues that informal enterprises are under-capitalised, because the entrepreneur cannot mortgage his or her house due to a lack of ownership documents. Yet, Van der Linden (1981: 47) observed that squatters in Karachi were able to obtain loans from informal, non-kinship sources (i.e. moneylenders) using their house as security, because the lender was confident that the borrower would not disappear with the loan. An additional advantage of local moneylenders is that someone can obtain an emergency loan at any time of the day or night, since lender and borrower live in the same settlement.

Trust is also important for consumers. The poor often buy goods in small quantities from local shops on a daily basis, although the small quantity is more expensive per unit (the ‘poverty penalty’) than the bulk purchase from a larger formal shop further away. They shop daily both because of low income and because of lack of storage or refrigeration (Gough et al, 2003: 261; D’Andrea et al, 2004: 4; Tipple, 2004: 374; Charman and Petersen, 2014: 35; Nazire et al, 2016: 486; Mpembamoto et al, 2017: 608). Goods and services can be bought at any time of the day or night, even if the shop is closed, because the operator lives behind the store. The benefits are as simple as being able to send a small child without any money to a shop around the corner for an urgently needed aspirin or a teaspoon of sugar – a vital convenience for a single mother with younger children to tend.

Links with the wider urban economy

A formal economy that is large, fast-growing and competitive is likely to seek a relationship with informal enterprises in informal settlements to seize cost-cutting opportunities (Ranis and Stewart, 1999: 265). Informal settlements are often located close to centres of economic activity such as large markets and industrial areas. This allows settlement residents to find regular or casual work in the market or factories without spending much time and money on commuting to work. Proximity also offers opportunities for informal enterprises to deliver goods and services for workers in the market or the factory, and factories to sub-contract work to small-scale workshops nearby. Relocation of the informal settlement would be devastating for its residents, as the market for its labour, goods and services would be disrupted.

Although mobile phones and other innovations in technology have enhanced access to market information, many operators of informal enterprises (as well as of formal enterprises) in cities of developing

countries still rely on personal communication. The limited availability of systematic and structured market information and communications networks among informal businesses make middlemen critical sources of information about supplies, prices, potential buyers and sellers, and other data that entrepreneurs need. Middlemen work for a small commission and bypassing them is often neither economic nor feasible because of the structure of the distribution channel (Samiee, 1993: 118; Mohanty, 2013: 506-508).

The almost monopolistic position of middlemen between the supplier of raw materials, informal operators and the buyer of finished products can give the middlemen immense power over the operators. This can easily lead to exploitation of the operators, particularly of women who may not be able to look around for better deals (Webster, 107: 2011). Dias and Samson (2016: 37) noted that waste pickers in Belo Horizonte and Pune had mixed views about middlemen. They knew that without the middlemen who take the recyclables to the private recycling industries, they could not sell their wares, because individually they do not produce sufficient volume of recyclables. At the same time, they are fully aware of the exploitative nature of their relationship with the middlemen, who unilaterally fix the rates of recyclables bought from the waste pickers.

International networks

Informal economies are also globally linked. Meagher (2013: 7) concludes that in Africa backward linkages with the formal economy predominate over forward linkages. Informal firms tend to purchase inputs from the formal economy at retail prices, but sell their output to low-income markets of poor informal producers and consumers who lack the skills and capital to access higher-value formal markets – this leads to a highly dependent informal sector that “buys dear and sells cheap” (Meagher, 2013: 7). In some Asian cities, home-based workers produce a wide range of low- and high-end goods for the global market. Sub-contracted workers produce goods for firms in national and global value chains, but typically do not know the backward or forward links of the chain beyond the firm (or its contractor) that outsources work to them. Both self-employed and sub-contracted workers cover many of the non-wage costs of production such as workplace, equipment, utilities and transport, and absorb many of the risks of production, including delayed or cancelled orders, unreliable raw materials’ supplies, delayed payments and rejected goods (Chen and Sinha, 2016: 2).

4.2 Gender and informal enterprises

In many sectors, women form the majority of informal entrepreneurs. A study in 11 developing country cities found that the proportion of women in informal employment (excluding agriculture) was higher than that of men in every city. In Bamako, Mali, the proportion of women in informal employment was 91 per cent compared to 75 per cent for men (Herrera *et al.*, 2012: 3).

In Bangladesh, as in many other developing countries, participation of poor women in the urban economy is crucial to the survival of many informal settlement households, but women usually have little choice in the wage-earning activities they can undertake due to lack of education, and household and child care responsibilities. Many women can only do part-time or home-based work for which they earn little. Women are also constrained in their mobility by social norms or by security concerns. Yet, earning an income without neglecting their responsibilities in the home enhances independence and self-confidence, especially in woman-headed households (Huq-Hussain, 1995: 52).

Datta (1995: 5) found that in Gaborone, Botswana, women outnumbered men as landlords. Many married women who let rooms did so because they had no other cash income. Women working in informal home-based enterprises in Dhaka became economically more independent, but also gained status in the household (Ahmed, 2017: 164-168). However, Ghafur (2002: 45-47) notes that because income-earning women in



Dhaka are confined to the home, they still depend on their husband or sons to buy commodities for their store or to bring raw materials from the supplier, take finished products to the factory and collect payments. Sudarshan (2013: 434-435) observed that even in programmes in India specifically designed to benefit women, men continued to play a role, sharing the work so that they could take the strategic decisions intended to be taken by the woman.

Many women, such as home-based workers have little bargaining power in the market place unless they are organised. As Bhatt (2006: 59-79) observed, in Ahmedabad in the 1970s, home-based women workers who stitched left-over pieces of cloth from the textile factories into quilts were scattered, isolated in their homes and mostly unaware of their position in the economy, and so did not organise to demand better payments from traders and buyers. Because the workers lacked collective strength, traders had the advantage, while labour laws did not cover piece-rated workers, because they did not have an employer. The women were effectively subsidizing the traders, but were hardly recognised as economic agents in their own rights by the government, traders, their husbands or themselves. Rogerson (2001: 116) quotes Schmitz (1990) saying: *“the problems of small enterprise stem not from the fact that they are small per se, but that they are lonely”*.



4.3 Young people and employment

Globally, 85 per cent of the world's young people (defined as 14-29 year olds) live in developing countries, and an ever-increasing number of them are growing up in cities. It is estimated that as many as 60 per cent of all urban dwellers will be under age 18 by 2030. Based on these statistics, young people represent a group of change agents – the most active and dynamic, yet the most volatile and vulnerable segment of the population.

All over the world, young people are finding it increasingly difficult to break into the labour market. Youth make up 25 per cent of the global working age population, but account for 43.7 per cent of the unemployed. This means that almost one in two jobless people in the world is between the ages of 15 and 24. Many young people in developing countries live in slums and informal settlements. Although in some countries, as health care and education improves, birth rates are falling, in others – particularly in sub-Saharan Africa – proportions of young people in urban populations remain high.

Although many young people live within the administrative boundary of a town or city, their 'local authority' may well be a slumlord, mafia leader, or cartel member rather than city council staff, who often no longer attempt to assert their jurisdiction or even enter informal settlements. As illegal or unrecognized residents, many youth living in informal settlements have no property rights, nor security of tenure, and no right to 'decent work' but instead make whatever arrangements they can in an informal, unregulated, and in some respects, expensive parallel market.

4.4 Challenges of doing business in informal settlements

Lack of infrastructure

There are many challenges to enterprises in slums and informal settlements, which upgrading can address (see Section 5 below). Entrepreneurs in informal settlements often have insecure land tenure and inadequate basic services, particularly water, electricity, roads and drainage. Poor services add costs and risks to informal enterprises as another 'poverty penalty'. Lack of, or fluctuating, water and electricity supplies limit the operations of enterprises and may make it impossible to have certain types of businesses (e.g. those which need power supply for refrigeration). Operators may depend on local vendors to supply water and electricity which raises the costs of doing business, as small-scale

private water and electricity vendors may charge higher prices per unit than the public utility.

Poorly surfaced and narrow roads in informal settlements can make it difficult for wholesale suppliers to bring their goods to shops and workshops in the settlement. Local operators may have to rely on intermediaries who use small vehicles to deliver the supplies, but this raises the costs. Rain and dust can spoil goods (particularly food) and cause problems for the shop or workshop. Many low-income settlements are located in low-lying areas with poor drainage, and the settlement may be flooded regularly for long periods. This interrupts supply deliveries, spoils stock and impedes the enterprise's operation. Due to the absence of street lights and the police, crime rates may be higher in some settlements, although the community may 'police' the neighbourhood informally.

Environmental costs

The lack of adequate infrastructure (sanitation, drainage, solid waste collection) brings environmental costs such as air, water, and soil pollution. The environment may be contaminated with hazardous wastes such as motor oil from workshops, cooking oil and food waste from kitchens and small restaurants, medical waste from local clinics, paints and dyes from manufacturing and chemical fertilizers from urban agriculture. Fumes from fish smoking, charcoal burning and other smoky or smelly enterprises can cause nuisances; fire and boiling liquids can cause danger, especially to children. Electrical short circuits can lead to fire; sharp implements and tools can injure adults and particularly children; noxious fumes from chemical processes can affect the health of the house occupants (Tipple, 1993: 532; Kellett and Tipple, 2002: 13). Meanwhile street vendors are vulnerable to the effects of air pollution and traffic accidents.

However, several studies (Perera and Amin, 1996: 13; Kellett and Tipple, 2002: 18) show that commercial and industrial waste from informal settlements forms only small portion of the total waste volumes generated in the settlement and in the city as a whole, and that environmental hazards associated with informal enterprise are not inherent to the activity, but are caused by the constraints within which the enterprise operates. Much of the waste can be easily removed if the settlement has adequate infrastructure, and negative environmental impacts can be minimised if certain industrial activities are located in separate areas of the settlement. Moreover, solid waste generated is often recovered, reused or recycled by informal waste collectors. Kellett and Tipple (2002: 13) consider

that communities often collectively regulate polluting activities without any formal intervention or support by the local authorities and there appears to be a high level of awareness of potential dangers.

Harassment and informal payments

Urban law affecting the informal economy is complex, poorly documented and erratically applied. Interpreted and implemented by municipalities, it is rarely understood by street vendors and other informal workers. For example, bylaws regulating cart-pushers, kiosk owners, hawkers, and businesses licenses, are often colonial relics. The legal context affecting the informal economy is often archaic and conflicting and can be drawn from: constitutions; public order and local government law; highways and urban planning legislation; bylaws and licensing regulations, public health and food hygiene regulations and markets and vending regulations, which often conflict (Brown, 2017: 3).

The policies of local authorities frequently change. Often, decisions on the permissibility of informal economic activities are left at the discretion of local enforcement agents which makes it difficult for informal enterprise operators to know what they are allowed to do, and when and where they can operate, leaving local enforcement agents scope to harass or bribe operators. Sometimes, bribes can be so exorbitant as to leave little to no earnings, but refusal to pay may lead to confiscation of goods or arrest (Pratt, 2006; Datta, 2003: 356). Arellano (1994: 23) quotes Ghersi (1989) who found that informal payments were higher per square foot than those paid by formal merchants. Some informal payments to policemen or local government officials are regular and can be anticipated, and are similar to taxes or license fees. They secure the space for the small-scale enterprise and provide the operator with protection against harassment and extortion by others. In other cases, harassment and extortion is *ad hoc* and random.

Evictions

Research consistently shows that insecurity and harassment are crucial factors undermining urban livelihoods, and that forced evictions, often pursued for political or commercial ends, legitimised by draconian or outdated legislation, are almost always hugely damaging to the livelihoods of the urban poor (Brown, 2006: 50). Over several decades, academics and activists have focused on secure land tenure for housing, but secure tenure for economic activities is rarely considered.



Informal enterprises need stability, and reliable agreements on tenure security, as the constant threat of eviction due to their ambiguous status hinders their operation and development. Many local authorities evict informal enterprises such as street vendors and other informal enterprises along roadsides, because they see them as traditional and backward and as activities that do not fit in a modernising and globalising city. Such evictions result in the decimation of economic enterprises, and disruption of the complex economic and social networks of trust on which informal entrepreneurs rely. The authorities may offer to relocate evicted populations, even providing spaces for food stalls and the like, but the networks and social capital have been destroyed. Faced with a constant threat of eviction, informal enterprises also do not know if it is worthwhile to improve their stock or premises or equipment. As a consequence, productivity remains low although the capital to invest in improvements may be available.

Evictions from housing land remain widespread affecting informal settlement dwellers, frequently as a result of land conflicts. It is not widely recognized

that such evictions may also deprive people of their livelihoods – in property rental or home-based enterprise. Millions of people in the world are forcibly evicted every year (UN-Habitat, 2007: 3), while millions are threatened with forced evictions. These issues persist even though the realization of the human right to adequate housing of all urban residents is a prerequisite for inclusive and sustainable urban centres for all.

With increasing human rights' consciousness and the entrenchment of socio-economic rights in constitutions, as in Brazil through the 'right to the city', structure-owners and tenants now claim that they deserve legal rights as they have been living on land for many years. Yet government has been reluctant to recognize their requests, because of fear of losing the future opportunity to develop these lands. Tenure insecurity also prevents improvements as tenants and owners refrain from improving their places because of lack of tenure security and the fear of eviction. More fundamentally, the problem of forced evictions is ingrained in the inequitable structure of land ownership (UN-Habitat, 2017).

Key messages

- There are complex productivity and livelihood dynamics operating in slums that enable people to earn enough money to survive but also to service the needs of economic activities in the wider urban economy. These activities are largely unrecognized and untapped but should be considered a benefit and asset for all.
- Networks and trust are important to small enterprises in informal settlements, who may obtain goods and supply customers on credit. Networks may also benefit specialist sectors, with specialists in a supply chain clustering together.
- It is now increasingly understood that informal entrepreneurs often support each other's businesses through solidarity and social networks. Providing the appropriate assistance requires a recognition that they may value solidarity, cooperation and mutuality above unfettered competition – an economic model of informal enterprise that is not widely recognised.
- Local economies in informal settlements are often closely linked to the wider urban economy, and even international networks, supplying goods or labour for key industries. Eviction or relocation of informal settlement dwellers and their enterprises often disrupts these complex networks and is devastating for residents and workers.
- In many informal sectors, women form the majority of informal entrepreneurs, and women's work is often crucial to the survival of low-income households. Home-based work allows women to combine income-earning with caring responsibilities, but such women may be isolated with limited bargaining skills unless they are organised.
- Gender equality and women's empowerment is an internationally recognized human-rights' issue and legal frameworks address discrimination and advocate the improvement of the lives of women and girls. These frameworks must be reflected in upgrading slums and informal settlements so that sustainable changes in livelihoods of women and girls are achieved.
- There are many challenges associated with enterprise in informal settlements, including poor infrastructure and services. Conflicting urban regulations leave informal entrepreneurs open to harassment and forced evictions which are almost always hugely damaging to the livelihoods of the urban poor.
- Forced evictions of people from their place of work, for example roadside street vendors, results in the decimation of enterprises and livelihoods, and disruption of the complex economic and networks of trust. Slum and informal settlement demolitions are likewise a gross violation of human rights, and often destroy both the housing and livelihoods of those affected – often those who are already marginalized and excluded. Adopting an inhumane and displacement approach violates human rights international standards, and reduces the city's prosperity prospects, being in the end, counter-productive.



05.

Settlement upgrading and local economic development

Urban planners have long celebrated the benefits of mixed-use areas in providing jobs and facilities close to the home, but rarely have the analytical approaches to recognise that such diversity abounds in slums and informal settlements. Chapter 5 explores the potential of participatory upgrading to enhance local economies and livelihoods in informal settlements and discusses approaches to strengthening the economic potential of upgraded settlements – e.g. through enhancing tenure security, improved infrastructure, organisation and empowerment – and examines ways to address some of the challenges of doing business identified in Section 4.4, based on a recognition of the individual and collective enterprise often found in informal settlements.

5.1 Upgrading and local economic development

Settlement upgrading is now a widely-used approach to improving living conditions in unplanned or informal settlements. It is now recognised that, to improve the housing conditions of the urban poor, upgrading slums and informal settlements to build on investments that the poor have already made in their housing and neighbourhood is more cost-effective and less socially damaging than eviction or relocation, because it does not disrupt the socio-economic networks on which many rely for work, income and support. Historically upgrading focused on physical improvements to roads, drainage and basic services – water, electricity, and sewage treatment.

Good practice has stressed the importance of (a) approaches which combine physical upgrading with improvements in services such as health and education and (b) participation of slum and informal settlement dwellers in the planning and implementation of upgrading. Some upgrading programmes include livelihoods components, but these have tended to focus

on the extension of loans for individual livelihoods, rather than broader support for the local economy.

A survey of literature shows that there is little research on the intersection of settlement upgrading and local economic development. Writing about upgrading Nairobi, Kigochie (2001: 222) noted that there is hardly any literature on home-based enterprises in upgraded informal settlements. In their study of urban upgrading in Africa, Gulyani and Connors (2002: 13) found that upgrading projects arguably facilitate the growth of home-based enterprises and informal businesses, but that there is no systematic evidence of this effect. Dierwechter (2002: 21) argued that most research on the urban informal economy has been a-spatial and that few authors show any awareness of space. Tipple (2004: 371-372) observed that literature on the relationship between home-based enterprises and upgrading is sparse, with only a few studies examining the impact of improved services on home-based enterprises. In a study of settlement upgrading in Zambia, Mpembamoto et al (2017: 602) made the same point: literature on the subject matter is lacking and little is known about the economic impact of upgrading on recipient communities.

There is considerable potential of upgrading programmes to enhance the economy of low-income neighbourhoods. Appropriate upgrading can trigger economic opportunities,¹ and local economic development must be an integral part of the upgrading approach. In addition, the upgrading programme must: (a) take account of existing economic activities and ensure that there is sufficient space and adequate infrastructure services for enterprises to operate and grow; (b) support local entrepreneurs in improving their business skills and

¹ While upgrading is the most cost-effective approach, not all slums and informal settlements can be upgraded, for example those in hazardous locations. However, the recommendations for upgrading in this document also generally apply to new low-income housing projects.

enhance their access to credit and marketing information, and c) identify specialist sectors with collective potential for development, e.g. through improved marketing. Access is key, and research in Dar es Salaam has shown that businesses in upgraded settlements have clustered along improved roads (Doyle, 2018). The physical and economic upgrading of the settlement will enhance the livelihoods of many residents, thus supporting further upgrading of the settlement.

Yet, upgrading an existing settlement and its economy poses an enormous challenge to urban managers and requires the active participation of community in decision-making and implementation. This, in turn, requires community organisation and leadership, and skills to motivate the residents and manage the community affairs.

Government agencies implementing upgrading tend to finance improvements to basic infrastructure and to extend loans for house improvement, but residents often need to supplement funds with savings mobilised through community-based saving-and-loan schemes. Upgrading may raise land and house values and increase rents, improvement loans need to be repaid and service charges become a regular monthly burden, and it thus becomes critical that settlement upgrading also focuses on the preservation and enhancement of income-generation opportunities. An improved economy will make it easier for the residents to escape both 'housing poverty' and 'income poverty'.

5.2 Approaches to settlement upgrading

Local economic development is rarely a component of settlement upgrading, although the impacts of upgrading are considerable. Currently, most settlement upgrading programmes have four components: *community organisation and participation* (including the development of saving-and-loan groups); *land tenure security* (e.g. through formal or intermediate land titles); *improving infrastructure services* (e.g. water, electricity, sanitation, roads, drains and solid waste management), and *house improvement* (usually done by residents themselves). In addition, the layout of the settlement may have to be adjusted to facilitate the infrastructure construction and service delivery.

Community organisation

Community organisation is crucial in representing the needs of residents of informal settlements, and the scale and needs of the local economy and enterprises. Collective social action is a key attribute of low-

income communities, and citizen-based organisations (CBOs) can be important in ensuring that upgrading is appropriate to the needs of the community. To be effective CBOs need a strong organisational base and representative leadership. CBOs can take many forms – residents' associations, savings-and-credit groups, clubs, advocacy groups and many more. A critical point is that members trust the information used for planning upgrading programmes. For example, SDI (Shack and Slum Dwellers' International) has pioneered data collection techniques that represent the reality on the ground, rather than official records, e.g. on informal or customary land rights, or the number of tenants living in a property. Such grounded data-collection approaches have extensive potential to map the extent of small businesses and livelihoods (Box 4).

Tenure agreements with communities

Improving of security of land and property tenure – often in incremental stages – is critical for local economic development. Entrepreneurs need to be confident that investments are secure before they will invest in structures, equipment or stock for an enterprise. Eviction destroys these investments, and the mere threat of eviction undermines investor confidence. De Soto (2000) argued that structures and land without ownership titles represents dead capital, while formal titles or permits allow the owner to use the property as collateral for a formal business loan. More than the collateral, the ability to repay the loan is a key factor and depends on the level and the regularity of the income of the borrower.

In the past, secure land tenure was thought to depend on a freehold title, but there are now many intermediate forms of tenure (Payne, 2004), and even policy statements by the authorities on safeguarding a settlement can give entrepreneurs and homeowners sufficient confidence to invest for the medium term. The provision of basic services in a settlement also enhances the sense of tenure security, as it is seen as a form of recognition. Intermediate tenure security reduces the risk of gentrification, but leaves flexibility for future re-planning of the settlement.

Infrastructure

Road improvements have a major impact on a settlement's economy. Store operators can afford to carry more stock, which can be delivered directly by the supplier without paying a middleman for transport. Power supply makes refrigeration and electric machinery possible and piped water supply enables enterprises such as beauty salons and restaurants to improve hygiene and lower costs. Proper sanitation,

Box 4: Community organisation for participatory slum upgrading in Ga-Mashie, Accra

Participatory slum upgrading in Ga-mashie, Accra, Ghana: To strengthen the participatory nature of slum upgrading, the Ga-Mashie low-income community in Accra held elections, choosing representatives from different interest groups within the community (women, youth, persons with disabilities, tenants, structure owners and elders), who came together to form a Community Development Committee (CDC). The CDC was inaugurated and sworn into office by the NGO *Housing the Masses*. A key role for the committee was management of the Community Managed Fund, for which they were taken through one week of training. A constitution was also drawn with assistance from *Housing the Masses* to aid in the governance, duties and responsibilities of the committee. The committee members then elected officers to run the affairs through a secret ballot process. The committee now reports to the local authority and the PSUP country team, enhancing the multi-governance framework and strengthening cooperation between stakeholders.

The CDC introduced a micro-finance programme to support traders within the community, contributing towards financial inclusion of all working-age adults by ensuring that they have access to savings, credit and insurance services. The CDC uses a lending methodology that does not require loan collateral. Borrowers are typically self-employed or informally employed, and the duration of repayment is extremely flexible. The introduction of loan collection agents who move from shop to shop to collect repayments affords borrowers the flexibility of continuing to work, and not interrupting their businesses to make their daily or weekly repayments. This initiative has resulted in significant growth of the local economy, and provides opportunities for community members to expand their existing businesses and start new ones.

Source: PSUP programme documents

drainage and solid waste management improve environmental conditions in the settlement, and thus operators face less problems with contaminated or spoiled products. Improved structures enable enterprise operators give protection from the weather and protect goods from accidents (Kigochie, 2001: 227-228; Mitra et al, 2107: 11-12; Gulyani and Talukdar, 2010: 1719; Mpembamoto et al, 2017: 602).

Better roads also make enterprises accessible to a larger clientele, while street lighting and police posts provide safety, allowing enterprises to operate at night (Box 5). Although road-widening could mean that structures must be removed, residents may support it because improved access within and to the settlement benefits business and security. Nazire et al (2016: 485) noted that in Kabul, once road conditions and accessibility had improved, residents started to patronise local shops and commercial centres. Consumers tend to frequent shops and eating places that look clean and well-maintained, and so businesses along improved roads may attract more customers from outside the settlement.

Rising land values

It is important to design road-upgrading carefully as this often leads to a rapid increase in land values and property rents. Upgrading can result in increases in land value that displaces low-income residents and small enterprises. Mpembamoto *et al.* (2017: 608-609) found in the Chaisa settlement in Lusaka, Zambia, that there had been a dramatic increase in rental charges, especially after the settlement was provided with water and tarred roads. Interviews with landlords found rapid rental increments, and tenants reported that they were

spending more on rent than before. Poor tenants are thus often forced to move to unimproved settlements with less tenure security, poorer infrastructure and less proximity to work. To make the upgraded settlement less attractive to middle-income households or land speculators, intermediate land titles can be used. Here city-wide approaches to upgrading low-income settlements like the ones promoted by UN-Habitat's PSUP are an advantage to avoid differential improvements

Upgrading also results in differential land value increases. Plots near main roads or markets have more commercial potential, and fetch higher prices than plots deep inside the settlement with poor street access. Rather than leaving the market determine who buys and sells those plots, community organisations and upgrading managers can arrange to do land re-adjustment or land swaps of key plots between residents and entrepreneurs, or auctions, but ensure that the financial benefits of such arrangements stay within the settlement.

5.3 Local economic development and urban governance challenges

Local economic development

Local governments give high priority to local economic development in order to enhance city economies, provide jobs for growing city populations. Local governments need ways to enhance the productive capacity of all inhabitants by supporting measures that strengthen the livelihoods of a wide cross-section of the population. Cities must both encourage the

Box 5: Livelihoods and Dar es Salaam's Community Infrastructure Upgrading Programme

The challenge: Estimates suggest that over 70% of the population of Dar es Salaam lives in informal settlements and 98% of the businesses are informal (ILO 2002). Urbanisation has resulted in an increase in informal settlements, and in the 2012 census, the city had a population of 4.4m with an annual growth rate of 5.6 percent.

The project: The Community Infrastructure Upgrading Programme (CIUP) was initiated under the wider Local Government Support Programme (LGSP) using the experience from the Hanna Nassif upgrading. Phase 1 (2004-2008) involved 16 communities and around 200,000 inhabitants. Phase 2 (2008-2011) involved 15 communities, and around 220,000 inhabitants. Partners included Dar es Salaam City Council, the district councils and the World Bank. The aims of CIUP were to empower the community to develop infrastructure through local resources and assistance from outside donors. The focus was on improving roads, drainage, footpaths, water supply, streetlights, bridges, public toilets, and waste collection sites, and some communities were given house numbers as a step towards property titles. Initial stages of community participation involved consultations and meetings with local government officials and community mapping. The community was involved throughout in the planning, implementation of infrastructure improvements. Following the CIUP upgrading, the settlements changed – crime reduced, the area was cleaner, people wanted to be there, and many people improved their houses in order to increase the value and rents, the property values increased, and commerce expanded.

Livelihoods impacts: Although there were no specific livelihood interventions as part of the project, the livelihoods impacts were significant. The catalyst appears to have been upgrading the roads. Following upgrading, many residents began renting out spaces within their homes, particularly along upgraded roads, to businesses. Some also started businesses from their homes, while others moved into the area because of its increased commercial potential. This has resulted in an increase in land value in upgraded areas. In some communities, specialist sectors emerged, particularly along the upgraded roads, such as the furniture-making in Keko and textile and clothing sector in Manzese (Map 1). These are important hubs linked to the wider urban economy. Many of the entrepreneurs rely on aspects of solidarity, e.g. trust, cooperation, and social connections to sustain their enterprise. For example, local entrepreneurs might share tools or customers in order to save costs or watch a nearby store for someone who has become ill.

Map 1: Manzese, Unplanned settlement, Dar es Salaam, Enterprises cluster along improved roads



Lessons learnt: The partnerships between the community and local government created a collaborative environment that allowed partners to tailor programmes to the needs of the community.

Sources: Doyle, 2018 (map and research); ILO et al, (2002); UCLAS, 2003, 2004; UN-Habitat, 2010; World Bank (2002)

creation of new jobs, and support the livelihoods that already exist. A critical problem to eliminate constraints to security and productivity, for example enabling informal enterprises in informal settlements to get recognition, secure licenses, obtain secure trading space and improve working conditions.

However municipal authorities often lack the tools and knowledge to understand and manage the informal economy, particular in complex environments such as slums and informal settlements. While examples of good practice in institutionalizing participatory governance are now well-established (UN-Habitat, 2017), as yet these have not been applied to local economies in informal settlements. In the absence of appropriate policies, city governments tend to approach the informal economy with a mix of regulation, relocation, and sometimes outright repression. Efforts by the urban poor to influence urban governance through protests, mobilisation, and various forms of resistance are now widely documented (e.g. Bromley, 2000; Brown, 2006; Samson, 2010; Sudarshan and Sinha, 2011). Where dialogue is established, negotiated outcomes can create space and improved management of city environments.

Regulation

Upgrading often implies regularisation of an unrecognised and unplanned settlement, in order to make it an integral part of the city, although some regulations may be relaxed in low-income settlements. There are advantages and disadvantages to such formalisation. According to Watson (2011: 2), planners are often encouraged by prevailing legislation to focus on control functions in cities. Many planners adhere to the idea separation of residential and employment land uses, and lack tools to analyse or plan for mixed-use or low-income settlements. Kellett and Tipple (2002: 6-7) observed that regulations are often designed for economic and cultural circumstances removed from the realities of life in low-income urban areas and better fit the living and working conditions of the urban middle class. Strassmann (1987: 121) called this '*a moralistic bias against private economic gain from social housing support*'.

Inappropriate regulations that are difficult to understand and enforce tend to undermine the broader respect for rules and regulations and the credibility of the authorities, but ignoring regulations can have adverse consequences for public health and the environment. Given the distinctive features of the economy in informal settlements, urban managers must seek a balance between giving local entrepreneurs the space

to develop their enterprise and earn a livelihood and regulating to protect public health and the environment.

In Nairobi's Mathare 4A settlement, Kigochie (2001: 230) concluded that government interventions to relax building codes and tax and registration regulations had been crucial in keeping housing affordable and making home-based enterprises viable. Evidence also shows that rules and regulations do not always have to be imposed top-down by the government. Awareness of the problems of environmental degradation is growing and community organisations, local leaders and business associations in slums and informal settlements may be able to agree informal environmental rules that minimise the pollution by or affecting local enterprises.

Registration and taxes

Many officials argue for registration and licensing of informal enterprises, and the payment of taxes, but these should bring clear benefits to the enterprise, otherwise there is no motivation to register. Registering, obtaining a license and paying taxes represent a cost for the operator. In return, operators expect clear benefits such as legal ownership of their place of business and means of production, enforceable contracts, protection against creditors and social protection (Chen and Vanek, 2013: 394). As Straub (2005: 2-3) argued, after registration, informal enterprises should benefit from protection by the police and the judiciary, and improved relations with other enterprises, financial institutions and the government, and the benefits of registration must outweigh its costs (Williams, 2007: 15).

In practice, many operators of informal enterprises pay considerable amounts in local authority fees or informal payments, although these rarely guarantee security. They are often willing to pay formal taxes in return for benefits for their enterprise (Chen and Vanek, 2013: 394) or because it implies government recognition (Van der Linden, 1977: 59-60). Small-scale entrepreneurs often face numerous, uncoordinated and overlapping regulations, from different central and local government offices. Large businesses can usually handle these (sometimes with difficulty and illicit payments), but small businesses cannot manage or afford to do so. Regulations and the tax regime must be designed to support home-based enterprises and small enterprises to register, and they must provide assistance (for example through 'one-stop shops') to help them improve productivity, working conditions and environmental practices.

5.4 Spatial planning and capacity development

Spatial planning for economic development

There are several ways in which space within informal settlements can support local enterprise, especially where some reorganisation of the layout is involved. Residential plots should be designed with sufficient and suitable space for mixed use (residential plus commercial, industrial or agricultural) to maintain opportunities for income generation. Economic activities that require more space than available in the home, or benefit from greater accessibility to customers and other businesses (e.g. roadside shops or kiosks, markets) may require allocated space. Similarly, infrastructure must be designed both for domestic and for income-generating activities.

Public space is also an important place of work, for example for street vendors, small-scale manufacturing or transport operators (e.g. motorcycle taxis).

Design decisions should be made jointly by the resident population and project planners, and outcomes will differ from one settlement to another. Some communities may reject the demolition of even the smallest structure, while others may request changes to the settlement layout to improve access. Kellett and Tipple (2002: 16) note that specially designed dwellings with a room set aside for a home-based enterprise are not the answer in many circumstances, and the occupants of a house are best able to decide how activities are distributed. Some want a separate room for income generation and others prefer mixing activities; some use the front room for work, while others locate it in a rear yard; some use the domestic kitchen to cook for sale, while others want to separate domestic and commercial cooking.

Allocating space for enterprise

Improved roads make roadside trading viable because of an increase in the volume of pedestrian and vehicular traffic (Ikioda, 2016: 7; Mpembamoto et al, 2017: 605-606). Charman and Petersen (2014: 31-32) noted a clear distinction in Cape Town between street-based enterprises within residential neighbourhoods, and enterprises along arterial and major activity roads. Neighbourhood-based enterprises (grocery stores, take-away food sale) served a local area, while businesses on main roads had a very different composition and scale with peaks of activity during the morning and evening rush hours. Certain road links and junctions are highly connected and provide 'natural markets' for street traders (Akiyode, 2018). Bus stops and termini

are also key trading sites. Urban managers need to enable space for traders at such key locations, rather than ban trading, to maximise economic potential and avoid conflict between traders and the authorities (Ikioda, 2016). In the Mathare 4A project in Nairobi, residents who operated home-based enterprises were allocated new units with work areas, and hawkers were given stalls detached from their homes. Units and stalls were located along the main street which commuters could access. Home-based enterprises were located inside the settlement, to cater to the needs of the resident population (Kigochie, 2001: 226, 228).

The most important approach to meeting the space requirements of home- and settlement-based enterprises is to improve their operations in their current location, e.g. by improving water supply, shelter or waste collection. Many small enterprises operate on very low profit margins, and cannot survive relocation. Yankson (2000:331) suggested two further approaches: (a) by adapting zoning regulations for upgraded settlements; and (b) by developing micro-enterprise zones in or near the settlement (Yankson, 2000: 331). Zoning regulations must be adapted to local circumstances, in consultation with residential and business communities, and applied flexibly to enable rather than prohibit mixed land uses, and minimise threats to public health. Clustering of micro-enterprises in a light-industrial zone can support economies of scale and agglomeration (Rogerson, 2001: 119). Clustering facilitates skills development, formation of business associations or saving-and-credit schemes, approaches to formal financial institutions, the creation of cooperatives and provision of childcare. For its upgrading programme, the Crown Property Bureau in Thailand is considering allocating additional land to urban poor communities for commercial development and income generation.

Capacity development

Small-scale informal enterprises face three core disadvantages: inadequate knowledge and skills to manage businesses profitably, lack of access to business credit, and limited power to strike good deals with suppliers and buyers of their products. Many upgrading programmes have a loan component that targets home improvement and sometimes includes business loans. A challenge is to organise the savings, loans and repayments in ways that match the financial situation of the urban poor. Upgrading programmes often use traditional small-scale saving-and-loan associations when establishing credit mechanisms in an informal settlement. Once a group has shown its capacity to save and manage the scheme, the

upgrading programme will link saving-and-loan groups into a larger association and bring these associations into a federation, to pool resources, minimise risks and supplement the accumulated capital with external funds. Such Urban Poor Funds have become an effective solution to the challenge of integrating external finance in ways that advantage the urban poor, as a pool of financial assets that advances loans to organised collectives of the urban poor who have demonstrated through saving-and-loan group practices that they can handle additional investment capital. The monies are allocated for securing land, building or improving housing, water and sanitation and in some cases, to improve access to financial resources for income generation (Box 4) (Mitlin et al, 2011: viii, 35).

Business training is important to develop the skills and capacity of micro-enterprises. Low-income workers know how to cost their inputs and outgoings,

but often do not adequately cost their time, and business finance is often mixed with household finance. Some microfinance schemes organise tools or equipment hire. Fairbourne *et al.* (2007) also suggest micro-franchising. In top-down franchising, the owner of a proven business grants the right to a micro-entrepreneur to establish a similar business. In bottom-up franchising, micro-entrepreneurs in the same sector join forces as a cooperative or association to empower them and enhance their performance and competitiveness by developing shared services, exchange information on market trends, lobby public authorities, share knowledge on business upgrading, share equipment, purchase raw materials in bulk, and share marketing and services such as accounting, legal advice and insurance. For example, BRAC's EMPOWER programme provided livelihood support to over 71,000 people, as part of its wider Urban Development Programme (Box 6).

Box 6: Livelihoods support in BRAC UDP's EMPOWER programme in Bangladesh

The challenge: Bangladesh is urbanising rapidly; an estimated 50% of its total population will be living in urban areas by 2050. Around 14,000 notified slums exist across the country, with a population of about 7 million. Overcrowded and unhygienic living conditions, lack of access to safe drinking water and inadequate sanitation, livelihood insecurity, and violence against women and children are all common realities in urban informal settlements. In order to tackle the increasing incidence of urban poverty, the social development organisation, BRAC*, initiated the Urban Development Programme (UDP) in Bangladesh with a vision to ensure that the urban poor living in 300 slums across the country have access to affordable basic services, safe and productive livelihoods, affordable housing and transportation, and also effectively engaging the government to realise their rights and entitlements.

The project: UDP's flagship project, EMPOWER (Engaging Multi-sectoral Partners for Creating Opportunities, Improving Wellbeing and Realising Rights of the Urban Poor) (2015-2020) aims to improve the wellbeing of 1 million urban poor in 20 cities and towns in Bangladesh, by addressing multi-dimensional poverty and deprivation. The project is funded by UK Aid and Australian Aid. Alongside mobilising communities, enabling access to services and advocating for pro-poor urban policy planning and governance, the EMPOWER project has targeted slum upgrading initiatives.

The upgrading initiatives include improving informal housing in slums, improved walkways, waste management, drainage systems and installing community latrines. Local slum-based communities were organised into primary groups which in turn formed 300 community development organisations or CDOs in 300 slums. The CDOs made social maps and Community Actions Plans (CAPs) which were used to identify the social and infrastructure issues affecting the communities. BRAC signed MoUs with the local city corporations and municipalities, which adopted the community action plans. Housing has been a major success story – BRAC upgraded 5,500 housing units in Dhaka's Korail and Sathhola slums by mobilising funds from the local city corporation, UNDP and private sources – and the project is piloting low-cost housing in the smaller cities of Khulna and Satkhira.

Livelihood initiatives: In partnership with government, non-government and private service providers, UDP assisted 71,000 people living in slums with livelihood support, education grants, life skills and legal aid support and access to WASH facilities. Small businesses in the slums contribute to the local economy by creating employment opportunities, so in 2017 BRAC provided livelihood support to 2,000 people from 20 cities and towns in Bangladesh. Community members who were keen to set up small businesses but lacked start-up capital received asset transfer and grant support from BRAC. BRAC also facilitated skills training and job placement for women, new migrants and urban youth living in the slums, especially in the RMG and other sectors.

Lessons learnt: The slum upgrading initiative was effective as it undertook a participatory approach by involving the community development organisations in the mapping process and development of the action plan. The local government's support including that of the mayor, ward councillors and district commissioner, also played a big role in the success of the slum upgrading initiative. BRAC field officers dealt directly with local political 'muscle-men' who are very influential in the slum community, which further enhanced the project's impact. The housing system in slums is very layered and hierarchical, so BRAC directly negotiated with illegal house-owners resulting in them providing basic services for the tenants living in these informal housing settlements.

1 BRAC was founded in Bangladesh in 1972 as a small-scale relief and rehabilitation project but is now one of the largest development NGOs in the world, with operations in 12 countries.

Source: Khan (2017)

5.5 Collaboration

Co-production of services

Informal settlements with poor services often rely on private water vendors for water supply or waste pickers for solid waste collection. These services may be only slightly improved following upgrading, especially where service levels depend on the ability of residents to pay. Community initiatives in some cities and settlements have complemented government service provision, often with NGO support; such community-based service delivery leads to 'co-production' of services. Local government may, for instance, provide the off-site service (water supply or waste collection) and negotiate with a CBO to operate the service and collect charges, keeping a share of the surplus for management, running costs and profit (Williams, 2007: 20).

Gutberlet *et al.* (2016: 2, 13) report on young local entrepreneurs who developed social enterprises for solid waste collection in informal settlements in Kisumu, Kenya. They started as CBOs, but

developed into informal small-scale enterprises and eventually became formal social enterprises. The social entrepreneurs mobilised local knowledge and resources to address problems such as an unhealthy environment and a lack of employment, filling the gaps left by local government. The entrepreneurs drew on emotional proximity, trust and social capital networks to develop their social enterprises, providing employment, educating households to keep the environment clean by using the waste collection services, and organizing clean-up drives as part of their marketing strategy. A similar approach was found in post-conflict Somaliland, where young people gathered together to repair roads and collect garbage, forming Havoyoco, one of Somaliland's oldest NGOs that now runs waste collection contracts for the municipal government (Mackie and Brown, 2017). Some programmes have combined a focus on co-production of services (in Box 7 below the running of a new high-tech soccer pitch), which a focus on young people's livelihoods, which is critical to ensure economic inclusion of young entrants to the job market.

Box 7: Integrated upgrading and youth training, Rio+ Social Programme 2011-17, Brazil

The challenge: Rio de Janeiro struggles to cope with urban and social inequalities in vulnerable neighbourhoods – the favelas. For decades, favelas have gradually been occupied by gangs linked to drug trafficking and organized crime. In 2008, Pacification Police Units – UPPs, using a community policing approach – were created by the State Government to restore presence of law enforcement agencies in critical urban territories. The municipal authorities also recognized that social programmes were necessary to ensure sustainability of the initiatives, improve security and gain public trust. First called "UPP Social" and later renamed "Rio+Social", this municipal programme was led by the Instituto Pereira Passos (IPP), a collaboration between the Municipality of Rio de Janeiro and UN-Habitat. The Rio+Social Programme aimed at establishing innovative and participative approach to promoting urban, social and economic integration in the favelas.

The project: The aim of Rio+Social was to support the Municipality in the participatory conception and operation of public services' delivery and projects in pacified favelas. The programme adopted three strategies: (i) strengthening local stakeholders' dialogue and participation; (ii) producing data and information through participatory methods; and (iii) designing policies and projects in partnership with multiple public, private and civil society organizations. Coordination was key and the MeP (Mobilization and Partnerships Group) and the GI (Institutional Group) set up a cross-agency database to ensure daily coordination of municipal actions. The community was engaged in all stages, and around 500 community-led activities in education, sports, culture, economy, health, public space and environment were implemented. The programme included around 80 partners including the State and Federal Governments, private sector, civil society, local leaders and associations in each favela. UN-Habitat provided strategic support helping regain public trust and reach the favelas (which used to be too dangerous or complex or not a political priority). Rio+Social reached 208 favelas – home to over 711,000 people. Key outcomes include updated interactive maps, official recognition of streets, improved access to public services and improved leadership skills within the communities.

Livelihoods initiatives: Youth and their livelihoods were central to the programme, and more than 90 projects targeting youth were supported – especially in entrepreneurship and income generation, culture and sports, and young people were recruited and trained to implement field activities. The 2014 FIFA World cup brought many opportunities, and Rio+Social helped renew several soccer fields, including Shell's "Make the Future" project in the Mineira community, São Carlos Complex, which provided a technologically advanced soccer field, with synthetic grass, LED lights, solar and kinetic energy plaques – the first soccer field in the world with this facility. A participatory governance and maintenance agreement was negotiated with the Inhabitants Association. The most visible impact was the improvement of local commerce in the area. Many other projects were oriented towards culture, more specifically about the music (Funk) and dance (Passinho) of Rio's favelas, promoting their inclusion in the cultural agenda of the city, exchanges in the hall theatres and participation in municipal youth forums. Education was also key, delivered in partnership with the Unicamp University.

Lessons learnt: Rio+Social innovated the ways of knowing, studying, planning and implementing projects through collaboration between inhabitants, public administrators and other actors through active listening methods. The enthusiastic uptake of initiatives at the community level demonstrates the potential for driving innovative public policy and livelihood support through community engagement.

Sources: UN-Habitat. *Urban Impact* n°1, April 2016, City Hall of Rio de Janeiro – Pereira Passos Institute. Summary report, Rio+Social report. 2017

Co-production of services is a form of franchise for service delivery, which can develop from a local initiative. Kjellen and McGranahan (2006: 1) argue that informal vendors of water and sanitation services can play a critical role in ensuring adequate service delivery in settlement upgrading. The goal should not be to promote or suppress vending, but to improve water, sanitation or power supply through the most effective means, including local vendors where appropriate (Williams, 2007: 21).

Rather than eliminating the work of informal workers, upgrading can preserve and diversify their employment. Community construction contracts, developed in Sri Lanka and disseminated by the ILO, give urban poor communities in informal settlements the responsibility to design and build infrastructure with funding by the government. The arrangement generates employment and income and develops construction and management skills. As the community has to use the infrastructure on a daily basis, it is motivated to deliver a quality product and is not tempted to waste or steal resources, as private contractors were reportedly doing (Pathirana and Yap, 1992; Tournée and Van Esch, 2001).

Co-production is often criticised for association with neoliberal policies. As government budgets are cut, service delivery may be privatised, but slums and informal settlements are excluded from the services because they are not recognised or do not pay the fees or charges. When the urban poor organise the services themselves through co-production with the government or private providers, they are praised for their self-help efforts, although such self-help would never be expected from middle- and high-income neighbourhoods. Co-production between the formal public or private provider and those who actually deliver the service to the end-user is often kept informal with no obligations from government or private company. Samson (2015: 3) acknowledges that this can be the case, but points out that the mere organisation of informal service providers or their co-production relationship with the government can have positive, transformative effects.

Collective action and claiming rights

Informal workers are often not recognised in social protection legislation as ‘workers’, or valued as contributing to local economies. Reviewing the work of the Self-Employed Women’s Association (SEWA) in India, Hill (2001: 451-456) describes how SEWA organises poor, self-employed women who are scattered and isolated in their homes around a common issue, or with the aim of establishing a labour union.

Membership of a labour union facilitates the recognition of members as workers by employers, sub-contractors, government officials, enhancing their bargaining power to lobby governments for inclusion and recognition, and in daily negotiations with employers and contractors. Once organised, workers can build their own institutions – such as savings-and-loans groups, insurance and business training; co-operatives, childcare, housing and health care co-operatives, and educational, training and legal support (Hill, 2001: 451-453).

Collective action also promotes self-recognition and worker identity amongst members and enables them to overcome traditional boundaries of accepted behaviour. Union involvement, leadership experience and vocational training can transform chronic shyness into strength of character. In SEWA (the Self-Employed Women’s Association of India), one of the most significant implications of involvement in collective action was an extraordinary increase in confidence that translated into increased participation in the public realm. Workers used their new-found confidence and organizing skills to speak out, assert their needs, and make demands of police, employers and government officials in ways that were previously unimaginable (Hill, 2001: 453-456). Ghafur (2001: 123) observed that settlement upgrading in Bangladesh increased the self-confidence of residents, and that many people abandoned a relief-seeking mentality. Particularly for women, participation in the project significantly increased their motivation and self-reliance as the improved environment led to better health, more self-awareness and increased earnings.

Waste pickers in Belo Horizonte (Brazil) and Pune (India) organised into an association and a labour union respectively. Organisation enabled them to put pressure on the government to recognise their important role in solid waste collection and environmental management. Belo Horizonte municipality signed a covenant with the waste pickers’ association to integrate their work into the municipal waste management system. This transformed the way that the state relates to the waste pickers who gained increased work and income security and saw their social status improved (Samson, 2015: 5-8). In Pune, as the municipality recognised the service waste pickers provide to the city, the labour union asked it to provide waste pickers with social benefits. The municipality agreed to arrange health insurance for all registered waste pickers and approved the formation of a waste picker cooperative to perform door-to-door collection, which enabled the waste pickers to earn an income from the sale of recyclables and from a service

fee paid by residents. As a result, the municipality recognised the waste pickers as workers, and the waste pickers recognised themselves as workers who make a valuable contribution to society, the environment and the economy (Samson, 2015: 9-10).

5.6 Formalisation?

If the ultimate goal of settlement upgrading and local economic development is the reduction and eventual eradication of poverty, the challenge is to enhance the productivity and increase the income of informal enterprises, their owners and their workers. This requires the provision of land tenure security and infrastructure services, the extension of credit and market information, the delivery of training, the association of entrepreneurs, the organisation of workers etc. Does this mean that the informal economy and the informal settlements are formalised? Chen and Vanek (2013: 394) argue that at the heart of the policy debates on the informal economy is the question whether (and, if so, how and to what extent) to formalise the informal economy? This is a complex question, as different observers have different notions of what formalisation of the informal economy means. The key issue for informal entrepreneurs, informal workers and residents of informal settlements is that the benefits of formalisation should exceed the costs, and that the key focus of policy should be to reduce vulnerabilities – with some degree of formalisation as an inevitable outcome.

Formalisation is not a single all-encompassing process, but should be a menu of measures to be applied incrementally and in different forms depending on the circumstances. For informal settlements, it could mean that land tenure provides intermediate rather than freehold title, and that the settlement is provided with public water taps rather than house connections.

For informal enterprises and workers, it may involve registering and taxing and ensuring legal protection for informal firms; providing business incentives and support services; securing legal and social protection for informal workers; recognizing the associations of informal enterprises and the organisations of informal workers; and, crucially, allowing informal worker representatives to take part in rule-setting, policymaking, and collective bargaining processes in order to ensure that the measures benefit the informal enterprises, informal workers and the informal settlements (Chen and Vanek, 2013: 395).

Key upgrading approaches to promote local enterprise

- There is a significant gap in research on the intersection of settlement upgrading and local economic development, but studies indicate that the impact of small-scale initiatives which support the economies of low-income settlements is considerable, particularly when promoted by partnerships of communities and local governments.
- Participatory slum upgrading can enhance the informal economy through encouraging enterprises around the provision of water, sanitation, drainage and sewage, street-led services in public spaces, thus improving health and economic productivity of slums and informal settlements.
- Gender matters. Slums and informal settlements are one of the most visible urban contexts which highlighting female poverty, and are characterized by a disproportionately high level of female-headed households, which means that women are more likely to experience the five household deprivations of slums and informal settlements and have their right to adequate housing violated.
- Approaches to settlement upgrading that include a local economic development and livelihoods component should include several key aspects.
 - *Community organisation* is crucial in representing the scale and needs of the local economy and enterprises. Some communities may follow the pioneering methods of SDI and collect their own data which reflects realities on the ground, to map the extent of small businesses and livelihoods;
 - *Improving tenure security and infrastructure for informal enterprises* is important to supporting local economic development – for example through intermediate forms of tenure. For example, access road improvements enhance the economic potential of adjacent properties. However, upgrading can increase land values and so it is important to capture land value gains for the benefits of the community.
- *Local governance* is important in supporting the economic potential of informal settlements. A critical problem is to eliminate constraints to security and productivity for informal enterprises, and to ensure that municipality officials are aware of the potential of informal enterprise. Measures may include the following:
 - *Appropriate regulation* which recognises the benefits of mixed-land use in informal settlements, for example through appropriate relaxation of building codes and property and business registration regulations;
 - *Taxation* should be appropriate and bring clear benefits to the enterprise. In practice many informal entrepreneurs pay considerable amounts in local authority fees or informal payments, and are happy to pay provided that they receive increased operating security.
 - *Formalisation* is a common government policy, but this should be seen not as an end-goal, but rather as one of a number of measures used to tackle urban poverty once appropriate regulatory framework has been established.

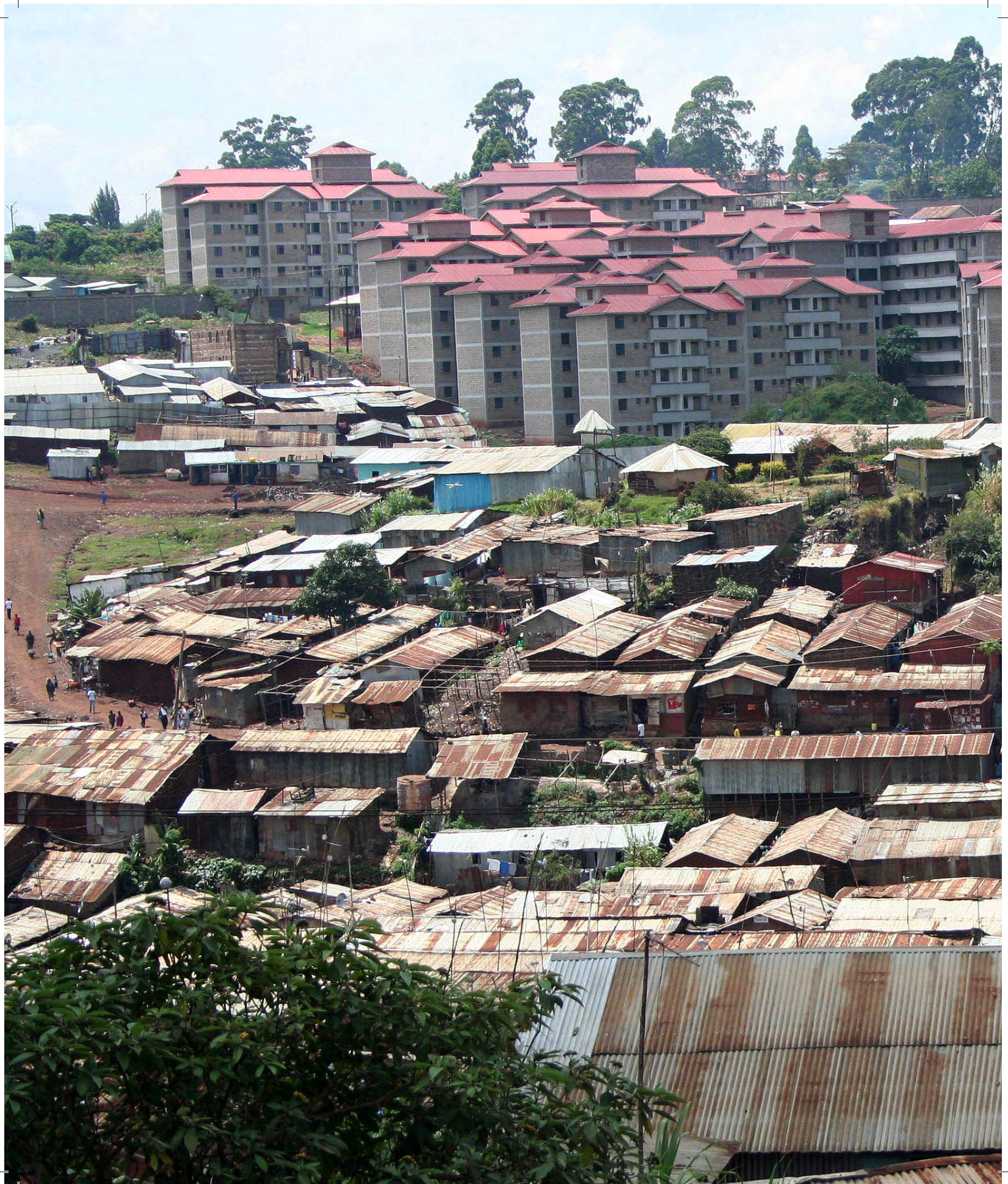
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