



innovative policies for the urban informal economy



UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME



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urban informal economy



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The informal economy is the main source of employment for a considerable proportion of the urban poor and it accounts for a significant share of the economic output in most developing countries. Although it is generally recognised that in those countries the informal sector is a permanent and significant component of the urban and national economies, only a few have formulated a coherent and comprehensive set of regulations to facilitate the activities of their informal economies.

When it comes to setting up an appropriate regulatory environment, striking a balance between the positive and negative aspects of informality is one of the major challenges. On the one hand, the informal economy can be a vital source of employment and income for the poor, the seedbed of local entrepreneurship and an effective instrument to combat poverty and social exclusion. On the other hand, unregistered and unregulated informal economic activities are a potential source of tax evasion and create an unfair advantage over the formal sector. Lack of appropriate regulation is also closely associated with lower labour, health and environmental standards. In addition, informal economic activities in urban areas, notably street vending, occasionally exacerbate congestion in city centres.

Because of these negative aspects of informality, national governments and municipal authorities in many countries have tended to regard the informal economy as undesirable. This, in turn, has resulted in the implementation of punitive or restrictive policies specifically targeted at informal operators, often with adverse impacts on their efforts to rise above poverty. What is needed now is a coherent policy framework which eliminates the negative aspects of informality while preserving the potential of the informal economy to generate more jobs and other income-earning opportunities for the urban poor.

Suffice it to say that the formulation of a new policy framework for the informal economy must also take into account the appropriateness and effectiveness of existing formal sector regulations. When regulations are excessive, they are not only too difficult to enforce but also encourage the growth of unregulated

activities. By increasing the costs of entry and operation, heavy regulation also contributes to the further growth of the informal economy. Conversely, a streamlined regulatory environment with appropriate incentives can effectively lower the costs of setting up and operating small businesses and increase the benefits of gradual regularisation of the informal economy.

In recent years, several developing countries have begun to simplify registration and licensing procedures and to adopt reasonable taxation policies which have laid out a more favourable operational environment for business. At the same time, several municipal authorities throughout the developing world have experimented with innovative policies to support the development of the urban informal economy, such as, setting aside designated areas for street vendors, providing micro-credit funding for small-scale enterprises and introducing gender-friendly measures.

This report documents some of these innovative approaches to regulatory reform in selected developing country cities with vibrant informal economies. It also identifies good practices that could be replicated in cities and towns in other countries. The case studies and policy recommendations contained in this report were extensively discussed and reviewed during an Expert Group Meeting on “Municipal Regulation and the Urban Informal Sector” convened by UN-HABITAT in Nairobi, from 13 to 14 February 2006.

The major objective of this report is to go beyond the conventional debate on whether to regulate or deregulate the informal economy by focusing on the design and implementation of appropriate regulations and their effective enforcement. It is our sincere hope that this report will provide a platform for developing and implementing urban development and regulatory policies that will enhance both the incomes and the productivity of all those involved in the urban informal economy that is so vibrant in developing countries.

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1.1 Definitions of the Informal Sector

The first United Nations Development Decade – launched by the General Assembly in 1961 – called on all UN Member States to step up efforts to accelerate economic growth and social progress in developing countries. It was then widely expected that poor, traditional economies could be transformed into modern ones and that, in the process, “the traditional sector comprised of petty traders, small producers, and a range of casual jobs” could be fully absorbed into the formal or ‘modern’ economy (ILO, 2002a, p.9). The 1960s, however, experienced a widening gap between the per capita incomes of developed countries on the one hand, and developing countries on the other.

During the early 1970s, concern about relatively low rates of economic growth, increasing unemployment or underemployment and the stagnation of the “traditional sector” led to the identification of a vibrant “informal sector” in developing countries (see ILO 1972; Hart 1973). When the concept of the informal sector was first introduced by the International Labour Organisation (ILO) in its Kenya Mission Report, informality was broadly characterised by (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small-scale operations; (e) labour-intensive and adaptive technology; (f) skills acquired outside of the formal sector; and (g) unregulated and competitive markets (ILO, 1972). While most of these characteristics remain valid, further research over the past three decades has expanded the concept of informality to include activities that were not part of the original definition.

During the 1970s and 1980s, the analysis of the informal sector was expanded considerably to encompass a wide range of economic activities and different types of employment relations. For example, some definitions focused on the size of the firm, measured by maximum number of employees or maximum turnover. Others placed more emphasis on the quality of employment, measured in terms of job security, social protection and workers’ benefits. From a purely economic perspective, the informal sector can be

identified as activities involving unreported income from the production of legal goods and services – both monetary and barter transactions – that is, all economic activities which would be taxable if reported to tax authorities (Schneider, 2002).

The need to estimate the aggregate size of the informal economy and to integrate it into overall employment statistics led to the formulation of a statistical definition – agreed during an international conference of labour statisticians held in 1993 – that follows classifications provided by the United Nations system of national accounts. One of the resolutions of that conference defined the informal economy as a group of *income-generating* household enterprises or unincorporated enterprises owned by households that includes (a) own-account enterprises which may employ family workers and employees on an occasional basis and (b) enterprises of informal employers with a unit size below a certain number of employees and non-registration of the enterprise or its employees (ILO, 1993).

Given its aim to integrate the informal economy into national accounts, this statistical definition is also flexible enough to allow individual countries to apply its basic criteria to their specific national circumstances. National statistical definitions – including in the six countries providing city case studies for this report – vary according to criteria such as the maximum number of employees and the inclusion or exclusion of informal employment in agriculture (ILO, 1993, p.11). Furthermore, since this international statistical definition is based on the concept of household or unincorporated *enterprises*, it places less importance on the concept of informal *employment relations*, which has been increasingly used in many countries.

This has led to the formulation of an expanded conceptual definition of the informal economy that takes in key aspects of such informal employment relations. Informal employment is thus generally defined by lack of secure labour contracts, of worker benefits or social protection, *both* inside and outside informal enterprises (ILO, 1993, 2002b). According to this expanded definition, informal employment in

unregistered or unincorporated enterprises includes employers, employees, own-account workers and unpaid family workers working for income-generating informal enterprises; whereas informal employment *outside* informal enterprises includes domestic workers, day labourers, home-based workers and unregistered employees working either in formal enterprises or for households. In other words, this expanded definition considers informal employment in terms of “all remunerative work – both self-employment and wage employment – that is not recognised, regulated or protected by existing legal or regulatory frameworks as well as non-remunerative work undertaken in an income-producing enterprise” (ILO, 1993, p.12).¹

Although various definitions of the informal sector may focus either on the existence of unregistered or unincorporated businesses, or on employment relations outside existing legal regulations, there is general agreement that this sector must not be mixed with criminal activities. Whereas the informal sector is often characterised by semi-legal production or employment arrangements, it produces, and trades in, legal goods and services, unlike the criminal economy engaged in activities such as drugs trafficking, arms smuggling and trade in endangered species or human beings.

Because current definitions tend to focus on the various legal or economic characteristics of the informal sector, no single, clear-cut conceptual or statistical definition is universally used. For example, even though national statistical data are often based on the size of (small and medium) enterprises, the definition of these enterprises – in terms of maximum numbers of employees or maximum amount of revenues – also vary from country to country. Moreover, national statistical data also assume that all micro- or small enterprises are informal, even where many of them are, in fact, properly registered and incorporated. Other studies ignore the fact that some formal enterprises may employ informal workers and thus fail to incorporate the employment relations component of the above expanded definition. Further complications arise from the inclusion or exclusion of informal agricultural workers into informal economy statistics.²

While the terms ‘informal sector’ and ‘informal economy’ can often be used interchangeably, the increasing focus on the latter is intended to dispute the assumptions that (i) informality is confined to a single sector of economic activity and (ii) the formal and

informal parts of the economy exist in complete isolation from each other (Wiego, n.d.). The current focus on the informal economy thus arises primarily from the fact that the informal sector actually encompasses a wide range of distinct economic activities or sub-sectors. In addition, whereas the informal and formal sectors were previously considered to be two distinct economic sectors without direct links to one another, it is generally agreed nowadays that the two sectors are in fact dynamically linked to form a continuum of economic relations (Chen, 2004).

Production, distribution and employment relations tend at some point on the continuum, to fall between entirely formal relations and entirely informal relations, with workers and units moving along the continuum in varying degrees and often operating simultaneously at different points on the continuum. For example, many informal enterprises have production and/or distribution links with formal enterprises, and many formal enterprises hire workers under informal employment relations, even though these links cannot always be captured in informal economy data.

1.2 The Growth of the Informal Economy in Developing Countries

Bearing in mind the above-mentioned definitional caveats, there is evidence to show that the (urban) informal economy employs a significant share of the labour force in many developing countries. Informal employment as a percentage of non-agricultural employment in the three major developing country regions is estimated to be 72 percent in sub-Saharan Africa, 65 percent in Asia and 51 percent in Latin America – with wide variations among different countries in these regions, including the six countries selected for the city case studies in this report (see Figure 1.1). Evidence from many developing countries also shows that the majority of new employment – both self-employment and wage employment – is generated in the informal economy.³

In addition, the informal economy tends to account for a relatively larger share of the overall economy in developing countries than in industrialised ones. For example, a comprehensive survey of the informal economy in 110 developing, transitional and industrialised countries estimated that average size of the informal economy in OECD countries was equivalent to 18 percent of their Gross National Income (GNI) in 2000 (Schneider, 2002). By contrast, the average size of the informal economy in developing countries in

¹ It is worth noting that unpaid domestic work and care activities that do not generate income are not part of the informal economy.

² Some countries include estimated informal employment in agriculture in their informal economy statistics. This increases the overall proportion of informal employment, for example, from 83 per cent of non-agricultural employment to 93 per cent of total employment in India; from 55 per cent to 62 percent in Mexico; and from 28 percent to 34 per cent in South Africa (see ILO, 2002b).

³ See WCDSDG (2004:60-62). It is hard to establish to what extent this is caused by globalization, though increased global competition has made informality more difficult to control in many countries.

Table 1.1. Economic Size of the Informal Economy in Developing Country Regions

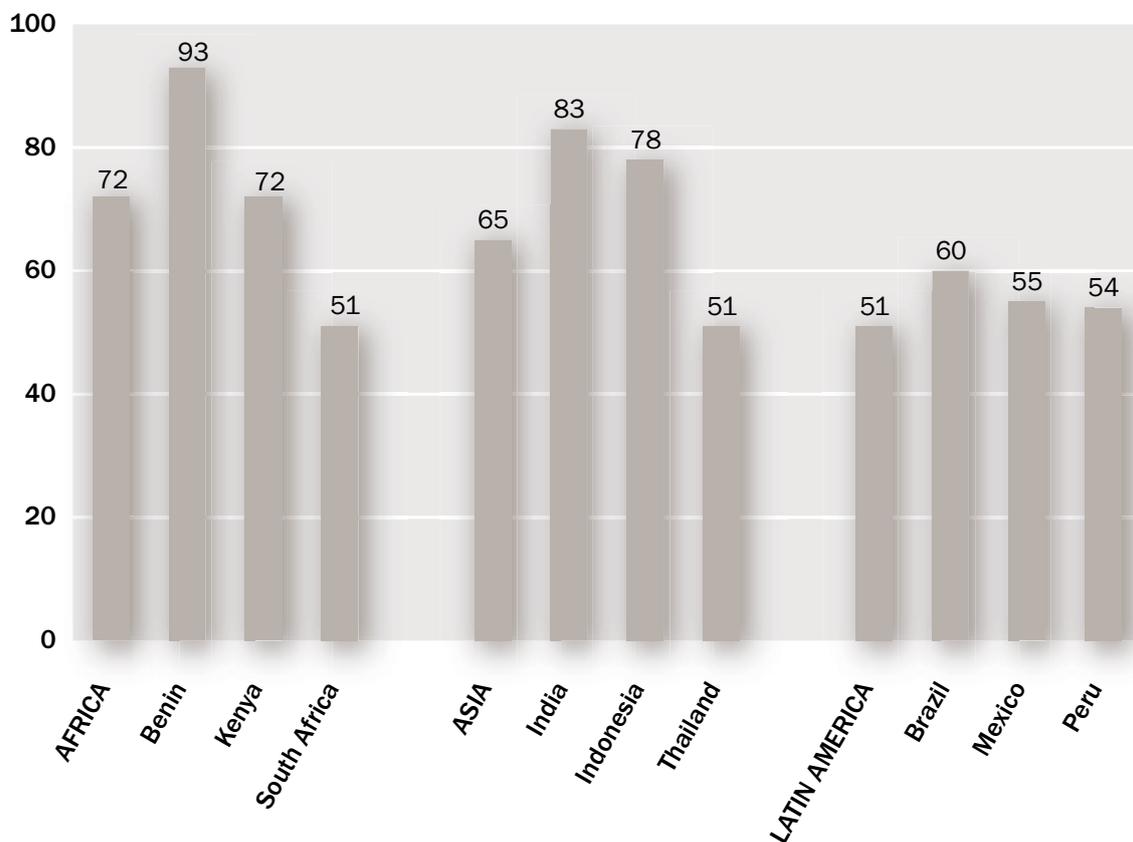
Region or Country Economic Groupings	Informal Economy as Percentage/GNP, 1999/2000	Informal Size Economy in 2000 (in USD billion)
Africa (23)	42	70
Asia (26)	26	531
Latin America (18)	41	353
EITs (23)	38	117
OECD/Europe (16)	18	894

Source: Schneider (2002)

Note: Numbers in brackets refer to sample countries in each region or country groupings.

Figure 1.1. The Human Dimension of the Informal Economy in Developing Countries

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



Source: ILO (2002a)

Note: The data for Africa refer only to sub-Saharan Africa

the same year ranged from 26 percent of GNI in Asia to as high as 40 percent in Africa (see Table 1.1).

At least five explanations or hypotheses – some of which tend to be closely linked – have been put forward for the persistence and growth of the informal economy in developing countries (see UN-HABITAT, 2003).

The first such explanation attributes the persistence of informal activities to economic stagnation or

the lack of a minimum rate of economic growth required to sustain expanding labour forces, notably in the urban areas of developing countries. Evidence shows, for example, that employment in the informal economy grows even when the formal sector is stagnant, in the process helping labour markets to reduce the detrimental impacts of economic crises (UN-HABITAT, 2001a). Conversely, this explanation also assumes that the share of the labour force in the

Table 1.2 The Cost of Regulation: Requirements to Start a Legal Business

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

Source: S. Djankov et al (2002)

Notes: 1. The number of procedures includes all necessary licenses and permits and completion of any notifications, verifications or registrations required by relevant authorities.
 2. Business legislation, specific regulations and fee schedules are used as sources for start-up cost calculation..
 3. The data set covers 85 countries in all regions.

formal economy increases as Gross Domestic Product (GDP) per capita rises.

Second, increasing use of capital-intensive technology and more efficient methods of production may be responsible for a 'jobless growth' phenomenon, characterised by the decline of formal sector jobs and/or the drift into informality of certain formal sector jobs. For example, greater global economic integration appears to be accompanied by an increasing number of home-based enterprises in the areas of information technology, financial advice, telephone consumer service and business consultancy in both developed and developing countries. Therefore, integration of informal home-based workers into global production chains of goods and services is a clear indication of the continuum of economic relations linking the formal and informal economies (ILO, 2002a).

Alternatively, the 'growth from below' hypothesis attributes some of the GDP growth in many countries to the considerable expansion of the small and medium-size enterprise sector, which is often equated – rightly or wrongly – with the informal economy. It is thus assumed that "small-scale enterprises in the informal economy are growing faster in many countries than large-scale firms in the modern sector" (UN-HABITAT, 2003, p.101). In addition, it is also stressed that these enterprises are not only more economically dynamic, but also "create more jobs than the formal economy" (ILO, 2002b, p. 29).

Fourthly, it is possible to link periods when economies undergo processes of structural adjustment – often characterised by factors such as reductions in public expenditure, public sector contraction and higher taxation – to shifts from formal to informal employment. Since such periods of economic contraction caused by structural adjustment policies are often followed by periods of economic expansion, these shifts

may be only temporary. Indeed some evidence shows that "the poor benefit less from expansions during a structural adjustment programme than in expansions without an adjustment program, while they are at the same time hurt less by contractions" (Easterly, 2001, p.7). By extension, the growth of the informal economy during those periods of contraction in the formal economy may not necessarily be reversed in expansionary phases.

Last but by no means least, the considerable growth of the informal economy – particularly though not exclusively in developing countries – is also closely associated with heavy or inefficient regulations that make it difficult and costly for businesses to operate efficiently in the formal sector. It can be thus argued that "most informal enterprises have chosen not to register precisely because of the costs – in money and, especially, in time and harassment – of doing so" (UN-HABITAT, 2003, p. 101). It is this regulatory burden on small businesses that is the focus of this report.

1.3 The Cost of Regulation and the Need for Appropriate Regulation

Regulation of the informal economy is necessary not only for the purposes of raising tax revenues, but also for ensuring compliance with minimum labour, health, environmental and product quality standards. However, where regulation is excessive and inadequately enforced, it will effectively increase the cost of entry and operation, and contribute to the growth of the informal economy (Bannock, Gamser and Juhlin, 2003).

It is now widely recognised that inappropriate regulatory policies affecting the establishment of productive enterprises can seriously hinder the speed and efficiency of investment, and impose heavy addi-

tional costs on the urban economy (see UN-HABITAT, 2001a). For example, a comprehensive economic study of entry regulation for start-up businesses in 85 countries shows that those with heavier entry rules tend to have higher levels of corruption and larger informal economies than those countries with lighter entry regulation (Djankov *et al.*, 2002).

National governments and municipal authorities in many countries generally treat the urban informal economy as undesirable and often target punitive or restrictive policies specifically at informal enterprises. Small and micro-entrepreneurs intent on setting up and operating new businesses are usually subject to complex regulatory barriers. On top of raising production costs and reducing competitiveness in the formal economy, such policies contribute to informal economy growth, particularly in developing countries. As Table 1.2 shows, the average cost of regulation as a proportion of Gross National Income per capita is considerably higher in developing regions or groupings than in those more developed.

A good deal of the debate over government policies for the urban informal economy is based on whether it should be further regulated or deregulated. However, it is increasingly recognised that policy analysis should move beyond this conventional debate and focus on *appropriate regulation*, that is, the simplification and streamlining of national regulations and municipal by-laws that are required to (a) promote the development and gradual regularisation of the urban informal economy, (b) improve its operational efficiency and (c) strengthen its income-enhancing effects on the urban poor. At the same time, a second set of related innovative policies for the sector is based on the formalisation of property rights, in order to release the “entrepreneurial and property potential” of the urban poor (de Soto, 2003). Such innovative types of municipal intervention would thus be justified not only on the basis of the economic principles of equity, welfare and efficiency, but also as a specific measure to address poverty-, income- and employment-related targets of the Millennium Development Goals.

1.4 Formulating Appropriate Regulations for the Urban Informal Economy: The Central Role of Employment Generation in the Battle against Poverty

The world’s urban population reached 2.9 billion in 2000 and is expected to rise to five billion by 2030. Whereas 30 percent of the world population lived in urban areas in 1950, the proportion rose to 47 percent by 2000 and is projected to reach 60 percent by 2030 (UN, 2002). At current rates of growth, the number

of urban dwellers will equal (and soon exceed) the number of rural dwellers in the world in 2007. Estimates are that the world urban population growth rate will be maintained or even accelerate during this century, while the world rural population will barely increase during the same period (UN-HABITAT, 2003). In fact, a recent UN report stresses that the share of the world’s population living in urban areas will continue to rise inexorably, whether rural development policies are successful or not (see UN 2005; ILO 1998).

In addition, as concluded in a *State of the World’s Cities* report published by UN-HABITAT at the beginning of the new millennium, the “urban economy is the hub and nerve centre of the national economy and, as the global society expands, a nation’s welfare will be determined increasingly by the roles its cities play in the global economy” (UN-HABITAT, 2001a, p.68). There is now evidence to show, for example, that urban economic activities account for more than half of Gross National Income (GNI) in all countries, and up to four-fifths or more in more urbanised countries in Latin America, Asia and the developed world (UN-HABITAT, 2001a). Although the African continent is characterised by a broadly different picture, it is beginning to experience a degree of convergence with other regions with regard to the contribution of urban economic growth to national development (UN-HABITAT, forthcoming).

At the same time, it is now generally recognised that poverty is becoming increasingly urbanised, partly because of a growing gap between the demand for the delivery of municipal services (and associated capital investments) to expanding urban populations on the one hand; and the financial resources available to municipal authorities to fund those services, on the other hand. Furthermore, such urbanisation of poverty is primarily felt in the developing world. It was estimated at the beginning of the millennium that while 16 percent of all urban households lived in poverty in developed countries, in the urban areas of developing countries no less than 36 percent of all households had incomes below the locally defined poverty line (UN-HABITAT, 2001b). These two contrasting pictures of urban development have led to the realisation that the developing world is faced with an urban paradox: on the one hand, cities are the central engines of economic growth; on the other, cities are also centres of increasing poverty and unemployment.

The higher recognition of the role of employment generation in combating poverty was reflected by world leaders at the 2005 World Summit in New York, when they resolved “to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strate-

gies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals.”⁴ Furthermore, as shown in UN-HABITAT’s latest *Global Report on Human Settlements*, “the most direct and important factor contributing to urban poverty is the shortage of well-paid employment in cities” (UN-HABITAT, 2005, p.12).

It is estimated that the informal economy will account for over half of the urban workforce in the developing world by 2010 (WIEGO, n.d.). As a result, it has been increasingly recognised over the past decade that the generation of jobs and adequate incomes for the urban poor working in the informal economy is critical for the achievement of the poverty-related Millennium Development Goals (MDGs). The path-breaking Habitat Agenda – which was endorsed by 171 United Nations Member States during the Habitat II conference in Istanbul, Turkey in 1996 – was one of the first negotiated UN documents to articulate clearly the links among urban poverty, employment and the informal economy. Recognising that unemployment is the fundamental cause of growing poverty in many developing countries, governments have committed themselves to “promote and strengthen productive enterprises, including micro-enterprises and small-scale private and cooperative sector enterprises”.⁵ Therefore, promotion of informal small and micro-enterprises in urban areas is one of the most promising economic measures to address the needs of the working poor in developing countries.

The overall purpose of this report is to identify and develop national or municipal regulations and policies aimed at improving the operational efficiency of the urban informal economy; promoting its gradual regularization; and strengthening its income- and employment-enhancing effects on the urban poor. The proposed policies and recommendations contained in the report are based on detailed analyses of existing municipal by-laws and national policies on informal economic activities in selected developing country cities with vibrant informal economies in Africa, Asia and Latin America, namely Bangkok, Delhi, Durban, Lima, Mexico City and Nairobi.

These six case studies pay particular attention to regulatory constraints on the informal economy, including their impact on urban economic growth, employment creation and poverty reduction. Each case study primarily looks to (i) examine innovative experiences of regulatory reform, (ii) identify successful reform policies that could serve as models for other developing country cities, and thus (iii) develop policy guidelines for streamlining municipal regulation of the sector with a view to enhancing the incomes of the urban poor.

⁴ General Assembly resolution A/RES/60/1, paragraph 47.

⁵ Habitat Agenda, paragraph 118.

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2 CASE STUDY: BANGKOK

2.1 Introduction

Bangkok, the capital of Thailand, is the classic case of a primate city. Some eight million Thais, roughly 13 percent of the country's population, have house registrations in Bangkok (NSO, 2005). An additional 1.5 to 2.0 million individuals, although registered as residing elsewhere, also live and work in Bangkok. Many, if not most, of those have come to the city from rural areas in the hope of making a better livelihood, notably as construction and manufacturing workers, informal sector employees, domestic help, casual labour, street vendors and hawkers. They swell the ranks of the city's poor.

Accurate figures for the urban poor living in Thailand's capital are not available. According to a 2004 National Statistical Office (NSO) survey of those working in Bangkok's *formal* sector, only 92,064 out of a total 2.74 million employed were identified as living below the poverty line. The official poverty line is defined as income per head not exceeding 1,784 Thai baht (THB) (or approximately 45 US dollars (USD)) per month (OCDID, 2004). By comparison, the government-regulated minimum wage for Bangkok is roughly four US dollars *per day*.

One may reasonably assume that most of the urban poor are employed in Bangkok's *informal economy*. Although recent data are not available, extrapolations suggest the sector employs some 1.8 million. This figure does not include the nearly two million whose house registrations are outside Bangkok, and who are also likely to work in the informal economy.

The informal sector is a significant part of the country's economy. According to Thailand's National Economic and Social Development Board (NESDB) estimates, in 2002 the informal economy – including agriculture – accounted for 43.8 percent of GDP (NESDB, 2005). Excluding agriculture, the informal economy accounts for 33.8 percent of Thailand's GDP. The NESDB does not provide a breakdown by province or city.

This chapter provides an overview of Bangkok's informal economy, with special emphasis on street vendors. It examines the legislation and municipal by-

laws that have a bearing on the informal economy, as well as the impact of regulatory constraints on income generation and employment creation. Innovative policies and programmes are reviewed and evaluated. The chapter concludes with a set of recommendations.

2.2 National and Urban Dimensions of Bangkok's Informal Economy

The NSO defines the informal economy as consisting of micro-enterprises with fewer than 10 staff, with no social welfare or job security. Registered workers in such micro-enterprises are automatically excluded from the tax base, on the assumption that their earnings are under the minimum taxable income of THB100,000 (approximately USD 2,500) per year. Although most of those working in the informal economy are likely to earn incomes below the minimum taxable amount, they are not necessarily under the official poverty line.

The last official survey of the informal economy was conducted in 1994 by the NSO (1994). Due to the lack of more up-to-date data, this chapter assumes that the proportion of the workforce in the informal economy has remained unchanged for the past 10 years. The 1994 percentage figure, when applied to 2005 data on Bangkok's employed population, suggests that an estimated 1.8 million are currently working in the informal economy, out of a total working population of 4.54 million (NSO, 2005). This estimate excludes another 38,500 in agriculture. More importantly, the estimate does not include the 1.5 to 2.0 million working in Bangkok whose house registrations are outside the city. Therefore, one must assume that NSO statistics under-report the true number of informal economy workers.

2.2.1 Major Informal Sector Activities

The NSO classification of non-agricultural informal economy employment consists of the following categories: manufacturing (including home-based subcontracted work), construction, public works, commerce,

Table 2.1. Estimated Size of the Informal Economy in Bangkok, by Occupation

Occupational Categories	Total Workforce (Unit: thousands) 2005	Percentage in the Informal Economy, by Occupation 1994	Workforce in the Informal Economy (1,000s) ¹ 2005	Per cent
Commerce ²	1,176.0	54.1	636.0	35.3
Construction	309.0	39.6	122.0	6.8
Manufacturing ³	1,253.0	25.0	313.0	17.3
Public Utilities	82.0	0.0	0.0	0.0
Services ⁴	1,312.0	41.8	548.0	30.4
Transportation ⁵	390.0	46.1	180.0	10.0
Others & Unknown	18.0	22.0	4.0	0.2
Total	4,540.0	-	1,803.0	100.0

Source: National Statistical Office, June 2005

Notes: ¹ Calculated from 2005 employment data, multiplied by percentages of people working in the informal economy in 1994 (National Statistical Office, 1994).

² Commerce includes wholesaling, retailing, the repairing of vehicles and sale of consumer products, real estate, renting out and other types of related businesses, store employees and employees in markets.

³ Manufacturing includes food products, beverages, tobacco, woven products, knitted products, clothing, leather goods, wood and products made from wood, furniture, paper and paper products, printing and print advertising, chemicals, rubber, plastics, products from non-metallic ores, basic metal-working, metal products, machinery and equipment, and other manufacturing industries.

⁴ The category of services includes business and entertainment services, personal services, domestic services (e.g. maids), government services, healthcare and social welfare services, education, hotels and restaurants.

⁵ Transportation covers the carriage of goods, goods storage depots, and transportation.

Table 2.2. Types of Informal Employment

Production	Trading and Services	Transportation
Farmers (small-scale farmers, farm labourers)	Manual workers (manual labourers, construction site labourers, cleaners, domestic workers)	Motorcycle taxis
Home workers (home-based manufacturing, odd jobs)	Self-funded traders (selling goods by instalment, itinerant vendors, vendors at free-standing stalls, vendors of Buddha statues and amulets and other items of spiritual interest)	Passenger vans
Semi-skilled workers (folding paper bags, preparation of component parts of various types of equipment, packing goods into boxes)	Manual workers involved in the production or selling of goods without themselves making any capital outlays (vegetable pickers, sellers of odd items)	Taxis
Small-scale manufacturing (home-based businesses and shop-house enterprises, community-based businesses, housewives' businesses, self-employed businesses)	Small-scale vendors who make no capital outlays themselves but receive a percentage of what they sell (buyers of odd items, hired vendors)	Marine Taxis
	Semi-skilled employees (repairers of electrical goods, repairers of personal and household items)	Pedicab Taxis
	General employees (shop assistants, restaurant employees)	Motor-tricycle taxis Micro taxis

Source: Table created using data compiled by the National Economic and Social Development Board (NESDB), 2004, and Paiboon Wattanasiridham (2003).

transportation, services, and "other". Table 2.1 presents estimates of the numbers employed in the informal economy. The estimates are based on 1994 informal economy workforce percentages applied to 2005 data. Even assuming that there has been no major percentage shift between 1994 and 2005, the estimates should nevertheless be taken as a rough approximation.

Table 2.1 shows that just over one-third of those working in the informal economy (636,000, or 35.3

per cent) are active in commerce-related activities; another 548,000, or 30.4 per cent, are in the service industry; 313,000, or 17.3 per cent, in manufacturing; 180,000, or 10.0 per cent, in transportation; and another 122,000, or 6.8 per cent, in construction. It is worth noting that ease of entry into the various occupations results in a very wide variety of informal economy employment within the bounds of Thai law (see Table 2.2).

Table 2.3. Estimated Number of Women in the Informal Economy in Bangkok in 2003, by Occupational Category

Occupational Categories	Number of Women in the Workforce,*2003 (1,000s)	Percentage in the Informal Economy, by Occupation, 1994	Estimated Number of Women in the Informal Economy, 2003 (1,000s) ¹	Per cent
Commerce	569.0	59.5	339.0	38.7
Construction	62.0	19.6	12.0	1.4
Manufacturing	624.0	23.3	145.0	16.5
Public Utilities	28.0	0.0	0.0	0.0
Services	780.0	17.8	373.0	42.5
Transportation	55.0	12.0	7.0	0.8
Others & Unknown	13.0	8.5	1.0	0.1
Total	2,131.0	-	877.0	100.0

Source: National Statistical Office, 200??

Note: 1 Calculated from 2003 data on women in the workforce multiplied by percentage of women working in the informal economy in 1994.

2.2.2 Women's Participation in the Informal Economy

According to a NSO (2003a) survey of Bangkok's working population, approximately 47.3 percent, or 2.1 million, were female. NSO data provide occupational breakdowns, but do not distinguish between formal and informal economy employment. Here again, in order to estimate the number of women in the informal economy, the female component in each type of informal occupation as of 1994 (the latest date for which data are available) has been applied to the 2003 survey data. Assuming that proportions have remained more or less stable over the past decade, the number of women in Bangkok's informal economy in 2003 can be broken down as follows: 373,000 in service industries; 339,000 in commerce; 145,000 in manufacturing; 12,000 in construction; 7,000 in transportation; and another 1,000 in other occupations (see Table 2.3).⁶ This extrapolation yields an estimated 877,000 women engaged in the informal economy in 2003.

In terms of education levels, 23.3 percent of Bangkok's 2.1 million female workforce have not completed primary school, 18.3 percent have primary school education (six years), and 13.6 percent have nine years of schooling. Only 13.9 percent have high school education, and a further 30.9 percent have graduated from university (NSO, 2003b). It may be assumed that women with low education levels are more likely to be employed in the informal economy.

⁶ It is worth noting that the figures in Table 2.3 include only workers with household registrations in Bangkok. They do not extend to women whose household registrations are outside Bangkok but who live and work in Bangkok, and they do not include female foreign workers.

2.3 Existing Regulatory Framework

2.3.1 Existing Legislation

(a) Legislation on Street Vending

The first municipal statute designed to regulate the activities of itinerant vendors in public places in Bangkok was enacted in 1976.⁷ The term "itinerant vendor" was defined as a person who sold food and ice (Clause 4). This definition excluded the sale of other goods, such as toys, kitchenware, woven goods, and so on. Additionally, certain areas of the city were designated as off-limits to itinerant vendors (Clause 12).

In 1976 the Bangkok Metropolitan Administration (BMA) also enacted the Regulation Governing Free-Standing Vending Stalls.⁸ This Regulation stipulated that those who had been granted licenses could sell only food, ice, or such other items for which they were licensed. Free-standing stalls could be erected only in certain designated areas (Clause 6). Moreover, vendors at free-standing stalls and itinerant vendors could engage in vending activities only if authorized by the Governor of Bangkok. This requirement resulted in an extremely complex approvals process (Clause 5).

Public areas exempted from vending restrictions became the subject of national legislation in 1992, when the Public Health Act was promulgated.⁹ Chapter 9 of the Act covered vending in public areas or thoroughfares. Section 42 authorised local authorities to decide which public areas and public thoroughfares should

⁷ BMA Ordinance Governing Roadside Vendors, 1976

⁸ BMA Ordinance Governing Free-Standing Stalls, 1976

⁹ Public Health Act of 1992

be placed under the following restrictions: vending general goods or only certain types; vending during certain times of the day; vending of goods in certain ways.

The Public Health Act was intended to be applied jointly with the National Act to Promote Cleanliness and an Orderly Urban Environment⁴⁰ promulgated in 1992. This latter Act eased restrictions on vending in public areas and on public thoroughfares. Vending was permitted in certain areas on certain days and at certain times of the day (Section 20). This effectively came as a first move to ease the restrictions against vending, as the activity became legally permitted in more areas than before. Vendors were still required to maintain the cleanliness of vending areas, and arrange their wares in an orderly fashion (Section 6).

The Public Health Act of 1992, together with the Act to Promote Cleanliness and an Orderly Urban Environment of 1992, combined to lay down the foundation for BMA's Regulation on the Vending of Goods in Public Areas or on Public Thoroughfares, enacted in 2002. The Regulation defines "public areas or public thoroughfares" as areas or thoroughfares that are not privately owned and that are open to the public.⁴¹ The Regulation defines "food" as edibles or life-sustaining substances, by which is meant all goods that people eat, drink, or take into their bodies, but not including drugs, substances that act on the mind and nervous system, or addictive drugs that are banned by law. In addition, by food is meant substances used as ingredients in the production of food, including food additives, colouring as well as flavour and olfactive enhancers (Clause 4).

The Regulation includes restrictions on the vending of goods in public areas or on public thoroughfares, except when local government officials (by which is meant the Governor of Bangkok) allow vending (Clause 5). Vending in public areas or on public thoroughfares is governed by statutory provisions that address the following three issues:

(i) *Sanitation*

Vendors and their assistants are required to wear clean clothes and adopt polite behaviour (Clause 6/1). Food vendors must wear caps covering their hair, clothes with sleeves and clean aprons (Clause 7/2). Vendors must at all times maintain the cleanliness of their tools and instruments, food containers and equipment used to store and prepare food (Clause 7/7). They must have sealed containers for food and condiments that protect against dust, flies, animals, and disease-car-

rying vectors (Clause 7/8). Water used to wash equipment which contains food particles and fat must not be poured onto the ground or into public water drains (Clause 7/6). Any vendor or vendor's assistant with a communicable disease, or who is a carrier of a communicable disease such as tuberculosis, cholera, diarrhoea or chickenpox, must stop vending immediately when diagnosed (Clause 10). Persons who are issued with vending licenses must at all times maintain the cleanliness of areas where they sell their goods (Clause 6/4).

(ii) *Vending Areas*

Goods must be neatly displayed; displays must not extend beyond designated boundaries (Clause 6/2). Stalls on which goods are placed must be made of sturdy materials, and conform to stipulated dimensions (Clause 6/3). Itinerant vendors are permitted to sell goods only in designated areas (Clause 8/1). Vendors are not permitted to use sound amplification devices or emit sounds that are a nuisance for other people (Clause 8/4). Unlike in the past, current legislation does not restrict itinerant vendors to selling only food and drink. Itinerant vendors may apply for a permit to sell other types of goods in public areas or on public thoroughfares (Clause 12). The Governor of Bangkok, after reviewing the application, can issue a permit, as well as an I.D. number for the applicant and applicant's assistant(s). Applicants are required to pay fees (Clause 13).

(iii) *Vending Rights*

Vendors and assistants must display vending permits at all times on the left-hand side of their shirts (Clause 14). A vending permit may be used only by the person who has received permission to sell, together with the vendor's assistant(s) as stipulated in the vending permit (Clause 15). Vending permits, together with the identity tags of vendors and their assistants, are valid for one year (Clause 17). Prior to the expiration of permits, vendors must submit another application to the Governor of Bangkok, as well as pay an application fee (Clause 16). Vending in public areas or thoroughfares may be conducted only during times stipulated by the BMA (Clause 21).

(b) Legislation on Motorcycle Taxis

Bangkok's traffic congestion has given rise to a new form of transportation, the motorcycle taxi (OMA, 2003). In 2004, a Vehicles Act was promulgated to regulate the operations of the 100,000 motorcycle taxis registered in Bangkok⁴². The Act makes a clear distinction between

⁴⁰ Promotion of Cleanliness and an Orderly Urban Environment Act of 1992

⁴¹ BMA Ordinance Governing the Distribution of Products in or on Public Places, 2002

⁴² Vehicles Act (13th Amendment), 2004

two categories of motorcycles: those for personal use and those for public transportation, i.e., those used as taxis, a category that does not include motorcycles with sidecars (Clause 3). Fares or other service fees charged by motorcycle taxis are regulated (Clause 4). Motorcycle taxis are not allowed to charge passengers in excess of what is stipulated (Clause 28). Ministry of Communications regulations stipulate that motorcycle taxis may not charge fares of more than THB25 for the first two kilometres, and five *baht* for every kilometre thereafter. For distances in excess of five kilometres, fares may be negotiated. Motorcycle taxis must take their passengers to their destinations by the shortest route possible, or by a route that does not take them out of their way excessively (Clause 20).

Motorcycle taxis are required to register and use yellow license plates with black lettering and numbers, in order to clearly differentiate them from those motorcycles that are not used as taxis, and in order to control the number of such taxis as well as service standards. Any person wishing to operate a motorcycle taxi may apply for a permit from the national Transportation Department. Permits are valid for three years, and may be renewed for a period of three or five years at a time, conditional upon the applicant passing a physical examination and paying a small application fee. The Registrar is empowered to cancel a person's motorcycle taxi permit if the permit holder breaches the same provision of the Act twice in a single month, or fails to report to the Registrar after having been summoned by the latter, without showing good cause; or in the event that a motorcycle taxi charges a fare in excess of legal stipulations (Section 53/1).

2.3.2 Regulatory Constraints: Impacts on Employment Creation and Poverty Reduction

(a) Itinerant Vending and Free-Standing Stalls

Although there are no exact figures, by some estimates Bangkok has at least 70,000 vendors. Of these, 44,000 have stalls in markets and another 26,000 are itinerant or have stalls in public places or thoroughfares (BMA, 2005a).¹³ In July 2005, the BMA adopted regulations on itinerant vendors and free-standing stalls in all 50 districts, the purpose being to bring order to vending on footpaths and return walkways to pedestrians. Al-

though a regulatory framework already existed, it was not properly implemented or enforced. As a result, many problems had arisen, including the emergence of influential figures in regard to renting out stalls or vending spaces, selling vending rights to the highest bidder, forcing vendors to pay protection money, etc. Vending in public places also created obstructions to pedestrian traffic on public footpaths and other public areas.

The new BMA rules on itinerant vendors and free-standing stalls allocated a maximum two square metres per vendor as well as space at least one metre wide on public footpaths for pedestrians. Under the rules, vendors are forbidden to place their stalls within 10 metres of road signs and public transport shelters for passengers; within five metres of pedestrian overpasses; on sidewalks where there are zebra crossings; in immediate vicinity of telephone kiosks, mailboxes, and public toilets; or next to entrances and exits to buildings that are used by the general public. In addition, vendors are prohibited from allowing others to conduct vending activities in their stead, except for vending assistants who are blood relatives (fathers, mothers, children and spouses only). Vendors violating this prohibition will have their licenses withdrawn.

Food vendors are allowed to set up tables only at the following times: during the day, between 11.00 – 13.30 hours, in areas where other food vendors are also operating; at night, only in designated areas, from 19.00 until 02.00 hours. The BMA has recently prohibited vending on Mondays, setting aside this day for cleaning-up. This prohibition has adversely affected those vendors operating on a hand-to-mouth basis and whose livelihoods depend on day-to-day sales. Each vendor is permitted to set up a maximum of two sets of tables and stools for customers (a set consisting of one table and four stools). Vendors may set up shared seating arrangements, while still making sure that pedestrians have walking space that is not under one metre wide.

In order to increase the space available to pedestrians and make Bangkok a more practicable city, the BMA has adopted a systematic policy of reducing the number of public vending spaces over the next decade. The objective is an annual 10 percent reduction in the number of vendors in public spaces (BMA, 2005b). Vendors are to be compensated with vending spaces in other public areas, or on property owned by government agencies, or on property that has been purchased from the private sector. The purpose is to relocate vendors to new plots of land that are close to the public spaces they are currently occupying. The new plots may be acquired by way of donations, or purchased through municipal funds, or by vendor savings cooperatives and, together with local district offices, acquire land or shop-houses to conduct business. ???

¹³ Bangkok Metropolitan Administration (April 8-22, 2005), "Survey and Report on Vendors in Public Areas"; the survey covered itinerant vendors and vendors at free-standing stalls in public areas who were engaged in vending on a regular basis. The survey also included vendors domiciled both within and outside Bangkok, but did not cover occasional vendors, pushcart vendors, vendors in non-permanent markets or those in private markets or on private property

The BMA is currently looking to provide space for vendors with permits to operate in specially designated public areas. As of September 2005, the BMA has organized space for 2,000 stalls in areas under its jurisdiction, with an additional space for 3,000 stalls on private property, and another 800 stalls on land belonging to Thailand's National Housing Authority. However, the BMA has no control over rents where private property is concerned. Currently, the BMA is negotiating with the Crown Property Bureau – a Thai government agency that manages Royal properties – to provide space for some 10,000 stalls for any authorised vendors who have spilled over from specially designated vending areas. However, even where the additional spaces are secured, there remains a shortfall of at least another 10,000 vendor stall spaces.

Those vendors without permits to operate stalls in public areas may file appeals, but if they lose they have to seek alternative occupations. The BMA has delegated to its Office for Social Development the task of training former vendors into over 100 types of occupations. The training is conducted at BMA's nine Centres for Occupational Training, which provide both short- as well as long-term training.¹⁴ BMA services also assist fresh trainees looking for new jobs.

BMA regulations look to bring order to street vending in Bangkok. At the same time, there is no denying that the rules have restricted some people's opportunities to make a living. For instance, the prohibition against vending in areas adjacent to road signs and bus shelters, as well as pedestrian overpasses, runs counter to real-life practicalities. The fact of the matter is that within prohibited radiuses, vendors have set up stalls to cater to the large numbers of passers-by, and that, by virtue of their strategic location, these businesses generally thrive. In this respect it should be noted that BMA can be quite pragmatic when it comes to enforcement of street vending regulations. Some vendors maintain stalls within prohibited radiuses. Pavement space is split down the middle: one half (one meter) is for pedestrians, the other half is for vendors. Experience shows that enforcement of regulatory policies in Bangkok has always been sporadic and short-lived.

(b) Policies on Motorcycle Taxi regulation

The Thai government has begun a crackdown on 15 categories of businesses where underworld figures wield a degree of influence (including through 'protection' money). Motorcycle taxis are one such category. Over the years BMA has sought to regulate motorcycle taxi operations with a double objective: keeping the

underworld at bay as well as enforcing two relevant local statutes, namely the Land Transportation Act 1979 and the Vehicles Act 1979. The main regulatory mechanisms include:

- (i) Compiling individual motorcycle taxi operator backgrounds and imposing licenses (renewable every three years for a small fee) on motorcycle taxis;
- (ii) A committee to screen those qualified to operate motorcycle taxis, and another to regulate motorcycle taxi stands at local level;
- (iii) Selection of motorcycle taxi stand managers and determining the daily fee motorcycle taxi operators must pay for permission to work;
- (iv) Determining standard passenger fares; and
- (v) Specific quality standards for motorcycle taxis and components.

Additionally, the BMA has arranged safety training programmes for motorcycle taxi operators. The authority has also attempted to crack down on 'influential' individuals.

As a result, problems associated with motorcycle taxis have been somewhat alleviated, resulting in a number of benefits to the operators. The quality of life and standards of motorcycle taxi operators have improved, and so has occupational security. Incomes have increased, currently ranging from THB300-500 (or approximately USD 8-13) per day. Consequently, more people have taken up this occupation, which is expanding at a rate of 20–25 percent per year. Thanks to compulsory registration of motorcycle taxi operators, 'influential' figures have been bypassed. Entry costs (in terms of investment) have decreased as protection money is no longer necessary.

On the whole, the implementation of policies designed to regulate motorcycle taxis has brought more order to the provision of services. Nonetheless, the regulation of services is still incomplete, owing to the ever-greater number of motorcycle taxis coming onto the roads each year. Moreover, implementation problems have arisen. These include, for example, increasing the number of motorcycle taxi stands; splitting up stands into two or more independent stands; route overlaps between different stands; changing motorcycles; changing operators; renting out of waistcoats; and provision of sub-standard services. In mid-2005, BMA administrators met to establish motorcycle taxi routes and the location of stands and standards. The BMA is also reviewing the feasibility of having motorcycle taxi operators take out third-party insurance.¹⁵

¹⁴ Matchon daily newspaper, 22 June 2005, p.10

¹⁵ Thai Rath newspaper, 27 July 2005, p.12

2.4 Regulatory Reform: Innovative Policies and Practices

2.4.1 Innovative Policies

The present Governor of Bangkok has set out five major goals for Bangkok, the first of which is to make Bangkok a city of opportunity, where everyone can succeed and prosper. To this end, a number of policies have been implemented. For example, a fully integrated centre for occupational promotion has been established, occupational promotion programmes have been launched. Bangkok's income generation schemes are actually part of the Thai government's income-enhancing programmes, directed at the urban and rural poor, and implemented nationwide. Some of these national programmes are reviewed below, together with an outline of BMA's occupational training centres.

(a) The People's Bank

The People's Bank has been established by the Government Savings Bank to provide credit to small-scale, mostly self-employed, entrepreneurs in the whole of Thailand. Its main feature is that it does not require borrowers to provide any collateral against loans; instead, it is for loan guarantors to do so.

The primary objective of the People's Bank is to enable people to have occupations, incomes and better living standards. Other objectives include promotion of systematic savings schemes in local communities and funding for small-scale entrepreneurs who are not able to operate in the formal sector on a continuous basis.

The People's Bank has targeted small-scale traders and entrepreneurs with micro-businesses, as well as salaried employees willing to set up their own micro-enterprises in order to generate additional income. The bank grants credit to fund ventures that enable loan recipients to make a living or to repay informal economy loans. The amount of credit must be within an individual's means to effect repayments. The first extension of credit is up to THB30,000 per loan. The next is up to THB50,000 (or approximately USD 1,300) per loan. When the amount of credit is not more than THB15,000, loans must be repaid in 13 monthly instalments. For loans in excess of THB15,000 but under THB30,000, repayment must not exceed 25 instalments. For loans over THB30,000, repayment must be made in 37 instalments.

Interest rates are fixed at one percent per month. Borrowers are required to repay loans on a monthly basis, each repayment consisting of both principal and interest. Repayments are effected by automatic deductions from borrowers' bank accounts. If a borrower

fails to make a monthly repayment without showing good cause, the bank will charge a penalty calculated as 1.5 percent per month on the principal sum for that month.

In the event that a borrower has a guarantor, the guarantor must be at least 20 years of age, must have a fixed domicile and with specific contact details. A guarantor is not permitted to act as guarantor for more than two persons at a time, and is not permitted to act as guarantor on other loans that have been extended under the project.

If assets are used to secure loans, borrowers may use both immovable property as well as movable property as security. The property may be their own or that of other parties. Such assets may comprise, for example, government savings books and/or special government savings bonds, or movable property that is registered, such as cars and motorcycles that are in good working order and are insured.

Small-scale traders, entrepreneurs, or people with low incomes who wish to take out loans may contact the 74 branches of the Government Savings Bank scattered throughout Bangkok. Extension of loans is not limited to the formal sector. Individuals involved in the informal economy are also eligible.

(b) The Village and Urban Community Fund

The Village and Urban Community Fund is a government programme implemented by BMA's Office for Social Development. The primary objective of the programme is to serve as a source of revolving funds at village level and in urban communities, so that individuals can invest in their own occupations and income-generating activities.

An individual may borrow up to THB20,000 (approximately USD515) from the Community Fund. The local committee administering the Fund may approve loans in excess of this amount, up to a limit of THB50,000. Borrowers are required to open savings accounts at the Government Savings Bank or the Bank for Agriculture and Agricultural Cooperatives (BAAC). Loans must be repaid within one year.

(c) One Tambon One Product (OTOP) Programme

In Thailand *tambons* are administrative subdivisions under district level, of which there are well over 7,000. OTOP is a national government programme whose primary objective is to stimulate local initiatives in the development and marketing of local products. In line with government policy, the BMA established a Centre for the Development of Local Products in 2004.

The programme gives small-scale businesses access to government loans. The loans are intended to help businesses to expand; to finance new businesses;

to develop production processes, markets, or distribution outlets for products; and to develop different types of products. The loans extend for a period of five years, with interest charged at the national minimum lending rate (MLR) plus one percent per year.

BMA initiatives, combined with the Thai government's efforts to identify markets while disbursing OTOP loans, have expanded employment opportunities in local communities as well as inspired new independent traders in these communities, especially in the informal economy. The OTOP programme creates jobs for people with little education, a first step on their way to becoming small-scale entrepreneurs.

(d) The Conversion of Assets to Equity Programme

This programme proposes to create opportunities, for the more deprived segments of the population (including micro- and small businesses), to access sources of funding in the formal sector. In order to access such funds, applicants must have title to assets. Title deeds or business permits are then used as collateral on loans from financial institutions. Five categories of assets are accepted: land and appurtenances; rental agreements; hire-purchase agreements; permits that entitle holders to use public land and other documents of rights to intellectual property; and machinery. The programme has necessitated improvements in asset valuation methods as well as development of databases, in order to organise the proper management of land and other assets.

In Bangkok, the assets with potential for conversion to equity are the rights to use public property. The Thai government has entrusted BMA with the task of overseeing the use of public property, as well as devising conditional right documents that are transferable. The focus is on regulating use of public property while at the same time not encroaching on the rights of the population at large. For public property such as Chatuchak, Muangmin, and Dhonburi markets, or other public areas where stalls have been set up in designated areas, BMA is required to determine the feasibility or appropriateness of issuing permits to vendors. Vendors may use these permits as collateral on low-interest loans from financial institutions. The Government Savings Bank has been entrusted with a major role in extending loans to vendors. The BMA Markets Bureau is responsible for overseeing the provision of such loans.

With regard to loan extension, the BMA has focused on four key target groups: approximately 10,000 vendors in markets overseen by the Markets Organisation of Bangkok (specifically, Chatuchak and Muangmin markets); some 12,000 vendors in 14 markets overseen by BMA district offices of Bangkok; 22,000 vendors in private markets in Bangkok; and

some 26,000 vendors who operate in public places or on public thoroughfares in Bangkok.

A vendor may borrow up to THB300,000 (or USD 7,700), subject to the Government Savings Bank's assessment of individual vendors on a case-by-case basis. The Bank takes into account the feasibility of the business, as well as the ability to repay loans. Repayment is by monthly instalments, at a flat interest rate of one percent per month, and must be completed within three years. Individual loan sizes may not exceed the monetary value of the right to rent a stall, which is then offered as collateral on the loan. A vendor requesting a loan that exceeds the monetary value of the stall rental right must find an additional borrower. For the loan to be granted, the collateral offered must be of a higher assessed value than the stall rental right.

The BMA's Markets Bureau has reported that the Assets to Equity Programme has benefited vendors in public areas and markets that are overseen by the Markets Organisation of Bangkok. In other words, the informal economy has benefited from the expansion of opportunities to secure loans for income generation.

(e) Occupational Training Centres in Bangkok

These Centres are operated by the Occupational Promotion Division of the BMA Office of Social Development. The Division is responsible for disseminating information, provision of job training, development of occupational skills, and provision of basic financial support on an integrated basis. Nine Occupational Training Centres are located in Bangkok and provide services to Thai nationals with the required qualifications. The minimum requirements are literacy, numeracy and being over 10 years of age. Training programmes include, for example, tailoring and dress-making; Thai massage; making Thai sweets; repairing mobile telephones; growing vegetables and selling seeds.

(f) Other Initiatives

The BMA is thus involved in various grassroots schemes to stimulate economic activity and productivity. The various programmes described above all propose to expand of opportunities for low-income earners to make a living, both in the formal sector and the informal economy.¹⁶ The benefits of social security and national welfare programmes have been extended to the informal economy. Under the '30-Baht Healthcare Programme', for example, a payment of THB30 gives

¹⁶ It should be noted, however, that once an individual has been granted a loan under any of the programmes, s/he is not eligible to loans from the other programmes. In other words, an individual may apply for a loan from only one of the three available programmes, i.e., either the Community Fund, or the People's Bank, or the Conversion of Assets to Equity Programme.

access to healthcare whatever the contingency or disease. This scheme has lowered healthcare costs for the general population. In a very different area – housing – ,the national Uea-Arthorn Housing Scheme for low-income earners enables those active in the informal economy to become homeowners within their means, with single-family dwelling units provided at a cost of roughly THB400,000 and at very low interest rates.

2.4.2 An Evaluation of Policy Reform

The programmes outlined in the previous section have been in force for about four years. As of October 2005, no evaluation reports had been released by Thai government agencies regarding the People's Bank, the Village Development Funds, or the Conversion of Assets to Equity programme. Reports on the One Tambon, One Product (OTOP) programme have focused on information dissemination regarding the production and export of products. As a result, assessing the effectiveness of these programmes must rely on the occasional survey, interview data, and direct observation of programme activities.

(a) The People's Bank

A survey undertaken in Bangkok and the greater metropolitan area in March 2003 put the number of borrowers from the People's Bank (operated by the Government Savings Bank) at 117,395, and average loan size was THB17,119 per borrower (NESDB, 2003).

(i) Benefits and Limitations

The bank imposes only a few conditions loan extensions to borrowers. The major requirement is that borrowers be low-income, small-scale vendors and merchants, or are salaried employees who wish to supplement their incomes with an additional occupation. The normally stringent screening procedures that potential borrowers are subjected to are relaxed for this group of borrowers. A flat interest rate is applied to loans, equivalent to one percent per month of the amount borrowed. When short-term loans are used as revolving funds, interest rates are far lower than what private lenders would charge. Therefore, participation in this programme provides an attractive alternative source of funds for those self-employed in small-scale enterprises in the informal economy. Moreover, a survey undertaken by the National Economic and Social Development Board in 2003 found that a number of participants in the People's Bank programme were able to reduce the amount of loans obtained from private money lenders. The survey concluded that the People's Bank enables participants to reduce the bur-

den of high interest rates which would otherwise be paid to private money lenders (NESDB, 2003).

Although the People's Bank has helped create jobs and improve incomes for small-scale, self-employed workers and others in the informal economy, the scheme has run into implementation problems. The image of low interest loans at "only one percent per month," is somewhat misleading. In reality, when a flat-rate interest scheme is applied, the principal remains constant on a month-to-month basis. By contrast, where instalments include principal plus interest, the principal amount declines on a month-to-month basis, while the interest component increases in relative terms. In a flat rate system at one percent per month, the actual interest rate in fact comes close to 22.15 percent per year (Pinthong, 2002).

Survey data indicate that 84.3 percent of participants in the People's Bank programme were already clients of the Government Savings Bank (NESDB, 2003). In short, the Bank has focused on extending credit to those employed with definite incomes, to ensure that loans are repaid. This restriction serves as a barrier to new vendors who have not previously been customers of the Government Savings Bank.

Moreover, the same survey shows that bank customers in Bangkok have been allowed to withdraw an average of only THB17,119, or 34.29 percent of the maximum permissible amount (THB50,000) under the scheme (NESDB, 2003). As a result, loans are used mainly as revolving funds for current activities. They are inadequate for capital expenditure in new enterprises. One reason behind the low average loan size could be that no collateral of any value is required. The only requirement is for borrowers to provide the bank with the name of someone who appears creditworthy, or for borrowers to open a bank account.

(ii) Regulatory compliance

Those vendors domiciled in the provinces but that apply for loans in Bangkok can easily shift their vending sites. The result is that should they default on loans and move to another site, it would be difficult if not impossible to track them down. The selection process with regard to identifying potential loan recipients is initially rigorous; however, in practice the bulk of effective recipients are existing customers of the Government Savings Bank. Once loans have been extended, there is no follow-up as to what recipients do with the funds. Many loans are not used in accordance with programme objectives.

(iii) Impact on quality of life

There is little evidence that income levels have risen as a result of this programme. Nevertheless, the funds

received contribute toward improvement of cash flow, and they are used to purchase modern conveniences, which may result in improved living conditions. Contrary to programme objectives, however, the loans are not necessarily granted to the poor, because it is difficult for them to find guarantors, or they might not have sufficient funds in their bank accounts that would make them eligible for loans.

(iv) Public-private partnerships

The programme has not given rise to any public-private partnership. Commercial banks are not interested in participating in the programme, because loans are too small to make it worth their while. Furthermore, with minimal collateral if any, the risk attached to loans increases.

(v) Sustainability

The programme would appear to be sustainable if it confines itself to its present scope and levels of funding.

(vi) Integrating women

There is no gender discrimination under the programme.

(vii) Replicability

Although the programme is modelled on Bangladesh's Grameen Bank, it does not appear to have achieved the same degree of success in terms of meeting people's needs. In the Thai case, the poorest segments of the population, who are not already customers of the Government Savings Bank, are unlikely to receive loans. Before the programme is replicated elsewhere, its effectiveness should be assessed.

(b) The Village and Urban Community Fund

Priority has been given to those working in the informal economy and small traders who live in Bangkok's communities. Eligible individuals are allowed to apply for loans from Village and Urban Community Funds for occupational development or development of small-scale industries or home businesses. Loans may also be extended for emergencies or urgent and necessary expenses, but only if they are in accordance with the objectives of the programme.

In July 2003, 612 Urban Community Funds were operating in Bangkok, well short of the target (1,472). Under these schemes, loans from the Government Savings Bank were granted to 16,252 recipients for a total THB254.3 million, or 0.24 percent of disbursements

nationwide. The average loan amounted to THB15,450 (OVUCF, n.d.). A 2003 survey of the proposed uses of the loans found that 65.4 percent went to support the primary occupations of beneficiaries and 28.6 percent to supplementary occupations, with 5.3 percent used for new activities and 0.5 percent for other purposes (CDD, 2003). By February 2005, the number of Urban Community Funds in Bangkok had increased to 1,300, of which 886 had granted loans (CDD, 2005).

(i) Benefits and Limitations

The chief policy objective of the Village and Urban Community Fund is to create a system of revolving funds to help the underprivileged, including those working in the informal economy, to make a living. Another objective is to provide communities with the opportunity to administer the funds themselves, including screening applicants and authorising the disbursement of funds, as well as determining appropriate interest rates, in light of the different occupations, value systems, cultures, and problems specific to each community. The purpose is to create a sense of participation, as well as to give communities freedom to administer the funds. The fund grants loans at much lower than market interest rates in order to help reduce people's debts. However, a survey conducted by the Thai National Statistical Office in 2003 found that in Bangkok, the proportion of extremely poor people (i.e., with average monthly income under THB738) to whom loans had been extended was only 8.37 percent of total loan recipients (NSO, 2003c).

Regarding the limitations of the Community Fund, Chaloe Saeng-utsa (2003) concludes that effective implementation of the programme is hampered by the fact that the board members of many urban communities have no experience in administering community funds, not least because they are used to taking directions from government officials. This finding has been replicated in a study by Vichai Turongbandhu (2004) in the four major regions of Thailand and Bangkok. The study concluded that the Urban Community Funds Programme faces three fundamental problems. First, the committees in charge of administering community funds lack accounting experience and skills. They also lack the necessary knowledge, understanding and legal background. This results in delays and lack of coordination. Second, there are no mechanisms to coordinate data collection, nor any clear-cut directives as to what data to collect. Sustainable networks are lacking, resulting in delays and lack of coordination in project implementation. Third, there are no markets for products, nor are there suitable occupational training programmes. The result is that while much money has been invested, end-products remain unsold.

Loan applications are approved by local community fund management boards. Insofar as Thai society works to a patron-client pattern, many local community funds in Bangkok are beset by problems of discriminatory loan approvals in favour of friends and family members. The general rule is that the less the unity and cohesion in a community, the greater the probability that funds will be disbursed to friends and family members.

The NSO reports that in 2003, the average loan amounted to THB15,450, hardly sufficient for investing in a business. The small size of loans, together with the requirement that loans must be repaid within one year, acts as a limitation on business investment, especially as some types of investment cannot be repaid within this timeframe. In some instances, loans are put to good use. In other cases, however, they are used for gambling, purchasing home electrical appliances, mobile telephones, lending the money out to others, etc. Even though the loans are repaid, the money has not been used in accordance with programme objectives, with the result that economic development at the grassroots level has not been promoted.

(ii) Regulatory compliance

The BMA's Office of Community Development (OCD), which supervises the programme, has focused primarily on proper preparation of loan application documents, and on the ability of borrowers to repay loans. However, the OCD has not adequately monitored loans and cannot tell whether the funds have been used for their declared objectives, or whether loan payments have been made. Should borrowers misuse or fail to repay loans on time, no mechanism exists to enforce regulatory compliance.

(iii) Impact on quality of life

Bangkok's local communities are much more individualistic than in the provinces; there is far less propensity to act cohesively. Programme funds tend to be concentrated in the hands of people who have the closest links to the local community boards which are responsible for approving loans. Some loan recipients have expended the loans on One Tambon, One Product programme activities. Others, however, regard the Urban Community Fund as a form of windfall, and do not make any attempt to put the loans to effective use. This has resulted in somewhat irresponsible and unnecessary spending (e.g. on gambling or on the purchase of cell phones). The fact that many of the loans have not been effectively used means income generation has not occurred.

(iv) Public-private partnership

The only agencies charged with implementing the Village and Community Fund programme are the National Village and Community Fund Board and BMA's Community Development Office. There is no private sector involvement.

(v) Sustainability

If sustainability is evaluated on the basis of loan repayment, the experience to date is that by and large loans are repaid more or less on schedule. When programme objectives are taken into account, however, the fact that objectives have not been realised in terms of income generation makes the issue of sustainability more problematic.

(vi) Integration of women

There is no gender bias with regard to implementation of this programme.

(vii) Replicability

In principle, the programme is aimed at alleviating poverty. In practice, however, it acts as an economic stimulus, with funds being disbursed directly to the people via local community boards. No government agency performs the function of monitoring and supervising the uses of funds to ensure that they are used in accordance with agreed objectives. Some local communities lack the ability to manage funds. Evaluation of whether programme objectives have been met should be undertaken before recommending replication in other locations.

(c) The One Tambon, One Product (OTOP) Programme

In 2005, as many as 469 community groups in Bangkok were engaged in the production of six major categories of goods under the OTOP programme: household goods and decorative ware; beverages; fabrics and clothing; handicrafts and souvenirs; herbal products that are not classified as food or drugs; and food products. In 2004, an event called the Bangkok OTOP Product Champion was organised, in which 87 OTOP products were granted three stars for quality, 65 received four stars, and 29 products were awarded the top five-star rating.

BMA supports OTOP with training programmes (including occupational training), locating and developing markets for OTOP products, and provision of initial capital inputs to 10 occupational training schools and eight occupational training centres in Bangkok, where training is available for more than 40

occupations. Additionally, the Occupational Promotion Division provides support to schools that organise after-hours occupational training programmes.

(i) Benefits and Limitations

The OTOP programme provides training at grassroots level and helps develop individual occupational skills through use of local raw materials. The project also encourages people to access, and make use of, knowledge centres, with a view to promote the self-help capabilities of local communities. As it encourages people to work together, the OTOP programme promotes unity, strength, and cooperation at the local level.

However, the government has been unable to create a national market for OTOP products. A 2003 study by the National Economic and Social Development Board found that most governmental support has gone toward top-rated (i.e., three to five stars) OTOP goods that already have a national market. Coordination among government agencies runs into some problems, and rating procedures for OTOP products are not standardised (NESDB, 2004). Those OTOP products without top ratings receive no government support for training, product development or marketing promotion. Little attention is paid to product quality development or distribution channels. A shortage of retail outlets makes it difficult for consumers to purchase OTOP products unless they are in the top categories. This is at variance with the government's policy of promoting the production of goods by local communities.

In interviews with producers of OTOP goods in the urban community of Pranpatana, Bangborn District, Bangkok (who manufacture goods and children's toys made from coconut shells), the feeling was that the OTOP programme was useful for housewives and women without jobs, insofar as it fostered the development of small-scale home industries. After registering with the local community development office, participants in the OTOP programme will, every quarter or so, receive details of commercial fairs where they can display their goods at no cost. Furthermore, members of local OTOP production centres are given additional training and instruction by guest instructors. However, the lack of retail outlets for OTOP products acts as a barrier to business expansion.

(ii) Regulatory compliance

The Thai government has tended to support only top-rated products rather than encouraging local communities to develop their own products. Some local communities feel that the selection process of OTOP champions is subject to unfairness and bias. As a re-

sult, they are not fully committed to trying to develop their own unique products.

(iii) Impact on quality of life

The OTOP programme has helped to generate income, in particular for producers of products that are awarded three stars or more. Government support for such products takes the form of export promotion incentives, as well as provision of selling space whenever the government sector organises trade shows of OTOP products.

(iv) Public-private partnership

There is at present no cooperation between the governmental and the private sector to promote development and marketing of OTOP products. However, some private entrepreneurs involved in the export business are in direct contact with OTOP producers of goods that are suitable for foreign markets.

(v) Sustainability

Whether the OTOP programme will survive in the long term depends on continued government support of product development initiatives by people in local communities. However, the Thai government is primarily interested in high-end products for export. It has not shown any interest in promoting products that are tailored to the domestic market or domestic consumption patterns.

(vi) Integration of women

Implementation of the project is not gender-biased or gender-specific.

(vii) Replicability

The OTOP programme concept has Japanese origins. Presumably, the concept, which involves local communities developing their own unique product lines with government support, can be implemented elsewhere. Whether such a programme will generate additional income is another matter.

(d) The Assets-to-Equity Programme

This national programme involves the conversion of asset rights to equity that can be used to secure bank loans. In Bangkok, the objective is to convert assets – in the form of rights to trade in public areas – into equity during the period 2005–2008, with the focus on itinerant vendors and those at free-standing stalls in public places. However, vendors operating in the informal

economy must first be brought into the formal sector. The rationale is to transfer assets from the informal to the formal sector, thereby expanding the taxation base (Paojindamook, 2003). It is for the BMA to process applications for the 22,000 licensed vendors in markets and the further 26,000 operating in the public areas of Bangkok.

By the end of the 2004 fiscal year, the BMA's Office of Markets had signed leases for 22,000 stalls in all 13 of BMA's markets. By the end of the 2005 fiscal year, licensed vendors had filed a total 467 credit-against-asset applications, of which the Government Savings Bank approved 341, or 73.02 percent, for a total credit extension of THB59.91 million. Not included are the approximately 26,000 vendors operating on sidewalks or in areas where special vending permission has been granted.

(i) *Benefits and Limitations*

The assets-to-equity programme is designed to provide small-scale vendors in Bangkok with a source of revolving funds, so that vendors with licenses to operate in public areas can use their licenses to secure loans from financial institutions at low rates of interest. Loans will help to create more jobs and provide vendors with additional income. In order to benefit from the assets-to-equity scheme, participants must have licenses to operate in public areas, and it is up to the banks to determine which applicants shall receive loans, together with the size of each loan. Comparatively speaking, the size of loans under the assets-to-equity scheme is greater than disbursements from the People's Bank, while interest rates are the same for both. Loans under the assets-to-equity programme are extendable for periods up to three years.

Regarding the programmes' limitations, some participants lack sufficient knowledge or skills to succeed in business. They face a real risk of not being able to repay their loans. Moreover, there are problems in obtaining loans. Since banks are wary of borrowers defaulting, the actual amounts of loans are small compared with collateral values. This defeats the purpose of the programme, which is intended to allow people to use their assets to secure large loans relative to the value of collateral (Saichua, 2003).

It should be noted that some groups, such as vendors at free-standing stalls, are licensed to use public property only on a year-to-year basis. This means that loans can be obtained only on a year-to-year basis as well, notwithstanding the fact that the programme rationale is to allow borrowers to secure loans for three years before repayment becomes due. The result is that borrowers who require a long-term loan period are unable to obtain funds for their capital expenditure projects.

(ii) *Regulatory compliance*

Since the programme is relatively new, it is difficult to determine the extent of regulatory compliance to date.

(iii) *Impact on quality of life*

It is too soon to determine the impact of the programme on quality of life. Nevertheless, the programme is noteworthy for providing revolving funds to individuals who qualify for loans. However, the only recourse for applicants without adequate collateral is to resort to lenders in the informal economy.

(iv) *Public-private partnerships*

The Government Savings Bank is the only bank participating in this programme.

(v) *Sustainability*

Although the programme objective is to register all vendors at free-standing stalls with a view to future expansion of the tax base, the fact of the matter is that the really poor sectors of the population do not even have a place to make a living which they can use as loan collateral. Loan applications must be supported by land title deeds. If loans are not repaid on time, collateral can be seized and auctioned off, in which case the unintended beneficiaries of the programme will be entrepreneurs who buy land seized from defaulting borrowers.

(vi) *Integration of women*

Implementation of the programme is not gender-biased or gender-specific. The only requirement is that loan applicants have land or own title deeds that can be used as collateral to support loan applications.

(vii) *Replicability*

The assets-to equity programme is in its early stages. So far only 476 loan applications have been made, out of a possible total of 22,000. It is too soon to assess the replicability of the programme.

2.5 Conclusion

The Thai government has launched a number of income-generation programmes at grassroots level. The schemes share one feature: they are loans in different guises, tailored to accommodate low-income groups and small-scale traders in both the formal and infor-

mal segments of the economy. Borrowers are initially subjected to close scrutiny by lending institutions, but if they show that they can repay the principal amount of the loan, subsequent disbursements are not scrutinised and lenders do not know whether borrowers really use the funds to expand their businesses. Studies show that, contrary to programme objectives, loan funds are frequently *not* used to create jobs or generate incomes.

The government has failed to provide workers in the informal economy with social welfare benefits, as well as job security. Although the BMA has required that some occupations in the informal economy be registered (e.g. itinerant vendors, vendors at free-standing stalls in public areas, and motorcycle taxis), such requirements are no more than stop-gap measures to solve problems of law and order as well as environmental problems. The measures do not focus on expanding social welfare services to those working in the informal economy.

The government should conduct surveys and register those who work in the informal economy in a more systematic fashion. The data could then be used as a basis for extending social welfare programmes over and above the universal health coverage currently available. A database should be systematically developed to assist decision-making. In addition, the Thai government should require all those employed in urban areas to be registered, and establish a system for the effective and efficient management of human resources in the country's urban areas.

With regard to specific programmes for informal sector categories, the following series of policy recommendations are in order:

2.5.1 Recommendations for the People's Bank programme

Although interest rate payments for small-scale borrowers with short repayment periods are, when calculated on a flat rate basis, lower than interest payments to private money lenders, they remain high when compared with the terms for large borrowers with extensive repayment schedules. Under the flat rate system, the capital cost of the loans is something that borrowers should be aware of, and the facts should be explained to them so that they are in a better position to assess whether it would be cost-effective to apply for a loan from the People's Bank.

2.5.2 Recommendations pertaining to itinerant vendors and those at free-standing stalls

A major problem faced by itinerant vendors and those at free-standing stalls is a lack of vending spaces, owing to current policies that restrict vending to certain locations only. Insofar as such vendors tend to be

poorly educated and have very few job alternatives, a policy option worth considering is to make more public spaces available, and to develop these spaces as permanent vending sites. A uniform system should be imposed in all 50 districts of Bangkok, to achieve the same degree of orderliness throughout the city. At the same time, issuance and renewal of vending licenses should be made contingent upon vendors maintaining acceptable standards of cleanliness and orderliness. Measures should also be taken to address the particular case of unregulated pushcart vendors, motorcycle vendors and motor vehicle vendors on public roads. They should be registered and licensed to operate during certain hours only. Specific areas should be designated where they can operate.

2.5.3 Recommendations pertaining to motorcycle taxis

The BMA must devote some attention to the management and regulation of motorcycle taxi, and fine-tune policy implementation in this area. The focus should be on the criteria for increasing the number of motorcycle taxi stands; route overlaps between different stands; regulations covering changing??? motorcycles and operators, and the renting out of identification numbers and waistcoats; and, finally, maintaining service standards.

2.5.4 Recommendations pertaining to home-based workers

Home-based workers are frequently exposed to health hazards from noise and chemical pollution, as well as to danger from accidents when using machinery and equipment. BMA should require employers to accept liability for the work-related medical expenses of home-based workers. Insofar as work performed in the home generally comes under part-time employment, without the benefit of a formal contract there is no guarantee of employment continuity. A more serious problem is that payments are sometimes inferior to what had been agreed upon, and in some cases payment arrears build up. The BMA should set up a facility where home-based workers can file complaints and receive assistance.

2.5.5 Recommendations regarding social welfare

The Bangkok Metropolitan Administration should expand social welfare benefits through a dedicated fund for all those active in the informal economy who have

no such protection. Funding should involve government subsidies, membership fees and license fees (e.g. vending licenses, motorcycle taxi permits). In addition, businesses with one or more employees should be required to participate (i.e., through contributions???) in the national social welfare programme. Social welfare benefits should be extended to the entire working population. Finally, the quality and standards of the 30-Baht health care programme should be improved and extended to cover chronic conditions or those with high treatment costs such as kidney diseases and diabetes.

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3 CASE STUDY: DELHI

1.1 Introduction

This study focuses on the workings of the informal economy in Delhi, the capital of India, and provides suggestions to improve the protective and regulatory framework for the informal sector. In most cities in India, a majority of the workforce earn a living in the informal sector. This sector has undergone significant expansion and diversification as it has emerged as the main source of employment for the poorer segments of India's urban population. Naturally, the sector experiences some functional problems as, more often than not, informal work is subject to little legal regulation, if any. The positive and negative features of the informal sector call for objective assessment before any recommendations can be made as to how it could provide greater security of incomes and livelihoods for the urban poor working in the informal economy.

This chapter will begin with an overview of India's informal economy before focusing on the more specific case of Delhi. The second half of the chapter will deal with the regulatory environment pertaining to street vending and household industries – the two major areas of the informal economy in Delhi – in order to provide an in-depth and qualitative understanding of the living and working conditions of those active in the informal economy. The ultimate aim of the chapter is to assess the potential for Delhi's informal economy to provide decent employment and working conditions.

1.2 National and Urban Dimensions of Delhi's Informal Economy

3.2.1 India's Urban Informal Sector

With a population of 1.27 billion, India is ranked as the second largest country in the world. Average literacy stands slightly above 60 per cent. Given the size of India's population, the illiterate population is a multiple of the total population of several European countries

put together. The high rate of illiteracy, which in turn signals lack of skills among a large section of the workforce, is one of the main factors behind the expansion of India's informal economy.

Urbanisation has been growing at a slow rate in India. The 1951 Census of India, conducted three years after the country achieved independence from colonial rule, recorded that only 17 percent of the total population lived in urban areas. The proportion rose to 25 percent in 1991 and 27 percent in 2001, when the latest census took place. The country's total workforce is estimated at 370 million, over 92 percent of which (or some 343 million) are employed in the informal economy (Government of India, 2005).

In 1993, around 70 percent of the workers in the formal sector were employed in government, quasi-government and public sector enterprises (Papola, 1994). According to the *Economic Survey* of 2004-2005, the proportion of public sector employment had fallen slightly to 69 percent by 2003 (Government of India, 2005). The private sector thus provides employment to only 31 percent of the labour force employed in the formal economy.

The distinction between the formal and informal sectors is crucial for understanding employment relations in India. Workers in the formal sector are engaged in factories, commercial and service establishments and their working conditions, wages and social security status and entitlements are legally protected. The wages of formal sector workers are substantially higher than those in the urban informal sector. Moreover, these jobs are protected by a range of labour laws which guarantee permanent employment and provide for retirement benefits.

Conversely, workers in the informal economy are not entitled to most of the benefits and the degree of job security enjoyed by formal sector workers. Their jobs are insecure as most of the labour legislation gives them no protection. Although labour laws in India are supposed to apply to all sections of industrial labour, some in-built provisions exclude large sections of the labour force. The most important law regulating manufacturing labour is the Factories Act. All other

laws, such as the Employees State Insurance Act, the Workmen's Compensation Act, the Provident Fund and Family Pension Act and the Payment of Gratuity Act, apply only to those establishments coming under the Factories Act.

The Factories Act is enforceable only on manufacturing establishments which employ a minimum of 10 workers and which use electric power in manufacturing, or a minimum of 20 workers if the establishment does not use power. Hence a large section of industrial workers employed in small industries do not benefit from any legal protection at work. Similarly, the Shops and Establishments Act, which grants protection in terms of regulation of work, wages and post-retirement benefits, only applies to those establishments employing more than five workers. Once again, the term 'worker' refers to a permanent worker, as opposed to temporary or casual workers. For example, if a shop or factory employs permanent workers below the minimum number and alongside employs three times the number of casual labour, it will be excluded from the provisions of the above-mentioned Acts.

Self-employed workers are another sizable category in the informal economy in India. They include workers engaged in home-based production, casual day labourers and street vendors, among others. While estimates of the number of street vendors are available, this is not the case for home-based workers. In this respect however, it should be noted that maintaining an up-to-date register of home-based workers is a pre-condition for the development of measures to protect and regularise this category.

3.2.2 Expansion of the Urban Informal Economy

In most Indian cities, the informal economy provides the urban poor with their main means of survival. Poverty and lack of gainful employment in rural areas and smaller towns drive large numbers of people to cities for work and livelihood. These migrants generally possess low skills and lack the level of education required for the better paid jobs in the formal sector. Moreover, a reduction in permanent or protected jobs in the formal sector has resulted in growing urban unemployment, even among those with the requisite skills.

For these rural-to-urban migrants, work in the informal economy is often the only means for survival in cities. Street vending is often the only means of earning a livelihood that is available to the urban poor, as it requires minor financial input and minimal skill. Therefore a large proportion of street vendors in urban areas is made of those with low skills who have migrated to the larger cities from rural areas or small towns in search of employment. Other employment opportunities for the illiterate or semi-literate migrants include working in labour-intensive small factories or workshops, and casual day jobs on construction sites or other places.

Another significant segment of the current urban labour force previously held better-paid formal jobs in textile mills in Mumbai and Ahmedabad, or in engineering firms in Kolkata (see Bhowmik, 2000; Bhowmik and More, 2001; Breman, 2001). Formal sector workers in these three cities have had to face large-scale downsizing due to closure of these industries, and many have become street vendors or workers in small factories in order to sustain a livelihood. A survey of street vendors conducted in these cities showed that around 30 percent of those active in Ahmedabad and Mumbai and 50 percent in Kolkata were once engaged in formal sector employment (Bhowmik, 2000).

3.2.3 Delhi's Informal Economy

The State of Delhi was created as recently as 1992. Prior to that, Delhi was a Union Territory administered directly by the Government of India. The urban areas of Delhi, comprising Delhi and New Delhi, account for the overwhelming majority of the population of the State. In 2001, the total population of Delhi State was 13.8 million; since under one million were in rural areas (see Table 3.1), the urban population stood at 12.9 million, making the country's capital its largest urban centre. With a total workforce of 4.5 million, or 32.8 percent of the urban population, Delhi also features a relatively high dependent population. In addition, it is worth noting that women contribute a very small proportion (13 per cent) of the total workforce.

It has taken only a relatively short time for Delhi to become the largest city in India. Until the 1981 Census, Kolkata (then Calcutta) was the city with the largest population, with Mumbai (then Bombay) coming next

Table 3.1 Delhi: Population (2001)

Population	Total	Urban	Rural
Residents	13,850,507	12,905,750	944,727
Males	7,607,234	7,085,147	522,087
Females	6,243,273	5,820,633	422,640

Source: Census 2001

Table 3.2 Delhi: Nature of Employment (2001)

Manufacturing	23
Trade, hotels	29
Public administration, education, health	27
Transport, communications, finance	13
Construction	6
Agriculture, mining	2
Total	100

Source: Rao, 2005.

and Delhi in third place. At that time, Delhi was regarded primarily as a bureaucratic city that lacked the working class culture of Mumbai or Kolkata. Over the recent decades, Delhi's character has changed significantly. As the political capital of India it still is a city of civil servants, although its manufacturing and trading base has expanded considerably. Two basic features have emerged in the city's demographic profile. First, Delhi is now attracting the largest number of migrants in the country – net inward migration during 1991-2001 was higher than in any other city in the country. Secondly, Delhi is India's fastest growing city.

Over the 1991-2001 decade, Delhi's population increased by 47 percent (Government of Delhi, 2001), compared with 20 percent in Mumbai, the second largest city.⁴⁷ In absolute terms, the increase in Delhi's population was 4.4 million during the period, compared with Mumbai's 1.9 million. This considerable increase in Delhi's population has largely been driven by rural to urban migration.

Neither the government nor the formal sectors have been able to accommodate this rapid growth in Delhi's population. As shown above, the size of government remained more or less the same since the introduction of liberalisation policies in 1991. Looking at the nature of the workforce, it is quite clear that Delhi has been shedding its character as a city of bureaucrats and civil servants and has emerged as a leading city for trade and manufacturing. According to Rao (2005), the composition of employment in Delhi is now similar to that in Mumbai, with the major areas of employment being manufacturing (23 per cent); trade (29 per cent); and public administration, health and education (27 per cent) (see Table 3.2).

According to the National Sample Survey Organisation (NSSO, 2001), the total employment in Delhi's urban informal economy was 1.7 million at the beginning of the current decade. The activities they were engaged in were manufacturing, construction, trade, hotel and restaurants, transport, storage, and

other services. Trade provides the largest number of jobs (850,000), followed by manufacturing (412,000). The distribution of employment across various sectors shows that 48.7 percent of employment is in the trading sector, whereas manufacturing accounts for 23.6 percent.

Street vending and household industries are the two major sectors in Delhi's informal economy. An overwhelming majority of those engaged in trade are street vendors or petty shop owners, which also account for the bulk of informal sector workers in the city. Similarly, an overwhelming majority of manufacturing establishments operate in the informal economy as small-scale enterprises or home-based industries.

(a) Street Vending

This chapter uses the following definition of street vending used by India's National Policy for Urban Street Vendors (NPUSV): "A street vendor is broadly defined as a person who offers goods or services for sale to the public without having a permanent built-up structure but with a temporary static structure or mobile stall. Street vendors may be stationary by occupying space on the pavements or other public/private areas, or may be mobile in the sense that they move from place to place carrying their wares on push carts or in cycles or baskets on their heads, or may sell their wares in moving bus, etc." (GOI, 2003). Furthermore, the terms "street vendor" and "hawker" are used interchangeably throughout this chapter.

According to one study (Manushi Trust, 2001), 500,000 street vendors operate in Delhi, but for lack of any official survey or census estimates vary widely depending on the source. For example, the NPUSV estimates that approximately two percent of the urban population is engaged in street vending (GOI, 2003). Therefore, an extrapolation suggests that the number of street vendors in Delhi is approximately 260,000, given that the area's urban population is 12.9 million.

(b) Household Industries

According to the Delhi Master Plan (1998), the household industry sector is defined as those industries that employ up to five workers and do not consume more than five kilowatt of electricity, or a unit employing up to nine workers and not using any electric power. Though it is very difficult to estimate the actual number of household industries, since a majority are not licensed, it is possible to measure the number of workers engaged in this sector through the census data. The data (2001) show that the total number of workers in this sector was 140,032, of which 112,522 were male and 27,510 were female (see Table 3.3).

⁴⁷ The source for the population data on Mumbai is the website of Bombay First (www.bombayfirst.com) which brings together a variety of census data.

Table 3.3 Delhi: Occupation of Workers (all)

Workers	Household / Industry	Others
Total	140,032	4,351,998
Male	112,522	3,809,515
Female	27,510	5,542,483

Source: GOI 2004.

Average employment per enterprise was 1.2 person in household enterprises and 3.7 persons in non-household enterprises, which goes to show that household enterprises have less potential than non-household for providing employment. Furthermore, the job creating potentials between the two differ significantly across various activities. In manufacturing, average employment in household enterprises was 1.5, compared with 4.8 in non-household. For trade, the figures are 1.2 and 3.1 respectively, compared with 1.2 and 4.0 in hotels and restaurants..

3.3 Existing Regulatory Framework

3.3.1 Street Vending

The Municipal Corporation of Delhi (MCD) has certain rules that regulate street vending. These are found in Section 420 of the Delhi Municipal Corporation (as it was earlier known) Act of 1957. They authorise hawking only with a Municipal Commissioner street vendor license. Moreover, street vendors are not allowed to put up stalls or even some sort of cover to protect themselves and their goods from natural elements; the Commissioner can dismantle or destroy these structures without notice. Therefore, as far as vending is concerned, regulatory powers are at the sole discretion of the Municipal Commissioner. Municipal bodies are usually expected to be run by elected representatives known as Municipal Councillors. In any democracy, elected representatives have greater authority to make and enforce laws. However, in the case of India's municipalities, and despite a Constitutional Amendment (No. 74) that decentralises power to Urban Local Bodies (ULBs), municipal commissioners still enjoy significant decision-making powers.

Municipal rules and regulations on street vending feature so many restrictions as to make this occupation extremely difficult, if not impossible, to pursue legally. For example, hawkers must sell their wares at least 100 metres away from educational institutions, hospitals, temples or religious places. They must be at least 150 metres away from municipal markets. Ice cream sellers cannot raise their voices to attract customers and they cannot sit on their trolleys. Such surfeit of rules and regulations only helps rent collection by municipal authorities. According to Manushi Trust (2002), Delhi's municipal staff and police collect around 500 million rupees (INR) (approximately USD10.9 million at mid-2006 exchange rates) in rent every month. The Central Vigilance Commission has endorsed this figure.

In 1992, in response to a legal case, the Supreme Court of India changed the conditions for hawking. As a result, the MCD introduced a licensing system known as *tehbazari* comprising four categories. The first category consists of regular *tehbazaris* that gives street vendors the right to squat at a particular place on a more or less permanent basis. These could be determined by MCD on a yearly basis. These vendors must prove that their names were listed in a survey conducted by the MCD in 1982. This survey had recorded those hawkers who were operating since 1979. Ironically, one type of proof they could provide was the receipts they had received when their goods were impounded, or the occasional fines for encroachment levied by municipal authorities.

The second category of license introduced by the MCD is the casual *tehbazari*. This was meant for licensing vendors selling their goods in weekly markets. The problems of this category of hawkers will be examined further below. The third category is the open *tehbazari* for those who have been hawking since 1982. These hawkers cannot set up permanent cover and they

Table 3.4 Average number of workers per firm in Delhi, 2001

Sector	Household Industries	Non-household Industries
Manufacturing	1.5	4.8
Trade	1.2	3.1
Hotels & Restaurants	1.2	4.0
All sectors	1.2	3.7

Source ???

must prove that they have been continuously engaged in the trade. They must also have proof of residence and nationality. The fourth category refers to “mobile hawking”, and does not come under *tehbazari*, which deals mainly with hawkers who squat at their workplaces. Under Section 420 of the DMC Act of 1957, the corporation can grant licenses to those who move in specified areas with their goods on their heads or on bicycles, trolleys or push carts. These four categories more or less cover all types of hawkers in Delhi.

The main drawback of this system is that it includes only a fraction of the total number of hawkers in the city. As in the case of household enterprises, granting of *tehbazari* licenses, especially the temporary categories, is a fairly elaborate process and at times is too complex for many hawkers to comprehend.

Although municipal authorities have the right to grant *tehbazari* licenses to approved street vendors, another Act that can overrule this right. This is the Police Act of 1951, section 34 of which reads: “No person shall cause obstruction in any street or public place by... exposing anything for sale or setting out anything for sale in or upon any stall, booth, board, cask, and basket or in any other way whatsoever.” According to this clause, the police have the right to remove any form of trade on the streets even if the municipality has granted permission. This obviously creates conflicts and can pave the way for corruptive practices.

3.3.2 Household Industries

Enterprises in household industries tend to be small and are characterised by low investment rates.¹⁸ As a result, a large section of the workforce is comprised of household labour that is largely unpaid and not counted as employees.

The State government, known as the Government of the National Capital Territory of Delhi, has shown interest in the promotion of household industries. Under its industrial policy, 73 different types of industry can be run in urban residential areas with the permission of a dedicated regulatory committee. The common rule for household industries is that each enterprise can use up to five kilowatt of power that will be separate from residential load. The list includes traditional, low-capital and labour-intensive products, such as embroidery, cotton/silk printing, clay modelling, button making, fixing of buttons and hooks (on garments), carpentry, making incense sticks, assembling and repair of electrical gadgets and sewing machines. The list also includes more modern, less labour-intensive activities, such as block-making and photo enlarging, contact lens manufacture, making

fountain pens and ball pens, data processing, computer software and desktop publishing, among others.

The main concern of the government is that approved household industries do not cause environmental or noise pollution. Hence industries such as dyeing, PVC products and electroplating are banned in household enterprises. Other items such as drugs and pharmaceuticals, fizzy water and beverages are also banned because these businesses may not be able to maintain minimum standards of hygiene.

The government operates a two-step system of registration for household industries. The first step is a ‘provisional registration’, to be provided before the business commences production. The owner/partner of the enterprise must submit some proof regarding the reality of the enterprise. Registration with the Department of Industries is not mandatory but according to the government, it has its benefits: registered entrepreneurs can avail themselves of institutional finance from the specialist schemes that support small industries; getting permission for connection to the electricity and water networks is easier and building materials are more affordable. Once a unit starts production, the entrepreneur must apply for permanent registration. This involves a more elaborate process involving a larger range of documents. .

Most household enterprises are located in concentrated pocket areas where the city’s poor reside and which provide a ready source of cheap labour. A sample survey conducted for this case study showed that most household enterprises were not registered (except for sales tax purposes), because the owners found the process too cumbersome and drowned in red-tape. Moreover, owners often fear, rightly or wrongly, the consequences of holding a license. Since business records would be accessible to the government, they were concerned that they might be subject to inspections by officials from various departments, which might imply greater rent-seeking and bribes by officials.

3.4 Regulatory Reform: Innovative Policies and Practices

This section will examine three instances of good practices that emphasise the significant role which street vendors and their professional organisations can play, through cooperation and consultation with public authorities, towards a mutually workable solution. First, the relocation process of the Red Fort Sunday market is examined, as well as the trials and tribulations its vendors went through before the move became a success. Similarly, the case of another landmark of Delhi, the Sunday book bazaar at Daryagunj, shows how vendors have managed to stay on the streets and serve

¹⁸ In this section and unless mentioned otherwise, the data is from NCTD 2004.

the needs of book lovers despite the threats to the bazaar's existence. Finally, the making of a women's market in the heart of Delhi is examined.

3.4.1 The Red Fort market

Almost every locality in Delhi has markets that operate on one day of the week. These markets are like fairs: a large number of street vendors assemble, usually in late afternoon, to sell their wares to local people. They occupy a particular area that is usually common land. This could be a broad road and pavements or just a vacant piece of land. Usually, the market is held on the pavements and part of the road. Vehicle traffic is diverted for that half day, something which residents typically take well since these markets cater to their needs.

Over the years, these one-day markets have increased in number, mainly because of the support they get from the local people and especially the poor. The vendors who participate in these markets sell a wide variety of goods, ranging from clothes and bed sheets to kitchenware, furniture and other household goods, all at cheap prices. It is not just the poor who benefit from these markets, but also higher-income groups who patronise them because of the competitive prices. When the Supreme Court established the above-mentioned guidelines on *tehbazari*, 67 weekly markets were operating in Delhi. This number has grown considerably since then.

The Sunday market at the historic Red Fort has been in existence for several centuries. It began under Moghul rule as a women-only on Fridays, the Muslim weekly holiday. Under subsequent British rule, the market changed in character, it opened up to men and changed its day. It was also turned into a second-hand market (*kabadi bazaar*, in local parlance).

The chequered history of this bazaar underlines the fact that it has been in existence in some form or another for such a long time. Even when a state of emergency was declared under Prime Minister Indira Gandhi (1975-1977) and all political institutions were suspended, the market continued, though not at the same place. It was moved to another location near Red Fort. Unfortunately in late July 2001, the market was closed by the Union Government, through an order of the Ministry of Tourism. The vendors were forcibly evicted and their goods were impounded. The subsequent explanation was that the market posed a threat to neighbouring historical monuments, namely, the Red Fort and the Jama Masjid mosque (a few hundred metres to the West), which were being degraded by the vendors and the crowds of patrons. No alternative site was provided for the market and all street vendors from the vicinity of the Red Fort were removed from

the streets in August 2001. According to Nayyar (2001), in an article published in a national newspaper:

“Behind the historical Red Fort, a weekly bazaar had come up from the days of Bahadur Shah Zafar, the last Mughal ruler, more than 150 years ago. It died early this month, without any tears or protest. Policemen came one day and forcibly removed around 2,000 hawkers, who used to peddle everything from a needle to a second-hand computer. The bazaar was a veritable treasure-trove where people would often chance on things they desperately wanted. It was a poor man's market, but now it is a stone wall. Some hawkers are still sitting cross-legged nearby, wondering where to go.”

The government announced that the area would be landscaped and developed as a park. Street vendors were viewed as a security threat to the fort and as an eyesore for the environment. The Indian National Trust for Art and Cultural Heritage (INTACH) conducted a survey of the area and found that a little over 4,000 street vendors operated in the area and all were paying daily *tehbazari*, although a little more than 1,000 had regular licenses.

Several trade associations represent the street vendors in the Red Fort area, three of which took a major part in subsequent negotiations. One is affiliated to the Congress Party and has the largest membership. Another association regroups older street vendors. These reside in the areas near Red Fort and Jama Masjid and most are Muslims. The leader of this association is a senior vendor who is very knowledgeable about the history of the market. The third group is the Self-Employed Women's Association (SEWA). This is the largest grouping of female workers in India's informal economy. Its major area of operation is the State of Gujarat where it has over 500,000 members. SEWA's entry in Delhi is fairly recent, since it began organising home-based workers and street vendors in the Jahangirpuri area. Since some of these women sold second-hand clothes in the Red Fort market, they, too, had lost their sustenance. Since SEWA has gained a good deal of respectability in the country and even abroad, this image has helped when negotiating a better deal for the vendors with the government.

The negotiations went on for as many as three years. In the meantime, MCD offered several alternative market sites but they were rejected either by the vendors (as the locations were in isolated and inaccessible areas) or, in most cases, by other government departments which claimed that the proposed area was in their jurisdiction. In the meantime, street vendors continued to peddle their wares in various places near Red Fort. They were frequently chased out by municipal authorities and the police. They also paid large sums as rents to prevent harassment from these officials. For most of the vendors, especially female,

street vending was their only sustenance and they had to face the odds to maintain it.

The vendors' associations arranged meetings with all sections of government. SEWA officials met the Lieutenant Governor of Delhi; the leader of the Congress-affiliated group held talks with the relevant minister; and the leader of the older street vendors met municipal officers, all hoping for a solution. After a lengthy negotiations, a new site was eventually found. This was at Velodrome Road, near Raj Ghat, half a mile or so south of the Red Fort. This area is fairly deserted with very few pedestrians. The vendors were none too happy with the site but by then they had no other alternatives.

Permission to start the market was sought from the relevant government offices. These included the Delhi Development Authority (DDA), the Public Works Department, the Traffic Department, the Delhi Police and the New Delhi Municipal Committee (NDMC). It is worth noting, however, that the success of the new site depended on effective closure of the market at Red Fort, which was still operating illegally. However, the police reassured vendors that the market at Red Fort would be closed down.

The Municipal Commissioner and other officials visited the new trading site on its opening day, in May 2005. The market was initially successful, thanks to an adequate number of patrons. The Red Fort market closed down and more vendors started to move to Velodrome Road. They could occupy space on the broad pavements and the police had cordoned off the front part of the road, 200 metres from the main road. The other part of the road was traffic-free. The market had provision for a little over 1,000 vendors and SEWA-affiliated female vendors managed to get space on the pavements. SEWA had played a significant role in securing the site. Though provisions were made for around 1,200 pitches, more than 2,000 vendors turned up. They had to form two rows on the pavements. These conditions gave the relocated market a strong start and shoppers responded accordingly.

By June, however, there was a marked reduction in the number of buyers as some vendors continued to peddle their wares around the Red Fort with tacit support from the authorities. These vendors paid high rents for conducting their (by now technically illegal) activities. Therefore, the shoppers who had come to Velodrome Road found it more convenient to switch back to the Red Fort instead. By the end of June, the number of patrons at Velodrome Road had dwindled to such a trickle that there seemed to be more vendors than buyers. The Red Fort market, on the other hand, seemed to flourish. The crowds there were larger and the number of sellers had increased considerably. By July, street vendors had taken over even the traffic islands and road dividers. Traffic was congested and

it was difficult for the public to move around. The authorities (police and municipality) had assured them of no interference as the vendors had doubled the rents they used to pay, at the expense of the registered vendors at Velodrome Road.

In view of this situation, the vendors at Velodrome Road took to packing up around noon when most of them would move to Red Fort for the rest of the day. In anticipation of possible future trouble, they had arranged for relatives to keep their pitches at Red Fort occupied, as a contingency measure, in case the Velodrome experiment failed. This proved to be a shrewd move as it allowed them to keep their businesses profitable. Other vendors suffered, especially the women who had given up their pitches at Red Fort and whose incomes dropped drastically. The remaining vendors at Velodrome Road tried their best to rectify the situation. Their associations negotiated with the authorities and the Red Fort market was again cleaned up prior to Independence Day (i.e., 15 August). This has given a boost to the Velodrome Road market and gradually paved the way for a more stable business environment.

This type of relocation, with all its teething problems, has shown that once people start coming to a market, it can operate effectively. It took time for the new market to take off but once the vendors started settling there, the patrons responded. The recent if hard-won success of Delhi's Velodrome Road market shows that it is possible to start markets in several unconventional places as there seems to be no dearth of buyers in the city. A concentration of hawkers in any area is bound to attract customers. This also means that there is a lot of scope in the future for setting up weekly markets in the city, and that bottom-up approaches to strengthening the informal economy can eventually succeed.

3.4.2 The Sunday Book Market

Daryaganj is a vibrant business thoroughfare in the heart of Delhi, located half a mile or so south of the Red Fort, in the 'walled city' that is also more commonly known as Old Delhi. On any working day, Daryaganj is clogged with heavy, noisy traffic. On Sundays, the roads carry little traffic as shops and offices are closed. This is when the nearby streets come alive with book sellers who operate on the pavements. The place is crowded, not by the cars and buses, but by pedestrians browse the books displayed on street vendors' stalls.

This book bazaar has been there every Sunday for 40 years. Some 200 book sellers spread over 1.5 kilometres of pavement space and attract as many as 50,000 visitors. The books offered range from popular

fiction to textbooks, and even specialist books on science, technology and social sciences. Rare and out-of-print volumes are frequently found there. The place has been described as a genuine feast for book lovers. Surprisingly, very few women have their own stalls in this market - only five, all of whom are SEWA members. The other women are there to help their husbands sell books. Book vendors' earnings are higher than those most other street traders in Delhi. With an average of INR1,000 to 1,500 a week, typical monthly income is over INR4,000 (or approximately USD86.00 at mid-2006 exchange rates), whereas the hawkers in the weekly markets described above earn only about two-thirds of that amount.

The book sellers have established their own welfare association which, in effect, acts as a trade association. The group negotiates with the police and municipal authorities over the rules of operation. The association has a president, a general secretary, a treasurer and a five-member strong executive committee. Every vendor pays INR50 to 100 in weekly rent to the municipal authorities and the police.

Nonetheless, and though the market has been in operation for such a long time, it has never been formally legalised. The practical import was that in spring (OK???) 2005, acting on local resident complaints that the book stalls blocked the pavements, the police promptly served a notice prohibiting the area to book sellers. As a result, the market remained closed on two consecutive Sundays. Vendor associations pleaded with the authorities in favour of a re-opening. They were eventually told that they could move to the new Velodrome Road market - which they did on the next Sunday, only to find, to their dismay, that there was no room left to accommodate them there. Although formally a women-only group, SEWA gave them support.. Press conferences were organised in favour of the book sellers, and writers, artists, academics and students were invited to take up their cause. As part of the campaign, several prominent writers and politicians wrote to the Chief Minister.

These efforts bore fruit: in a matter of weeks, in June 2005, book sellers were allowed to return to Daryaganj. For the time being, the market seems stable, as neither the police nor the municipality seem to be inclined to remove it. However, future stability will depend on appropriate government measures and policies guaranteeing access to public space for this type of trade.

3.4.3 The Proposed Women's Market

It was mentioned earlier that women contribute only a very small proportion of the total number of street vendors in Delhi, and that the rare female vendor at

Delhi's weekly markets is typically very poor. The most plausible reason is that males keep females out of the better, more lucrative types of vending. Male dominance effectively deters women from taking up street vending, with harassment frequent from both male customers and male vendors SEWA has been pondering over this issue ever since it started work in Delhi around 2000. The experience here was quite different from that of Gujarat, a State where women are involved in street vending as well as other informal business activities, working alongside men as a matter of routine. The implication is not that Gujarat is less patriarchal than Delhi, but rather that Gujaratis are more tolerant of women working outside home.

In order to overcome this problem and enhance the visibility of women in Delhi's informal economy, SEWA thought of a market that would be exclusively run by women and would therefore keep male harassment at bay. The idea slowly took shape as SEWA members discussed the practicalities. SEWA volunteers scouted for a place and finally found one in Asif Ali Road (which runs perpendicular to the West of Daryaganj), where MSD has its headquarters. More specifically, SEWA found that the ideal place for the Women's Market would be... the roof of the MSD car park. When municipal authorities finally agreed, this came as a major victory for SEWA.

The next task for SEWA was to identify those members willing to set up stalls there. Some said they could move in as soon as practicable. They approached the local MP for assistance and he readily agreed to fund the scheme out of his constituency's Parliament Quota.⁴⁹ Meanwhile, young architects have been helping SEWA to design some of the stalls. As of autumn 2006 the market is yet to open, but when it does its favourable location on Old Delhi's southern ring road is sure to attract customers.

This experiment is highly significant because, as mentioned earlier, female vendors are generally marginalised in Delhi and a market of this type is likely to give them a boost. If the market is a success, MCD or the State can replicate the experience in order to boost the number of female vendors in the area. This issue is also important given the low participation of women in the workforce in Delhi and the lack of better income-earning opportunities for them in the informal economy. Since poverty is what drives these women into street vending, there is a need to boost the opportunities for them in this sector so that they,

⁴⁹ In India, every Member of Parliament is allocated INR10 million for development activities in her/his constituency. These are undertaken by the relevant State agencies as per MP recommendations.

too, can avail themselves of the benefits of street trade. In addition, the availability of markets for female vendors only is a major means of encouraging women to become micro-entrepreneurs.

3.5. Conclusion

The informal sector has emerged as the main generator of employment in Delhi. However, the jobs created in this sector are poorly paid, insecure and devoid of any welfare benefits. This calls for further examination of how these jobs can be improved in terms of wages, working conditions and social security, notably in two major sub-sectors: street vending and household industries.

3.5.1 Street Vendors

The problems faced by street vendors differ across areas and the nature of vending practices. The best way of helping street vendors could be through implementation of the “National Policy for Urban Street Vendors” (NPUSV) proposed by the Ministry of Urban Employment and Poverty Alleviation. The Municipal Corporation of Delhi (MCD) is the only body in the entire country that has endorsed the policy. As recommended under NPUSV, Delhi authorities have set up Ward Committees, as proposed in the policy to implement the provisions according to local conditions. However, effective implementation requires changes to police and municipal laws, which can only be introduced by the State government and legislature. Moreover, in order to tackle the inherent problems related to street vending, the most important being access to public space, Delhi State authorities must pass laws giving either the State government or the MCD the power to reserve public space for street vending.

The following excerpts from the NPUSV policy document illustrate its proactive approach to street vending:

Urban vending is not only a source of employment but provides ‘affordable’ services to the majority of urban population. The role played by the hawkers in the economy as also in the society needs to be given due credit but they are considered as unlawful entities and are subjected to continuous harassment by Police and civic authorities. (GOI, 2004a: 1)

In addition, the policy document takes a positive approach to street vending and highlights its benefits to the economy, especially the poor, as follows:

Street vendors provide valuable services to the urban population while trying to earn a livelihood and it is the duty of the State to protect the right of this segment of population to earn their livelihood. This policy aims to ensure that this important section of the urban population finds recognition for its contribution to society, and is conceived of as a major initiative for urban poverty alleviation. (GOI, 2004a: 2; emphasis in original).

It is worth also recalling a landmark Supreme Court judgment regarding street vendors and public space. Over a decade ago, the New Delhi Municipal Corporation evicted a common street vendor who sold clothing at Janpath, New Delhi. The street vendor appealed to the Supreme Court through a Public Interest Litigation claiming that the act violated his fundamental rights, more specifically his right to carry on business or trade. In a very significant judgment, the Court ruled that, “if properly regulated according to the exigency of the circumstances, the small traders on the sidewalks can considerably add to the comfort and convenience of the general public, by making available ordinary articles of everyday use for a comparatively lesser price. An ordinary person, not very affluent, while hurrying towards his home after a day’s work can pick up these articles without going out of his way to find a regular market. The right to carry on trade or business mentioned in Article 19(1)g of the Constitution, on street pavements, if properly regulated cannot be denied on the ground that the streets are meant exclusively for passing or re-passing and no other use.” (Sodhan Singh v. NDMC, 1989).

The above extract from the Supreme Court ruling is significant because it emphasises several important aspects of street vending and the use of public space. In this sense, it encapsulates the positive role of street vendors in providing essential commodities to common people at affordable prices and at convenient places. Moreover, the ruling notes that street vending, if regulated, cannot be denied merely on the ground that pavements are meant exclusively for pedestrians. The most important aspect is that street vendors can exercise their constitutional right to carry out trade or business, and therefore it should be properly regulated rather than suppressed. In this regard, the findings of this study suggest that either the State/national government or MCD must take certain positive steps to ensure that street vending is legalised and regulated.

3.5.2 Household Industries

Monitoring this sub-sector is difficult as most businesses are not registered. However, certain measures can be taken to improve the situation for workers, as

well as the owners of such businesses. Currently, the owner of a household enterprise has a choice of being registered or remaining unregistered. Registering the business enables household entrepreneurs to take advantage of facilities such as bank loans and government assistance. For most household industry owners, lack of working capital stands in the way of business expansion. Since they cannot get institutional loans with low interest rates, they have to rely on more expensive sources of finance, such as money lenders or pawn-brokers. On top of all this, owners of household enterprises find it difficult to understand complex rules and regulations, which require the provision of targeted legal assistance.

Since profits made by small household businesses tend to be siphoned off through rent-seeking, many small business owners are forced to pay low wages to employees. The solution is to grant these businesses greater access to institutional facilities, such as credit. In this sector, where the owners are not much better off than their poorly paid staff, any means of improving their conditions will help workers get better wages and work in better environments.

Finally, social security benefits are another major issue for workers in India's informal economy, including household industries and street vending. Social security schemes in the formal sector are run through a combination of employer and employee contributions. Such a scheme would not work for the majority of informal operators, notably home-based workers and street vendors. Therefore, there is an urgent need for government to step in and provide such contributions, if informal operators are to be integrated into the social security scheme.

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4 CASE STUDY: DURBAN

4.1 Introduction

The informal economy has been one of the few areas of employment growth in post-apartheid South Africa. During the political transition and in line with international trends in favour of decentralised government, greater responsibilities have been assigned to local authorities. This combination of trends has turned municipal strategies for the management and support of the informal economy a particularly important focus of policy and academic analysis. Against this background, the Durban²⁰ Municipality has been lauded both in academic (Skinner, 2000; Chen, Jhabvala and Lund, 2001) and policy circles (see background papers for the 2002 general meeting of the International Labour Organisation on the informal economy, Chen, Vanek and Carr, 2004) as an interesting case with respect to responses to the informal economy, which in turn makes it an appropriate case study.

Since Keith Hart first coined the phrase ‘informal economy’ in the early 1970s to describe the range of subsistence activities of the urban poor in Ghana, there has been considerable debate about what the term refers to exactly. The national statistics agency, Statistics South Africa (Stats SA) uses the following definition:

The informal economy consists of those businesses that are not registered in any way. They are generally small in nature, and are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements (2005: xxvii).

This is in line with the definition adopted by the International Conference of Labour Statisticians (ICLS), which uses the term ‘informal economy’ to refer to employment and production that takes place in small and/or unregistered enterprises. As discussed in Chapter 1, the international community has subsequently decided that the term must be taken to refer to

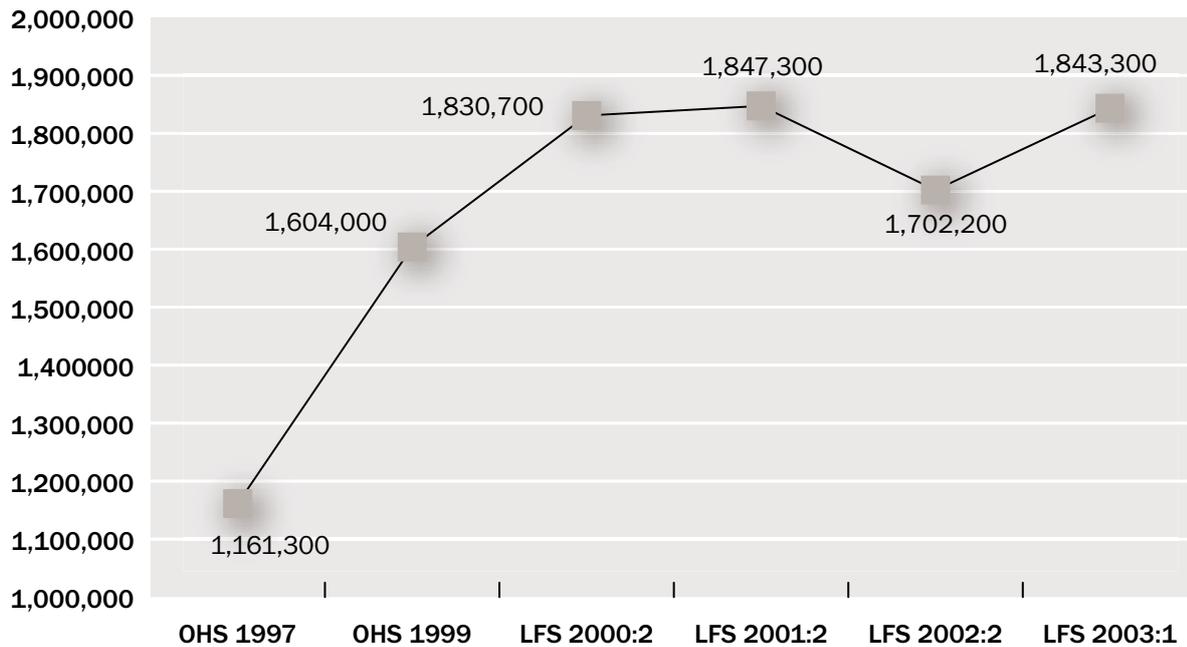
“all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO, 2002a). Accordingly, the 2003 ICLS broadened the definition to include certain types of informal wage employment outside informal enterprises. Although it is possible to adapt LFS data to apply the broader definition²¹, Stats SA still use an enterprise-based definition of informal employment, and the statistics in this chapter focus on those working in informal enterprises.

The informal economic sphere is heterogeneous, with different types of economic activity and of employment relations, and activities with different economic potential. Furthermore, there is no clear line to separate the formal from the informal. A small number of informal operators are not linked (either through supply of inputs or demand for goods or services) into the formal economy. As Peattie (1987) points out, ‘if we think about the world in terms of a formal and informal economy we will be glossing over the linkages which are critical for a working policy and which constitute the most difficult elements politically in policy development.’ Therefore, a consensus is building in development literature to view informal activities as part of the entire economy (which includes formal and informal segments), rather than as a separate sector (see for example Chen, Jhabvala and Lund, 2002); such consensus results in a preference for the term informal *economy*.²² Leading on from this, a trend has emerged whereby, as is the case with the formal economy, the informal economy is approached on a sectoral basis (see Chen and Carr, 2002, Chen, Jhabvala and Lund, 2002). Each sector has its own unique economic dynamics, particularly with respect to linkages with the formal economy, as well as its own unique support needs.

²⁰ eThekweni is the Zulu name for Durban, which was officially renamed at the 2001 local government elections. Throughout this chapter, though, it is referred to under its more commonly used original name.

²¹ For an analysis of South African statistics using a worker-based definition of the informal economy, see Budlender et al (2001).

²² A note on terminology: Statisticians use the term ‘informal economy’ to refer to informal enterprises and ‘informal economy’ to refer to informal employment in both informal and formal enterprises. In the academic and policy arenas, given the connotation of the term ‘sector’ (as outlined in this section) the term ‘informal economy’ is preferred, combined with an explanation of whether the enterprise- or employment-based definition is used.

Figure 4.1 Employment in the informal economy, 1997-2003

Source: Adapted from Casale, Muller and Posel, 2004

If the final objective is income enhancement, then appropriate regulation must be combined with developmental interventions – including appropriate infrastructure provision, access to services like training and credit, and economically informed sectoral interventions. The challenge, therefore, is to balance appropriate management with support. This chapter attempts to do justice to this combination of issues.

4.2 National and Urban Dimensions of Durban's Informal Economy

4.2.1 The Informal Economy in South Africa

Apartheid policy was central in the formation – and the distortion – of South Africa's informal economy. Flexible and informal forms of labour are historical features of the South African labour market. A key component of apartheid was a system of contract and migrant labour. Apartheid restrictions not only limited opportunities in the formal economy for black South Africans, but also placed a series of restrictions on the right of non-white entrepreneurs to establish and operate businesses.²³ The Black Urban Areas Consolidation Act (Act 25 of 1945) and the Group Areas Act (Act 36 of 1966) restricted the right of black entrepreneurs to establish and operate businesses.

Apartheid legislation limited the range of goods that could be sold, blocked the formation of companies by black people, and set up an array of bureaucratic processes that discouraged the registration of small-scale economic activity. For instance, street trading, a significant component of informal work, was prohibited, and 'move-on laws' dictated that hawkers had to move trading sites every half hour. In the late 1980s Rogerson and Hart (1989) found that 'South African urban authorities have fashioned and refined some of the most sophisticated sets of anti street trader measures anywhere in the developing world,' pointing out that hawkers were subject to 'a well-entrenched tradition of repression, persecution and prosecution.' Any analysis of the informal economy in South Africa must be grounded in an understanding of more than a century of repressive legislation.

South Africa has comparatively good-quality labour market statistics, as collected by Stats SA through six-monthly labour force surveys (LFS). Unfortunately, the LFS sample size is too small to be disaggregated to a city level with any degree of accuracy. Although there may be variations at city level, these statistics give a good sense of overall trends.

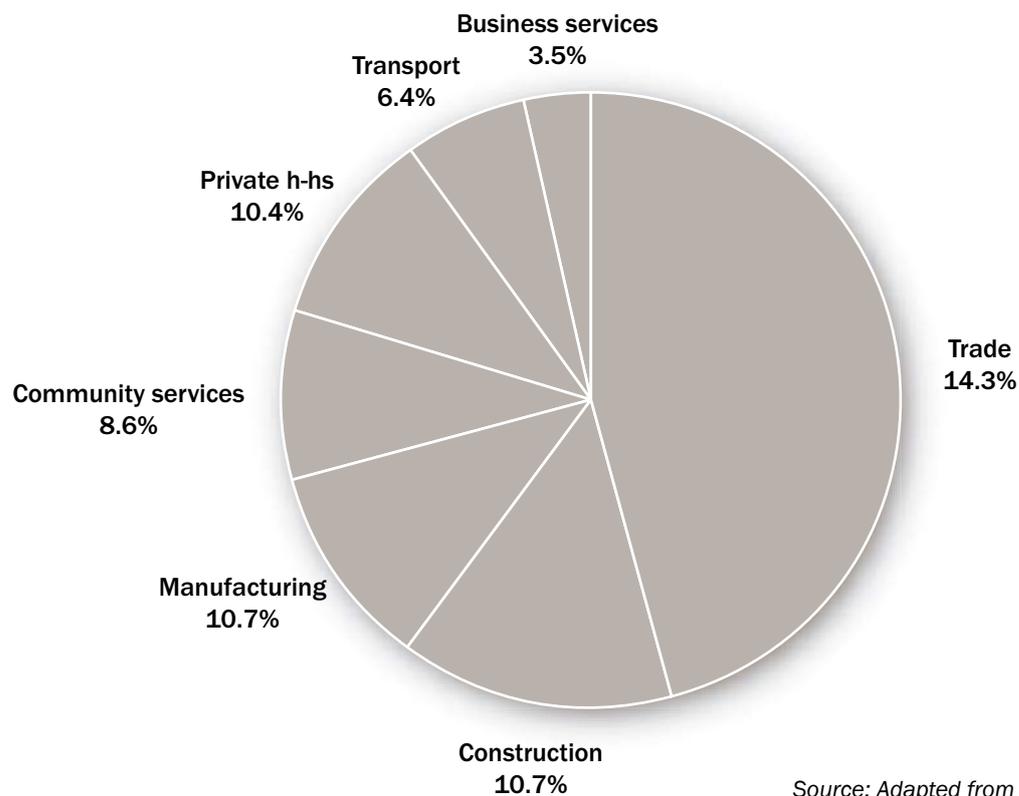
A number of changes have taken place in Stats SA methods of collecting and processing labour force data, and they make it difficult to determine trends over time. Casale, Muller and Posel (2004) recalculated Stats SA data to ensure comparability across the years for the period 1997 to 2003. These figures are summarised in Figure 4.1. They make it clear that the numbers

²³ Standing et al (1996: 86-87) provide a list of the restrictive statutes.

Table 4.1 Formal, Informal and Domestic Work, by Sex, Race, and Proportion of Total Population, March 2005

	Formal sector (percent)	Informal sector (percent)	Domestic work (percent)	Percent of total SA pop.
Male	63.5	57.7	5.3	49.2
Female	36.4	42.3	94.7	50.8
African	59.2	88.8	90.4	79.3
Coloured	13.4	5.7	9.5	8.8
Indian	4.5	1.5	0.0	2.5
White	22.6	3.8	0.0	9.4

Source: Adapted from Stats SA, 2005 (1 and 13).

Figure 4.2 Employment in Informal Enterprises in South Africa - by Industry, 2003


Source: Adapted from Stats SA, 2005 (11).

involved in informal work have increased, making this one of the few areas of employment growth in the post-apartheid period.

According to the latest available statistics – the March 2005 LFS - 25 percent of all those who worked were doing so informally. This comprised 2,071,000 individuals operating in informal enterprises, and 850,000 domestic workers. The ILO 2002 compilation of international statistics found that informal employment comprised one half to three quarters of non-agricultural employment in developing countries; more specifically, 48 percent in Northern Africa; 51 percent in Latin America; 65 percent in Asia; and 72 percent in sub-Saharan Africa. This suggests that South Africa's informal economy is comparatively small. The likely cause is a combina-

tion of factors, including apartheid-era policies as outlined above.

Table 4.1 shows the breakdown by sex and race of those in formal, informal and domestic work. As in other parts of the world, there is a gender dimension to the informal economy in South Africa. Of all those who work formally, 64 percent are male and 36 percent female; of those who work informally, the respective proportions are 58 percent and 42 percent.²⁴ Within the informal economy, smaller-scale surveys and

²⁴ By comparison with other developing countries, South Africa's LFS records extremely high unemployment rates – between 30 and 40 per cent of the workforce, depending on the definition used. Some under-reporting of informal work among this group is a strong possibility, particularly among poorer women who often do not consider their informal activities as 'work'.

qualitative research show that women tend to be over-represented in the less lucrative tasks (see for example Lund 1998 for a synthesis of research on street trading in South Africa in the 1990s, all of which pointed in this direction).

With respect to race, Table 4.1 shows that while Africans comprise 79 percent of the total population, only 59 percent of those who work in formal employment are African. White people, by contrast, contribute only nine percent of the population, but 23 percent of those with formal occupations. The paradox is even starker when one considers that, of all those working in the informal economy, nearly nine in 10 are African; further, all of the domestic workers (almost exclusively women) are African and coloured people.

Figure 4.2 shows the distribution of informal workers by industrial sector. Informal employment is concentrated in trade, with just under half of all informal workers located in this sector (a high proportion compared with other developing countries – see ILO 2002b). Further, there are significant numbers of people working in construction, manufacturing, services and in private households.

Figure 4.3 below shows the reported income levels of those working in informal enterprises. Half of those working in the informal economy reported earning 500 rand (ZAR)²⁵ or under, and a significant portion of these respondents reported earning no money at all. To put these figures in perspective, the household subsistence level²⁶ in September 2004 was ZAR2,130.56 (UPE, 2004:62). This points to a link between poverty and employment in the informal economy. This link was statistically confirmed in previous analyses using LFS data (see Meth, 2002).

Although individual incomes in the informal economy are often low, cumulatively this activity contributes significantly to South Africa's gross domestic product (GDP). Budlender, Buwembo, Chobokoane, and Shabalala (2002) estimated that informal enterprises contributed between eight and 10 percent of GDP. However and once again, this is relatively low by comparison with other developing countries. The ILO (2002b:24) estimated that the informal economy contributed 27 per cent, 41 per cent, 29 percent and 31 percent of GDP in North Africa, Sub-Saharan Africa, Latin America and Asia respectively.

²⁵ Or about USD84 at mid-March 2005 exchange rates (one USD = 5.96 South African rand). The dollar-rand exchange rate has fluctuated significantly in recent years.

²⁶ The household subsistence level is defined as an estimate of the income needed by an individual household if it is to maintain a defined minimum level of health and decency in the short term. It is calculated at the lowest retail cost of a budget of necessities of adequate quality, comprising the total food, clothing, fuel, lighting and washing and cleansing materials needed by the household as a whole, the cost of rent, and of workers transport. (Potgieter, 1997).

International migrants, particularly those without proper documentation, often have no choice but to work in the informal economy. Given political conflicts in the region, as well as South Africa's relative economic strength, significant numbers of migrants from the region, both legal and illegal, are living and working in South Africa. Although no reliable nationwide data are reliable, research indicates that foreigners, particularly from other African countries, are active in South Africa's informal economy (see for example McDonald, Mashike and Golden, 1999; Peberdy and Crush, 1998 and Rogerson, 1997). Rogerson (1997) demonstrates that foreign-owned informal enterprises are often vibrant and create jobs for South Africans as well as other foreigners. These are often viewed as good entrepreneurs, and therefore disliked by their South African counterparts. This situation makes the integration of foreigners a particularly controversial issue for the purposes of policy-making.

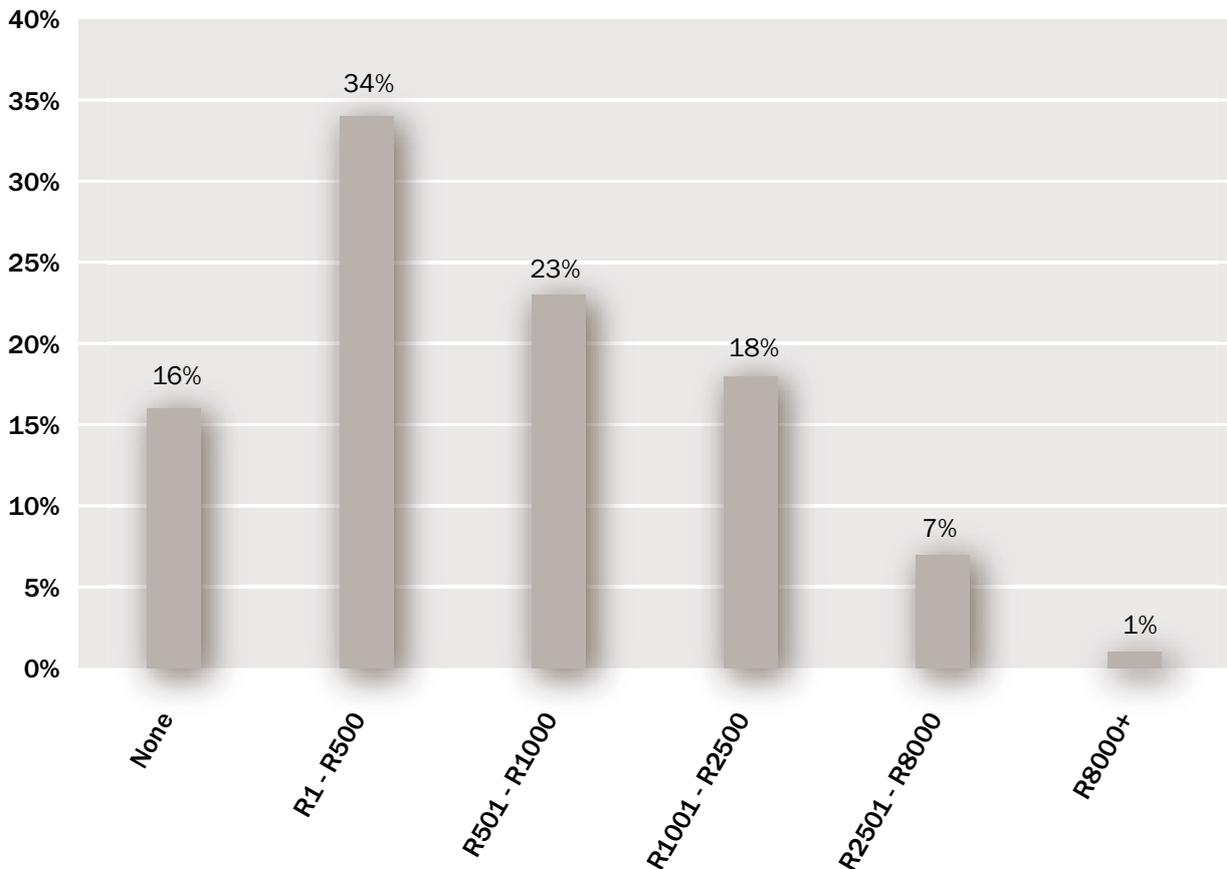
In summary, the above statistics show that, although smaller than in other developing countries, the informal economy is a significant and expanding component of the South African labour force. Those working in informal enterprises are disproportionately black South Africans and include a significant number of women. A large number of informal operators are involved in trade. Although there is a correlation between being poor and working in the informal economy, informal activities combined contribute to economic growth.

4.2.2 The Informal Economy in Durban

According to the Durban Economic Development Department (2000), only one in three economically active residents are employed in the formal economy, and formal jobs in Durban have been lost at a rate of 1.5 percent per year. Particularly hard-hit have been industries like clothing, footwear and textiles in the face of rapid tariff liberalisation in the post-apartheid period. Evidence suggests that some of these industries are in the process of falling into the informal economy. For example, research points to widespread home-based clothing manufacturing in two former Indian township areas, Chatsworth and Phoenix (see Ince, 2003 and Clark, 2003 respectively). Given the dominance of these industries in the Durban economy, it is likely that the city has a larger informal economy than the national average of 25 to 30 percent of the labour force, and that manufacturing activities contribute a larger proportion.

Although there has never been a census of the whole range of informal activities in the city, substantial research has been conducted on some of them. The results suggest that Durban's informal economy is a

Figure 4.3. Percentage of South African workers in informal enterprises - by monthly income categories, March 2005



Source: Adapted from Stats SA, 2005:17

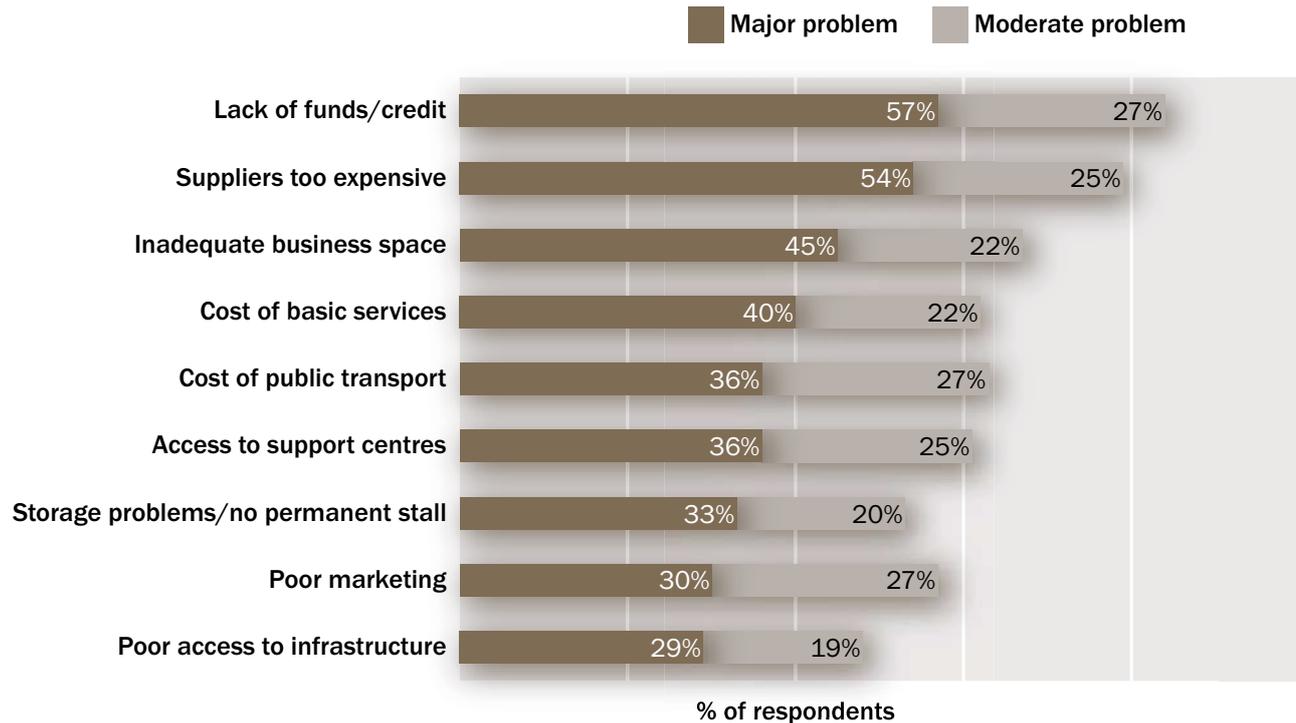
significant source of jobs. For example, a 1997 census of street trading activities identified 20,000 street vendors in the then Durban Metropolitan Area (Economic Development Department, 1998). This number is likely to have quadrupled since. It is also clear that although individual incomes are often low, these activities combined have high economic value. In the main public transport node bordering the Durban central business district, known as Warwick Junction, Dobson (2001) has estimated the annual turnover at over one billion rand. In 1998, more than ZAR170 million was spent on raw and prescribed products at the informal market in traditional medicine on Durban's Russell Street (Mander, 1998).

Local research confirms foreigners' involvement in Durban's informal economy. For example Vawda (1999), Gema (2001), Geyevu (1997), Sabet-Shargi (1999) give insights (among other things) into the work activities of Senegalese and Malawian, Ethiopian, Ghanaian and Congolese refugees, respectively, and Hunter and Skinner (2002) on foreign street traders in the inner city. As Hunter and Skinner (2002) point

out, further work needs to be done if the broader economic contribution made by this group to the Durban economy is to be fully understood.

In 2002, as part of a string of local economic development surveys, over 500 interviews were conducted with owners of informal enterprises operating in Durban. For lack of a proper census, a representative sample could not be drawn. However, and informed by previous research, sectors were selected that were known to be significant in terms of employment and potential contribution to economic growth. Interviews were conducted in the following sectors: apparel, craft, traditional medicine, *spaza* (i.e., small, home-based convenience) shops, construction, metalwork, shebeens, crèches and hairdressing. The questionnaire was 20 pages long and provided insights into not only the demographics of owners, but also the nature of their firms and what they perceived as constraints on their expansion. Therefore this survey is of relevance to this chapter.

With respect to the demographics of informal enterprise owners, out of the 507 interviewees 201 (or 40

Figure 4.4 Summary of issues identified as 'major' or 'moderate' problems

Source: Skinner, 2005: 45

per cent) were male and 306 (60 per cent) were female. Eighty three percent of those interviewed were African and 17 percent Indian. Nearly half of respondents were unemployed before starting the business, while over a fifth had been working in a formal enterprise, confirming that the informal economy absorbs the unemployed and those who have been made redundant. The relationship between being poor and working in the informal economy was also confirmed : a high proportion of those interviewed reported living in households where the income was just on or (in many cases substantially) below the household subsistence level for Durban. With some exceptions, profits earned were low; in just over 50 percent of cases, informal enterprises were estimated to earn ZAR500 a month or under. However, income and profit data should be treated with caution.²⁷

The survey gives details both of the characteristics of the informal enterprise, issues such as length of operation; business performance since inception; value of business assets; employment created; employee working conditions and wages; formal and informal economy linkages but also access to services, both basic (shelter, water, electricity and transport)

²⁷ With household income data, for example, there may be an incentive to under- or over-report, or respondents may not know. Measuring the profit of informal enterprises is notoriously difficult. Given that few records are kept, most enterprise owners are unable to provide this information.

and more sophisticated (communication technology, business support). Issues such as experiences of crime and relations with local authorities were also addressed. Although these findings are too detailed for the purposes of this chapter [and can be accessed in the project report (see Skinner, 2005)], a number of issues deserve some attention.

First, one powerful lesson from the survey is that these enterprises are institutionally isolated. Only 14 percent of respondents had ever applied for a bank loan and, of these, only 20 respondents (or under four percent of all interviewees) had ever accessed a loan for business purposes. Very few respondents reported obtaining any other form of credit. Their access to other business support services was equally poor, with as many as 88 percent of enterprise owners who had never received help through training or any other assistance programme. Of those who had, most had undergone some form of training. However, only one in 10 respondents had ever received training and under five percent were currently receiving some. Clearly, neither the private sector nor government or non-governmental agencies have delivered to this group.

Second, the survey went to great lengths to assess the constraints on informal enterprise growth. Very detailed questions were asked about the problems enterprise owners were experiencing. A summary of the issues identified is presented in Figure 4.4.

Of the top nine problems listed, all but three – lack of funds/credit, excessively high supply costs

and poor marketing – are issues over which the Durban city council has direct influence. Respondents were asked whether obtaining a business license was a problem; 19 percent said that not being able to obtain a license was a major problem and another 24 percent saw it as a moderate problem. This was clearly more of an issue for certain sectors than others: 36 percent of enterprise owners working in the liquor trade, 30.2 percent of those in metalworking, 25.6 percent of those in construction and 22 percent of those in apparel said that obtaining a license was a major problem. This is clearly an issue, though it is less pressing than those identified above. Furthermore, enterprise owners were specifically asked what, in their view, were the most important contributions that local government could make towards promoting the profitability of their business. The findings are presented in Figure 4.5.

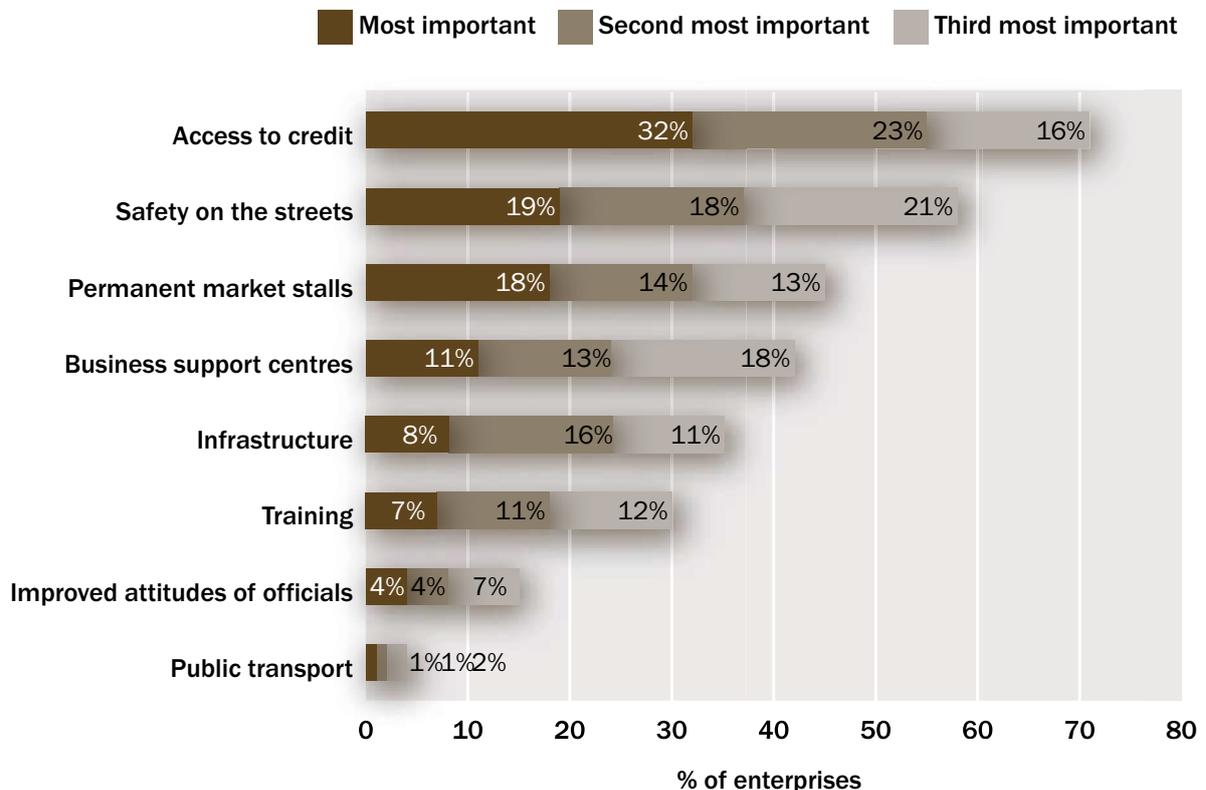
Based on survey findings as well as the problems and priority interventions identified, the report suggests three areas of intervention in favour of informal enterprises in Durban: basic services (policing, water, sanitation, electricity, housing and transport); business infrastructure (business space and storage); and support services (particularly access to credit, business advice and training, and sector support programmes – see Skinner, 2005).

With respect to basic services, informal entrepreneurs identified safety on the streets as an important

requirement. Twenty percent of interviewees reported theft and safety for themselves and their workers as a major problem. Strengthening police services, and particularly raising police force awareness of the informal economy, is an important area of intervention. Moreover, basic amenities like water, sanitation and electricity as well as housing and shelter are critical to those working in the informal economy, as a high proportion of interviewees were working from their homes. One in five of those interviewed had no water or toilets at the workplace. Although provision of these basic services has made some progress in Durban (Todes, 2003), the challenges remain significant. Further, surprisingly few respondents were making use of public transport, with the costs and poor access identified as major obstacles.

As far as business-related infrastructure was concerned, 67 percent of survey respondents highlighted inadequate business space. There appeared to be a significant difference between current and preferred business locations. Clearly, some of those working in the informal economy wanted to keep working at home, whereas others were calling for permanent market stalls or manufacturing units. Quite understandably, those engaged in crafts, metal work, traditional medicine and apparel had a particular problem with regard to business space. This pinpoints the importance of providing appropriately designed incubator

Figure 4.5. Priority interventions for local government



Source: Skinner (2005).

spaces or permanent trading stalls in the vicinity of current informal workplaces. An unsurprising related concern was storage, with more than one in two respondents identifying this as a problem. This kind of business infrastructure clearly needs to be prioritised. In view of low household earnings and profits as well as the reasons cited for current business location, it is unlikely that informal entrepreneurs could afford market-related rates (although there may be the odd exception). Therefore, the Durban city council may be required to subsidise dedicated informal business spaces.

Regarding support services, informal entrepreneurs make a vocal call for better access to credit. The report does not suggest direct involvement from local authorities in the provision of micro-finance and/or savings facilities, as this lies outside their statutory duties. Moreover, sustainable delivery of micro-credit is a highly technical task and a number of existing outfits are better placed to provide this type of service – such as the private sector, non-governmental agencies and DTI-supported institutions. The report identifies those credit institutions that operate in the Durban area. With respect to credit, the role of local government is to identify the problems which these providers and potential borrowers are experiencing. One such likely problem is that informal entrepreneurs are not aware that these services are available in the first place. It would be easy for local authorities to collect and disseminate information about the range of products on offer and how to access them.

However, calls for access to credit can signal other problems. For instance, respondents spoke of a need for small business support services, which could include business mentoring and analysis. Most respondents identified low profits, a surfeit of competitors and narrow customer bases as common problems. More specifically, nearly six in every 10 respondents said poor marketing was a problem. These findings emphasise the need for dedicated business support centres. If they are to be efficient, such centres must meet two major requirements. First, staff must have both cross-sector and sectoral specialist knowledge. Moreover, since the self-employed often view time as a rare and valuable resource, and since accessibility and cost of transport are problems for Durban's informal entrepreneurs, the city could provide business support centres in the form of mobile units. The council already provides substantial resources to the Thekwini Business Development Centre. The next step could involve extending existing services to the informal economy and establishing new centres.

Some questionnaire respondents have also called for some form of training, and apparently for good reason. As the survey found, half of those interviewed did not keep business records and marketing was

identified as a problem, along with managing customer credit. All of this points to a need for appropriately designed and delivered basic business skills training. On top of these, Durban's informal entrepreneurs also need development of sector-specific skills. Finally, one quarter of those interviewed had either no education or had spent under seven years at school. This suggests that adult basic education and training – literacy, numeracy and business English – is likely to strengthen income-earning capacities. Given the problems outlined in the Department of Labour's statistical approach, as detailed above, here again Durban's local authorities must take a proactive stance. This could, for instance, include an incentive structure for those in charge of the occupational training schemes proposed above, in order to ensure that they effectively service those in the informal economy.

What this survey demonstrates is that traditional regulatory issues – by-laws, licensing, taxes (as detailed below) – are not the primary constraints on growth in Durban's informal economy. Instead, local government must consider a broader range of interventions.

4.3 Existing Regulatory Framework

4.3.1 National Policy and Legislation

(a) Business Support, Micro-finance and training

South Africa's Department of Trade and Industry (DTI) is responsible for developing and implementing policy for the small, medium-size and micro-enterprise sector (SMME), of which the informal economy is considered a part. The Department of Labour is responsible for labour laws and skills training. The approach of these two departments is considered in turn.

The 1995 White Paper (WP) on SMMEs was one of the first policy documents issued by the new, post-apartheid government. The WP distinguishes four categories of SMMEs; *medium-sized* (assets of about five million rand), *small* (five to 50 staff), *micro* (involving owner, some family members and one or two employees) and '*survivalist*' enterprises (referring to activities by those unable to find a job). The WP recognises that the survivalist sector has the largest concentration of women and lists as one of its key objectives to 'support the advancement of women in all business sectors'. The WP recommends different support strategies for each category. However, while outlining specific proposals for the small, medium-size and micro- categories, the paper is mute on support strategies for the survivalist type of SMME.

Policy developments in the post-apartheid period suggest that this omission has not been remedied. Subsequent to the White Paper, the DTI established three small-business support programmes: the Khula Enterprise Finance Facility, the Manufacturing Advice Centres and the Ntsika Enterprise Promotion Agency. Khula operates as a wholesaler of finance to the retail banking sector. More specifically, the facility provides a range of credit guarantee mechanisms which are designed to reduce the risk on loans to SMME, thereby encouraging commercial banks to provide finance to this type of enterprise. The responsibility for risk assessment remains with the commercial banks, each of which determines its own criteria but most often requiring at least a business plan. This basic requirement effectively excludes most informal economy workers from access to Khula-backed financial services. As for the Manufacturing Advice Centres (NAMAC), they offer sector-specific advisory services to manufacturing SMMEs to help them improve productivity and international competitiveness. Most assessments of the programme conclude that NAMAC has met its objectives (see Rogerson, 2004). However, given their focus on manufacturing, and the nature of their objectives and programmes, NAMAC activities are unlikely to filter down to informal economy workers. With regard to Ntsika, its network of Local Business Services Centres (LSBCs) provides a range of facilities to small businesses, including management, entrepreneurship and technology transfer schemes as well as market access and business development programmes. By 2003, some 92 LSBCs had been established (Rogerson, 2004:3). Ntsika programmes focus on assisting SMMEs to improve market access (including to government procurement contracts) and international competitiveness (for export market penetration). However, none of these objectives has little if any relevance to those working in the informal economy.

Rogerson's (2004) assessment of government support programmes for SMMEs argues that, 'during the period 1994-2003 DTI funding allocations for SMMEs have inevitably favoured and been biased heavily towards support for established small and medium enterprises (often white-owned) rather than emerging micro-enterprises and the informal economy.' Rogerson concludes that 'current national support programmes offer little in the way of support for survivalist enterprise, women entrepreneurs and rural SMMEs' (2004:7). Since Rogerson's assessment, the DTI's small business support structures have been amalgamated into the Small Enterprise Development Agency and the department has opted for a different approach to small businesses. At the time of writing, DTI policy unit staff said the new approach was still 'work in progress', and consequently no public statement has been made so far.

In the meantime, the pattern of the informal economy falling through policy gaps in South Africa is repeated as far as access to training services is concerned. Two potential routes enable those working in the informal economy to access training: the Sector Education and Training Authorities (SETAs) and the National Skills Fund. As we have outlined in more detail elsewhere (Devey, Skinner and Valodia, 2003), this system does not adequately service those working in the informal economy. SETAs are funded through the skills levy which is paid by registered employers (i.e., the formal economy) and whose annual wage bill is more than ZAR250,000. However, there is evidence that SETAs tend to prioritise the needs of those contributing to the skills levy. As for the National Skills Fund, its effectiveness depends on the extent to which training scheme providers respond to incentives. The problem is that training providers are often reluctant to cater to the needs of informal economic operators. The reasons include: lack of profitability (workers cannot afford the costs), the low levels of education of the workers, the need to develop non-traditional methods, difficult access to workers, and the fact that many trainers are afraid to enter the areas where people need training (Devey et al 2003:159-160).

Therefore, it is clear that in the post-apartheid period and in the critical arenas of micro-finance, business support and training, the informal economy in general – and the poorer end in particular (with its disproportionate number of women) – has fallen through national policy gaps.

(b) Business Registration

For an informal business to become formal, the owner must, at the very least, register with the South African Revenue Services (SARS) for Value Added Tax (VAT) and as sole proprietor or closed corporation with the Department of Trade and Industry (DTI). These two procedures are considered in turn.

VAT registration can take one of two routes; compulsory or voluntary. For companies or sole traders with annual turnover of at least ZAR300 000, registration is compulsory; for those with annual taxable supplies in excess of ZAR20 000, VAT registration is voluntary. Most informal firms would qualify for voluntary registration. The 'voluntary' procedure requires: (i) filling in a VAT registration form (in English) accompanied by accounting records; (ii) a bank statement, bank deposit slips and invoices issued; (iii) either signed contracts concluded or stock purchases (including asset purchases), or signed lease agreements; and (iv) any trading permit/rights acquired and certificate(s) regulating the activity (where legally required). In recognition of the difficulties small businesses face in complying with VAT rules, the Receiver

of Revenue, has introduced a 'Small Retailers' VAT package' which acts as a step-by-step guide to calculating VAT.

To register as a company with the South African Department of Trade and Industry, the first step is to reserve a company name. This requires filling in a form and sending it to the DTI in Pretoria together with a ZAR50 revenue stamp. If the DTI does not find a duplicate name in its register, then the applicant must send a second form (in triplicate) accompanied by a letter from the accounting officer and a ZAR100 revenue stamp. Since the process is dependent on the postal service, it can take a number of weeks to complete. If there are employees, a company must also register for employee tax, with the Unemployment Insurance Fund and with Workman's Compensation Insurance. Workers must be registered with the appropriate Industrial Council and the company registered with the relevant local authority to pay regional services council levies, a local levy calculated as a percentage of the total wage bill.

Clearly, a full registration process involves multiple institutions. All the forms mentioned above are downloadable from the Internet. With the exception of application for reservation of a company name form – which is in both English and Afrikaans – all the forms are in English only. Both SARS and the DTI can answer queries through dedicated call centres. For those without ready access to a telephone, and/or the Internet, this process is difficult, and it poses a particular challenge for those who struggle with spoken and written English. A number of business support organisations can, for a price, assist informal entrepreneurs with the registration process.

A critical issue with informal firm registration is whether there are any incentives to do so. One incentive that has encouraged registration, for example, in the construction sector is that it is a prerequisite for access to government procurement contracts. Since the political transition, an affirmative procurement policy has been in force at all levels of government, where previously underprivileged people are now given preference when awarding contracts. However, for most of those working in the informal economy and who are either self-employed or at most employ one or two workers, there would be little if any incentive to go through the complex process of formal business registration.

(c) Migration Legislation

A particularly controversial area of national policy in South Africa is migration legislation. The 2000 Refugees Act does not allow asylum seekers to support themselves through employment or self-employment while awaiting approval of their applications. Moreover, no

provision is made for government support, despite the fact that the approval process can take a number of years (Rogerson and Peberdy, 2000). In many cases, asylum seekers have no choice but to work where the barriers to entry are among the lowest in the informal economy, i.e., more often than not as street traders. In South Africa (as in most other countries) immigration control and management are placed under national government authority, whereas local authorities are largely responsible for management and support of the informal economy. With respect to foreigners working in the informal economy, local authorities find themselves in the awkward situation of having to make sense of contradictory policy messages from national government. By the same token, they are also left to deal with some legal issues (such as whether to award street trading licenses to foreigners) with little if any guidance from national government.

As suggested in the introduction, in today's democratic South Africa local government, has far greater autonomy and has been assigned new responsibilities, compared with the previous era when local authorities acted as mere administrative arms of central government. These responsibilities are outlined in the Constitution, which states the objectives of local government as, among others, to ensure the provision of services, to promote social and economic development, to promote a safe and healthy environment and to encourage involvement of communities and community organisations in local government (1996). As a result, local authorities are a major force when it comes to shaping the environment where those working in the informal economy and their organisations operate. In view of central government inadequacies as outlined above, local authorities have a particularly important role to play.

4.3.2 Durban's Policy Approach to the Informal Economy

Street traders typically tend to be the primary concern of local authorities in informal economy management. The reason is that these vendors operate in the public space over which many competing claims are often made. This has been the case in Durban until a few years after the transition, although more recently the authorities have broadened their focus. A 2000 study comparing Cape Town, Durban, Johannesburg and Pretoria's policies and practices towards street traders concluded that Durban had made relative progress (Skinner, 2000).

The study noted that not only had Durban established a department dedicated to street trader management and support, but it had allocated more resources to infrastructure development for traders than

any other city in South Africa. Between 1997 and 2000, Durban's Central Councils²⁸ spent as much as ZAR45 million on infrastructure for informal traders. In central Durban, new markets have been built, existing market facilities upgraded and shelters provided for street traders. Markets have also been built in the outlying areas. This substantial expenditure has made a qualitative difference to traders' work environments.

Durban is also the locus of one of the country's most impressive examples of street trader integration into city plans, namely an urban renewal project in the area surrounding Warwick Junction. Being the main transport node in the city centre, this admittedly very busy area accommodates as many as 5,000 to 8,000 traders. The integration project has provided attractive and appropriately designed trader infrastructure, as well as services like child care facilities and affordable overnight accommodation. The process has been of a very consultative nature. As far as ongoing management is concerned, consultative forums have produced an unprecedented degree of self-regulation that keeps the area clean, attractive and crime-free. A good example of this is the Traders Against Crime (TAC) initiative. TAC was formed by traders in 1997 in conjunction with the South African Police Service and Durban Metropolitan Police. As part of this initiative, volunteers in the trader community work together to identify and take appropriate action against criminals. Once appropriately trained by the city police, TAC members patrol the trading areas and alerting the authorities when action is needed. Since inception, the initiative has seen positive results, such as a substantial reduction in both petty and more serious types of crime in the inner city. For instance, during the first 18 months of TAC's deployment in the Warwick Junction area, there was only one murder, compared with as many as 50 the previous year. Today TAC's 300 members operate beyond Warwick Junction and spread into all the densely traded areas of the city.

In the late 1990s, Durban authorities acknowledged that although progress had been made with street trading, the city remained without an overall policy with respect to the informal economy. As a result, any action was of an *ad hoc*, piecemeal nature with distinct departments each responding in their own different way. Moreover, city elders acknowledged that little attention had been paid to informal workers

other than street traders (Durban Unicity, 2001). Consequently, in November 1999 the city set up a technical task force to develop 'an effective and inclusive' informal economy policy. The process was evidence-based, i.e., drawing on specially commissioned research, and entailed substantial consultation with stakeholders both inside and outside the city council.²⁹ In October 2000, municipal subdivisions endorsed the policy plan, which in turn the new eThekweni Municipal Council adopted in February 2001.

In the September 2005 issue of its Newsletter, the International Alliance of Street Vendor Organisations stated the following about Durban's policy:

Durban's informal economy policy became feted by organisations such as the International Labour Organisation as an international best practice – because of its break with the traditional abolitionist policies of the past and its participatory development strategies to recognise, regularise and provide developmental support for all informal workers in the Durban Metro (2005).

The policy is based on the premise that the informal economy is critical to overall economic development. In its final report, the task-force repeatedly pointed out that the informal economy created jobs and incomes for many Durban citizens, and particularly the poorer (Durban Unicity 2001). Therefore, these activities are placed on the mainstream agenda, rather than being considered as mere elements among many others in a poverty alleviation project. A number of particular aspects of this policy are worth highlighting. First, the policy commits the city to providing support services to those working for very small enterprises, a point which effectively addresses the above-mentioned gap in national SMME policy. The task-force further called for provision of basic business skills training, legal advice, health education, and assistance in accessing financial services. The group also committed the city to a proactive role in the pursuit of these objectives: for example, it is suggested that the city should subsidise training. Second, the policy proposes a sectoral or industry-by-industry approach to assist those working in the informal economy. This would entail comprehensive surveys of various sectors, leading the city to launch economically-informed, well-targeted interventions. Third, the task force formally acknowledged the role of worker (and not just employee) organisations in the informal economy. The policy lays out a capacity-building programme for workers' organisations and local government officials. Finally, the task force

²⁸ Since the early 1990s, and as is the case with other local authorities in South Africa, Durban has undergone two phases of institutional restructuring. In the first phase, 48 race-based local authorities were amalgamated into the Durban Metropolitan Area (DMA). The DMA came into effect in 1996 and consisted of six sub-councils and a metropolitan council. In the second phase, which came on stream in 2000, the seven councils were merged into a single one and their geographical ambit was further enlarged. This is when the Durban conurbation became formally known as 'eThekweni Unicity'.

²⁹ For a reflection on the policy process, see Lund and Skinner, 2004.

made a number of suggestions to improve the management of informal economy activities. For instance, the group considered area-based management as an opportunity to resolve coordination problems and encourage participation of interest groups in planning and management, which in turn would pave the way for greater self-regulation in the informal economy. This has already happened in the more successful urban renewal initiatives, such as the Warwick Junction project. If combined with a scheme that helps informal workers' representatives to articulate their needs, decentralised management is likely to bring about a better work environment.

There is little doubt that, if Durban's Informal Economy Policy were implemented, it would effectively improve the conditions of all those working in the sector. The fact that the policy has been unanimously adopted by the former central councils is testimony to a political commitment to this shift in thinking at that juncture. However, this happened at a time of institutional change as the city became a Unicity. The extent to which the policy is still a reference point for city officials and councillors must be considered, as the policy must be judged on its end results. Moreover, there are signs that the city is renegeing on some of the principles affirmed in the policy. In May 2005, the Durban Council announced a plan to stop 'illegal, unlicensed street trading.' Fifty armed constables, euphemistically named 'peace officers', are being deployed by the Public Realm Management Project (PRMP) for this purpose. In May 2005, the Council issued a total of only 872 permits, which entails a substantial reduction in the number of traders. At the time of writing, the Council's PRMP was being challenged in court and the outcome was still pending. This would suggest that the momentum behind the city's approach to informal economy management is not necessarily favourable. Still, a few innovations stand out and are worth highlighting.

(a) Treating the informal economy as part of the overall economy

As noted earlier, a consensus is emerging in the academic literature that informal activities should not be viewed as a separate sector but rather as part of an entire national economy comprised of both formal and informal business. Durban's policy approach is unusual insofar as it does exactly this. Accordingly, the city's practical policies do not only address management issues, but are also concerned with any constraints on growth, as they provide sector support programmes as well as opportunities to increase individual incomes along with the overall contribution of informal activities to economic growth. One of the best examples of this is the traditional medicine support programme detailed further below.

(b) Trader consultation

Comparatively high degrees of consultation have been one of the factors behind Durban's relative success in street trader management, although not consistently so. Pat Horn (2000:1), the founder of the Self-Employed Women's Union (SEWU) and currently the international coordinator of the International Alliance of Street Trading Organisations, argues that the 'first principle' of appropriate regulation is that it must be framed with the participation of street vendors themselves. This facilitates implementation of management decisions. The now defunct Self-Employed Women's Union, which was very active in Durban's inner city in the mid to late 1990s, would meet with Council staff once a month to discuss issues of common concern. This would defuse crisis situations even before they could arise (see Devenish and Skinner, 2004 for further details). In this respect, today's area-based management provides an alternative mode of sustained consultation.

(c) Institutional location

Institutional 'location' is a significant indicator of the overall approach to the informal economy. In many cities in South Africa, street trading is 'located' in the Health Department, or in Traffic Control, or in Policing, suggesting that the informal economy is alternatively perceived primarily as a health hazard, as an obstacle to free-flowing traffic, or as a threat to public order and safety. Due to numerous rounds of institutional restructuring, the authority in charge of street trading has changed over time in Durban. In the early to mid- 1990s, the city ran a dedicated informal trade department; within the metropolitan structure, the informal economy was located in the Economic Development Department. Council members considered that this institutional status was critical if informal economy issues were to be allocated the priority and the resources they required.

(d) Resolving co-ordination issues: Area-based management

In larger cities, those working in the informal economy can experience the local State machinery as downright impenetrable. Decentralised or area-based management are apt to ensure an effective interface between those working in the informal economy and the local authority. This was a critical factor behind the success of the Warwick Junction project.

(e) Provision of infrastructure

Although demand is clearly not sated yet, Durban has provided a lot of infrastructure for those working in

the informal economy, and street traders in particular. Having a shelter and access to water and toilet facilities, is an important part of any work environment. Moreover, much of the trader infrastructure has factored in storage needs. Consider, for example, the craft traders on the Durban Beachfront. Space has been allocated to between 350 and 700 such vendors (the number fluctuates seasonally) and the City Council has provided storage facilities next to their sites. For this service traders are charged a very reasonable five to 10 rand a month.

(f) Basic services policies

Residents' costs of electricity and water, together with rates, have implications for those working in the informal economy since living quarters often double up as working spaces. Therefore these charges must count as input costs. More generally, there is a close correlation between poverty and work in the informal economy. Pro-poor user tariffs are therefore likely to put more income in the hands of a significant portion of those working in the informal economy. This may have a direct or indirect beneficial impact on their economic activities. In Durban as in many other South African cities, the first six kilolitres of water and 50 kilowatt-hours are free to all residents. Moreover, the rates schedule in Durban is generous, compared with other cities in the country: those whose houses are valued at under ZAR20,000 (approximately USD 2,600) pay no rates at all, and those valued between ZAR20,000 and 50,000 entail charges of only 20 rand per month.

4.3.3 Street Trading Regulation

From the perspective of local government officials, street trading is possibly the most critical regulatory issue that they face. If unmanaged, informal trade can cause rate-paying formal business to move away from inner city areas. Public authorities must mitigate the negative effects of trading and mediate conflicts between formal and informal business, while also ensuring that there is adequate space for pedestrians and motorists. As Horn (2000) points out, few street traders would advocate free and unbridled vending. Over-trading is not good for vendors as there is a direct trade-off between the overall number of traders and their individual incomes.

As noted earlier, under apartheid black business was strictly regulated and often repressed. The 1991 Businesses Act opened the way for de-regulation of business activities, removing barriers for those of an informal nature, and making it an offence to enforce the move-on laws. The Amended Businesses Act (RSA, 1993) allowed local authorities to set out street trading

by-laws while specifying what could and could not be included. The Act and subsequent amendments specify that local authorities, with a few exceptions, must allow immobile informal trading and cannot restrict traders to specified hours, places, goods or services. However, the legislation does allow restrictions on informal trade in certain areas – public parks and the immediate vicinity of government buildings, religious sites and national monuments. Under the 1993 statute, informal trading may be prohibited where it may generate an obstruction to traffic (vehicular or pedestrian), and local authorities may declare restricted or prohibited trade zones. The Act goes so far as to detail the procedure to be followed in such cases: local authorities must make sure that interested and affected parties are consulted and that every objection is considered. Finally, the Act specifies the penalties for illegal vending: the goods may be impounded on top of a ZAR 1,000 fine or a maximum three months' imprisonment.

In March 1995 the Businesses Act was devolved to provincial level. Since then, it has been for South Africa's provinces to ensure enforcement of this Act, particularly with respect to local powers to declare prohibited and restricted trading areas. The nine provinces are also empowered to amend the Businesses Act, although none has done so to date. However, KwaZulu-Natal, where Durban is located, is the only province so far with a policy that will inform new provincial legislation on the informal economy. After a lengthy policy development and consultation process, a steering committee adopted an Informal Economy Green Paper in July 2003. It was next presented to the provincial parliament and a public consultation process is currently underway. Once this preliminary procedure is complete, changes will be made to the document and a White Paper presented to the provincial parliament.

The Green Paper is similar to Durban's informal economy policy in that it commits the province to a standard economic development approach to this issue. The Paper makes a number of recommendations with respect to legal, institutional and operational matters. In particular, the document outlines how business legislation should be standardised and suggests that a provincial authority be established to supervise the lower local echelons in this respect. This would reassure the KwaZulu-Natal government that the policy approach of local authorities was uniformly 'developmental.' The Paper also commits the province to specific supporting action, such as facilitating access to micro-finance and training as well as sectoral development programmes for those working in the informal economy. If the KwaZulu-Natal parliament endorses the Green Paper, the provincial government may find itself in a position to take a more consistent and progressive approach to informal economy issues..

The Businesses Act has been positive for street traders in the post-apartheid period insofar as it has barred the more conservative municipalities from disallowing street trading altogether. On a more positive note, local authorities have used the Act as a basis for their street trading by-laws. However, these tend to be similar across local authorities. As far as Durban is concerned, such by-laws and the declaration of prohibited and restricted trade areas were gazetted in 1995. These by-laws are fairly standard: they prevent traders from, among other things, obstructing the movement of traffic or pedestrians, prevent unsafe stacking of goods, restrict attachment of equipment to buildings and road signs, etc. They also prohibit vendors from sleeping overnight at their sites (a clause that has not been replicated in either Cape Town or Johannesburg). Finally, and in line with national legislation, street vendors who contravene any of these by-laws (including trading in restricted or prohibited areas), will have their goods removed and impounded and are liable to a fine or imprisonment.

4.4 Regulatory Reform: Innovative Policies and Practices

4.4.1 Access to Urban Space and Municipal Fees

Durban's approach to street trader regulation has two positive aspects: the size of restricted and prohibited areas, and the structure of charges for vending sites. Each of these is considered in turn. Although the Durban City Council did declare certain areas of the inner city prohibited trade zones (e.g. in front of historic buildings, places of worship and the international convention centre), most of the inner city was declared a restricted trade zone and sites were demarcated. This is in contrast, for example, to the Johannesburg City Council which declared the whole inner city a no-trading zone while building markets to accommodate fewer than 1,000 of the 10 000 traders who were previously operating³⁰ there. The Durban City Council's approach did reduce the number of street vendors, though. As noted earlier in Section 2, there is a trade-off between the number of traders and their individual incomes. Still, between 1997 and May 2004, nearly 4 000 street vendors were accommodated.

Street vendors operating in restricted trading areas in South African cities pay monthly fees ranging

anywhere between ZAR10 in Durban (for a site without shelter – ZAR35 for a sheltered site), a flat ZAR125 rate for anyone in Cape Town's inner city, and as much as ZAR600 in Johannesburg depending on the services provided. As a proportion of traders' reported monthly incomes, these charges are high. In South Africa as in other countries, the tendency is for informal workers to pay blanket levies which are too high for the very poor, and too low for the better-off. Such flat rates are regressive: for a trader earning ZAR500 a month, a ZAR75 charge for her site represents 15 percent of income, compared with five percent for those earning SAR1,500. Moreover, in many cases the introduction of permits has not been matched by any improvement in infrastructure such as shelter, tables, storage or toilet facilities for street vendors.

Durban charges substantially less than other South African cities for the use of inner city space. While maintaining a flat rate for sites, the new policy recommends differentiated rentals, so that formal and informal businesses alike are charged different rents and rates for different levels of service. The policy recommends that rentals be linked to site size, desirability of location and the services provided. Street traders would pay a basic site rent, plus a number of charges corresponding to the quality of the site and the services attached. These would include basic shelter, solid waste removal, water, toilets, lighting, and storage facilities (Durban Unicity, 2001:11). It should be noted that this system has not as yet been implemented.

As in other South African cities, Durban's by-laws on street vending deal harshly with transgression. This can be very detrimental to traders' livelihoods, as it involves indefinite impounding of goods without any warning, or the imposition of high fines for trading in non-demarcated areas. Traders need to be warned if their goods are going to be impounded. Moreover, no process of appeal is available against such decisions, contrary to the situation in a number of towns in the (neighbouring) Eastern Cape province. In those locations, a street vendor who feels wronged by any municipal decision can go to an appeals committee which consists of a maximum of five members, at least one of whom must be from the street trading sector. This goes to show that a user-friendly conflict-resolution system can be made available, and the Informal Economy Policy document suggests that Durban adopt a similar approach. Finally, declaring sleeping on the streets an offence is harsh where no affordable short-term accommodation is offered as an alternative.

A more progressive approach, in line with the integration of the informal into the overall economy, would be a move away from a penal to an administrative legal framework. The KwaZulu-Natal Informal Economy Green Paper implies as much. Traders would be encouraged to comply through a range of

³⁰ Because of high unemployment rates, street vendors have not moved away and the council has spent a lot of money on enforcement, whereas in parts of the city they have given up and 'unmanaged' trading continues.

incentives, but the ultimate sanction would be the removal of the right to trade rather than fines and imprisonment.

4.4.2 Health training programme for food traders

For all the problems with by-laws, as mentioned above, Durban still stands out as a case of good practice when it comes to regulating the activities of one category, namely, food vendors. In July 1999, South Africa's National Department of Health promulgated statutory hygiene requirements for food premises, whereby all those handling food in the formal and informal economies must seek a certificate of acceptability (what has become known as the 'R918 regulation').

However, as far back as 1994, Durban's City Health Department had launched a health training programme for food traders. The initiative stemmed from concerns over the health risks which street food might pose to consumers, as well as from an acceptance that informal food trading was a reality that was not going to go away. Drawing on minimum health standards for formal food businesses, the Durban City Health Department devised an equivalent set of standards for informal traders selling perishable and non-perishable food items. A code of good trading practice was also developed.

The next step was for health officials to provide interactive training sessions where issues of personal, food and environmental hygiene and health are discussed and the code of good trading practice disseminated. Once traders have been through the training, environmental health officers visit them at their site to help them with the practicalities of implementation. Those traders who conform to the minimum standards are awarded a certificate endorsed by the Chief Health Inspector. Training sessions are held every Wednesday morning at a venue in the inner city close to trading sites. Wednesday was identified by traders as the best day in the trading week to take time away from their sites. Training is conducted in Zulu and is not dependent on participants being literate or numerate. The City Health Department estimates that well over 1,500 vendors have been trained. The courses are all the more well-attended as they have become a prerequisite for the certificate of acceptability.

4.4.3 Waste Collection

Waste collectors are among the poorest of those working in the informal economy. Since statutory racial segregation of urban areas was abolished in South Africa, increasing numbers of waste collectors have

been operating throughout Durban. These are largely black women whose incomes are extremely low. In the mid 1990s the Self-Employed Women's Union (SEWU) organised cardboard collectors in the inner city of Durban. The union found that these collectors were innumerate and often exploited by unscrupulous middlemen. SEWU lobbied local government to assist this group of women. This activism coincided with the launch of a waste reduction campaign within the city council, with city elders not just keen on reducing the amounts of waste going to the landfill site, but also recognising that the service was a source of sustenance for many Durban residents (Mgingqizana 2002: 373).

Consequently, the council set up a buy-back centre in the inner city. This is a public-private-community partnership. The city council provided a small plot of centrally located land where the buy-back centre was established. A large waste-recycling firm from the private sector, known as Mondri, provided the scales, storage containers for the cardboard and trolleys for the collectors. SEWU worked alongside city officials to design the scheme and trained the collectors in the practicalities of weighing cardboard. The scheme enabled the collectors to sell the material thus collected directly to the recycling company. This has substantially increased the (albeit still low) incomes of the waste collectors operating in the inner city. Since then, the council has replicated the success of the inner city buyback centre in other areas throughout Durban.

4.4.4 The Traditional Medicine Sector

The traditional medicine (or *muthi*) sector is a significant component of the informal economy in South Africa. As many as 80 percent of black South Africans use *muthi*, often in parallel with modern medicine. An estimated ZAR61 million (approximately USD8.7 million) of medicinal plant material is sold every year in KwaZulu-Natal (KZN), with Durban the primary trading and dispensing node. Over 30,000 people work in this sector, mostly as rural gatherers who are largely female. Herb collection and the dispensing of traditional medicine both occur almost entirely in the informal economy. Since most of the products are gathered from indigenous forest lands, critical issues facing the development of this sector have an environmental impact and therefore raise issues about long-term sustainability.

Since the mid-1990s, substantial research has been conducted to quantify medicinal trade and understand its dynamics. This body of work provides a comprehensive analysis of the commodity chain and has led to a range of interventions by provincial and local government, in collaboration with the Traditional Healers Association. Durban is the primary trading

and dispensing node for traditional medicine not just in KwaZulu-Natal but in South Africa as a whole. The *muthi* demand and turnover figures cited above have persuaded the Durban City Council to take this industry seriously. Consequently, and in consultation with vendors, the council has developed a dedicated facility for traditional medicine traders. This takes the form of a built market, complete with shelter, storage, water and toilet facilities, which accommodates 550 stall holders. The facilities, which also include a product-processing plant, have significantly improved the working environment for *muthi* vendors.

At the same time, the authorities have launched a number of initiatives to address environmental sustainability issues. First, the provincial government has arranged for gatherers to be trained in sustainable harvesting techniques. In Durban, this has led to the establishment of a professional association of sustainable bark harvesters known as Sizamimpilo. The group of some 200 members is licenced by the national Department of Water and Forestry for harvesting bark from certain protected tree species under the guidance of a management plan. This organisation is the first of its kind in South Africa. Moreover, the Durban Parks Department has established a dedicated medicinal plant nursery; on top of producing seedlings for farmers; the facility shows traditional healers how to grow their own plants. Finally, as part of a joint provincial and local government initiative, two farms have been established in order to cater to the demand for threatened species of medicinal plants. .

In the next phase of the support programme, a black empowerment company – consisting predominantly of existing healers and traders – will be established. The company will procure plant material from stakeholders in the industry, process it in partnership with an existing pharmaceutical operation, and then market the products. The objective is not only to service current clients better, but also to reach out to more middle-class South African consumers (regardless of background) as well as to foreign markets.

4.5 Conclusion

This chapter suggests that for all its positive aspects, the experience in Durban should not be regarded as ‘best practice’ with respect to informal economy policies in urban areas. Those working in the sector have been through many ebbs and flows of integration and exclusion. This research has attempted as far as possible to identify and characterise innovations where they have happened. However, the interface between the informal economy and local authorities remains as complex and volatile as ever. As the former manager of the Warwick Junction project (interview, 4 October,

2005) noted, ‘the challenge of managing and supporting the informal economy is a challenge of working with a dynamic.’

To conclude, the following lessons from can be drawn from the Durban experience:

4.5.1 Policy coherence

Informal economy policies at provincial and city level can help shift government focus away from ‘pure’ management and closer to a balancing act between management and support. Policy processes ideally lead to a shared vision that secures greater consistency across departments.

4.5.2 Regulation

Beyond giving devolved authorities some regulatory leeway, national business legislation can encourage better integration of those working informally, particularly street traders. Since informal activities are sources of sustenance, any sanctions for breach of rules should be of an administrative rather than penal nature.

4.5.3 Institutional location

If a developmental approach to informal work is to be secured, then it is important to locate the responsibilities for management and support of the informal economy with the best-placed government institution. Where such responsibilities are located in police or health departments, as is the case in many South African cities, it is unlikely that an enabling environment will result.

4.5.4 Consultation

Horn (2000) makes reference to the notion of ‘voice regulation,’ i.e., regulation by negotiation, where all interest groups together determine the appropriate rules and enforcement system. If buy-in is secured, abidance by the rules is more likely. This is a factor behind the success of Durban’s Warwick Junction project.

4.5.5 Ongoing involvement

In connection with the above, consultation can also be an ongoing rather than a one-off process: those working in the informal economy can be part of the solution

to management issues that are of common concern, like crime and cleanliness of public spaces.

4.5.6 Cross-cutting support

Beyond 'buying in' collectively devised rules and regulations, those in the informal economy must also be granted access to infrastructure, transport, business support services, credit and savings facilities.

4.5.7 Sector-specific support

Detailed sectoral analyses can lead to economically informed programmatic interventions that need not be costly but can address the more critical barriers to higher incomes in various segments of the informal economy.

4.5.8 Infrastructure and basic services

The ways in which local authorities approach infrastructure provision and charges for basic services can have significant implications for the work activities of the urban poor.

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5.1 Introduction

A common problem in informal economy governance in developing countries is that regulations are both excessive and inadequately enforced. Excessive regulation can restrict entrepreneurs' ability to integrate in the formal economy by imposing prohibitive costs, while inadequate enforcement leads to inefficient use of public resources. Conversely, a complete absence of appropriate regulation results in chaotic market conditions, restricting the growth of small informal enterprises and creating labour, health, and environmental hazards which impose costs of their own. Therefore, the critical question facing policy makers is not whether fully to regulate or deregulate the informal economy, but rather what kinds of regulations are appropriate if the informal economy is to become more productive.

This chapter examines the question of informal economy regulations in the context of Lima, Peru. It shows that the regulatory framework for the two most important segments of the informal economy – street trading and small/micro-enterprises – is structured in such a way that street vendors are governed mostly by restrictive regulatory measures at *municipal* level, while small and micro-enterprises are governed primarily by promotional measures at *national* level. Combined with policy inconsistency, inadequate enforcement, and low levels of policy participation among women and entrepreneurial associations, this national-local segmentation has limited the positive impact of regulations on the productivity of Lima's informal economy.

This chapter offers three primary recommendations for enhancement of the regulatory framework governing the informal economy in Peru's capital. First, Lima's hundreds of street vendors' and entrepreneurs' associations, should be directly and explicitly integrated in the policy-making process. Second, the particular concerns of female entrepreneurs should be taken into account, via direct participation in the formulation of regulations at the national, metropolitan and local levels. Third, the regulatory regime for

street vendors and small/micro-enterprises should be integrated into a single, tiered incentive structure, so that both regulatory and promotional measures are well adapted to the widely varying levels of enterprise development within the informal economy. Lessons from two model projects geared toward street vendor and micro-enterprise formalisation serve as examples of how a comprehensive approach combining regulation, promotion and participation can enhance the incomes of the urban poor.

5.2 National and Urban Dimensions of Lima's Informal Economy

By all major accounts, the informal economy in Latin America has undergone steady growth over the past quarter century. Tokman (2001, p.20), for instance, estimates that over 46 percent of urban employment in the region is now informal, and that of all new jobs generated since 1990 in the region, six out of 10 were informal. This growth in informality is the likely result of a combination of macro-economic and social conditions in the region, including rapid urbanisation, a severe economic crisis in the 1980s, and neo-liberal economic reform in the 1990s.

The Peruvian capital, Lima, is no exception to these trends. Though definitions and measurements of the informal economy vary from one study to the next, most estimates place the size of Lima's informal economy at half or more of the city's workforce. More specifically, of the roughly 3.5 million economically active residents in the city, at least 1.75 million work informally.³¹ This would seem to signal significant growth since the mid-1980s; according to the ILO (2000a), for example, the percentage of the workforce employed in Lima's informal economy grew from 37.9 percent in 1984 to 50.8 percent in 1997.

³¹ The estimated size of Lima's economically active population presented here is based on 2000 data from the National Survey of Households (Encuesta Nacional de Hogares, or ENAHO), published jointly by the Ministry of Labour and Social Promotion and INEI.

Table 5.1. Labour market structure, Metropolitan Lima, 1990-2000 (number of workers)

	1990	1995	2000
ECONOMICALLY ACTIVE POPULATION	2,480,000	3,063,000	3,543,000
Public sector employment	338,000	285,000	254,000
Private sector employment	1,931,000	2,561,000	3,011,000
Single-person enterprises	700,000 (36.3%)	870,000 (33.9%)	1,122,000 (37.3%)
Micro-enterprises	626,000 (32.4%)	926,000 (36.2%)	1,033,000 (34.3%)
Small enterprises	276,000 (14.3%)	319,000 (12.5%)	331,000 (11.0%)
Medium enterprises	157,000 (8.1%)	241,000 (9.4%)	184,000 (6.1%)
Large enterprises	172,000 (8.9%)	205,000 (8.0%)	341,000 (11.3%)
Unemployed	211,000	217,000	278,000

Source: Chacaltana (2001, P.90).

Notes: 1. The data presented above are based on the National Household Survey (Encuesta Nacional de Hogares, or ENAHO), which defines micro-enterprises as those with 10 or fewer employees; small enterprises as those with 11-50 employees; and medium-size enterprises as those with 51-200 employees.
2. The percentages in the table refer to shares in private sector employment.

Table 5.2. Employment by size of firm, 2000

Number of Employees	Share (%) of Urban Labour Force
Fewer than 5	63.3
5-10	9.0
More than 10	27.7

Source: INEI (2000, p.42).

The most common approach to measuring the informal economy in Lima is based on firm size. Peru's national statistical agency (*Instituto Nacional de Estadística e Informática*, INEI) stopped producing estimates of the size of the "informal economy" in the mid-1990s, and began instead to measure the percentage of the workforce engaged in small and micro-enterprises. This shift reflected changes in national legislation, which also gradually abandoned use of the term "informal economy" and substituted instead the concept of small and micro-enterprises, or "PYMES" (*pequeñas y micro empresas*).

Although firm size is not a perfect substitute for informality, research on the topic suggests that other conditions commonly thought to define "informality" – non-registration, tax evasion, and non-compliance with labour regulations, for example – are prevalent among single-person, micro- and small enterprises.³² As Table 5.1 shows, employment in single-person and

³² A 2000 report by INEI, for example, suggests that "the great majority of establishments with fewer than five persons are basically one-person businesses, many of them contiguous with informality" (INEI 2000, p.41).

Table 5.3. Informal economy employment in Latin America, 1999*

Country	% of employment
Argentina	42.9
Brazil	37.7
Chile	32.4
Colombia	46.9
Costa Rica	40.0
Ecuador	52.5
Honduras	55.2
Mexico	35.3
Panama	32.3
Peru	48.2
Uruguay	35.6
Venezuela	46.6

Source: ILO (2002b, Table 7). The series produced by the ILO regional office in Lima is used for each country for the sake of comparability.

* Or latest available year.

micro-enterprises has remained a substantial majority in Metropolitan Lima since 1990, while those employed in larger enterprises are in a small minority. Indeed, by 2000, over 71 percent of private sector employees worked in single-person or micro-enterprises.

Additional data suggest that within the category of micro-enterprises, defined as those with 10 or fewer employees, the vast majority have substantially fewer than 10 employees. Table 5.2, for example, shows that over 63 percent of urban employment in Peru is in

Table 5.4. Contribution of small and micro-enterprises (SMEs) to gross domestic product

Economic Sector	Contribution of Sector to GDP (%)	Percent of Sector in SMEs	Contribution of SMEs to GDP
Agriculture	11.6	90.0	10.4
Fishing	1.0	30.0	0.3
Mining	2.5	5.0	0.1
Manufacturing	23.1	30.0	6.9
Construction	8.8	35.0	3.1
Services	53.0	40.0	21.2
Total	100.0		42.1

Source: Villarán (1998, p.91).

Note: the data presented in this table define small and micro-enterprises as those with 50 or fewer employees. The third column is the first multiplied by the second.

Table 5.5. Average number of months in employment, Metropolitan Lima, 1991-1995

Size of Enterprise	1991		1995	
	Men	Women	Men	Women
Micro-enterprises	47.6	43.3	38.0	26.6
Small enterprises	69.4	54.5	50.1	32.1
Medium enterprises	82.4	47.5	58.5	55.4
Large enterprises	114.3	74.1	80.7	75.0
Total	75.9	52.0	52.0	39.9

Source: Chacaltana (2001, p.156).

firms with fewer than five staff, while just nine percent is in firms with five to 10 employees.³³ Estimates based only on firm size may, of course, exaggerate the dimensions of the informal economy because they include small professional firms that are registered, pay taxes, and might otherwise be considered “formal.” To distinguish further among small-scale firms, the 1993 International Conference of Labour Statisticians (ICLS) produced a definition of the informal economy that includes the additional dimensions of non-registration of the firm and non-registration of the employees of the firm, as discussed in Chapter 1 of this report.

Unfortunately, those additional dimensions are rarely incorporated into national accounting statistics in Latin America. To approximate the ICLS definition, the regional office of the International Labour Organisation has produced a statistical series on the informal economy in Latin America that excludes administrative workers, professionals, technicians, and paid domestic workers.³⁴ This more restrictive defini-

tion would place the size of Peru’s informal economy at just under half the workforce – substantially lower than the 70 percent figure for all micro-enterprises. Nonetheless, ILO data still characterise Peru’s informal economy as one of the largest in Latin America (see Table 5.3)³⁵ and with the exception of Ecuador, the largest informal economy in South America.³⁶

Given the crucial role played by small-scale enterprises in urban employment in Peru, it is also likely that they contribute substantially to output. Unfortunately, however, the methods available to estimate that contribution are rather indirect, as national economic statistics do not disaggregate output by size of firm (Chacaltana 2001, p.89). One attempt to estimate the contribution of small and micro-enterprises to gross domestic product placed it around 42-43 percent (Villarán 1998). A breakdown of that contribution by sector, also based on indirect methods, is presented in Table 5.4.

Available indicators also suggest that turnover in the sector is relatively high, and has increased over

³³ A 1993 economic census reflected a similar predominance of small-scale firms in Peru. Of 236,295 firms surveyed, 90.5 percent employed four or fewer people, and 95.9 percent employed 10 or fewer (Villarán 1998: 86).

³⁴ The exact definition used in the ILO regional office’s series is “all self-employed workers (excluding administrative workers, professionals and technicians) and unpaid family workers, and employers and employees working in establishments with fewer than five or 10 persons engaged, depending on available information. Paid domestic workers are excluded.”

³⁵ The geographic coverage of the data presented in Table 5.3 is not specified in the report.

³⁶ Because this approach still includes firm size into its definition of the informal economy, it necessarily cannot take into account the fact that some informal activities take place outside of the small and micro-enterprise sector, and, conversely, some small and micro-enterprises operate formally. Nonetheless, it is the best statistical estimate available for the purposes of cross-national comparisons in the region.

time. Across Peru, the average age of a large firm is 27 years, nearly twice that of a small enterprise (15 years) and four times that of a micro-enterprise (seven years) (Chacaltana 2001, p.113). Likewise, the average number of months that workers spend in their jobs has steadily declined since 1990, and is lower among small and micro-enterprises than among medium-size and large enterprises.

Indeed, as Table 5.5 shows, between 1991 and 1995 the average length of employment among both men and women declined significantly in every category of firm size. Moreover, employment turnover appears to be substantially higher among women than men. While in 1991 women worked an average 43.3 months in micro-enterprises, by 1995 the figure had fallen to 26.6 months, or just over two years. During the same period, turnover among men in micro-enterprises dropped from 47.6 to 38 months, or just over three years. Meanwhile, large enterprises continued to provide the most stable type of employment in Lima, with an average stay of 80.7 months (or nearly seven years) for men, and nearly as long for women.

5.2.1 Types of Activities in the Informal economy

In 1992, the Central Reserve Bank of Peru (BCR) undertook the first comprehensive effort to quantify and categorise the activities of small and micro-enterprise units in Metropolitan Lima (Villarán 1998, p.82). The BCR study showed that two-thirds of small and micro-enterprises³⁷ in Lima were engaged in the commercial sector, while 11 percent were engaged in services, nine percent in industry, and the remaining 13 percent in transportation, construction and other activities.

Within the 'commercial activities' category, the BCR study showed that the average size of small-scale commercial units was 1.5 persons. This result suggests that single-person units are dominant in the commercial sector. While this category surely includes some shopkeepers without any employees, many of these single-person commercial units are likely to be street vendors. A 1983 study conducted by the Centre for the Study of Development and Participation (CEDEP) also suggests that around 45 percent of the informal commercial sector worked as street vendors at the time of that study.³⁸

Street vendors are certainly the most visible manifestation of the informal economy in Lima. According

³⁷ The BCR study refers to these enterprises as "small-scale productive units" (unidades productivas de pequeña escala, UPPE) rather than "small and micro-enterprises." Results of the study are presented in Villarán (1998, p. 82).

³⁸ Carbonetto et al. (1988): Table 27.

to INEI (2000, p.40), more than nine percent of the economically active population in Lima – that is, over 325,000 people – work as street vendors in the city. By 1996, Lima's historic centre alone featured 17,000 street vendors occupying 200 blocks (Tokman 2001, p.123).³⁹

As for the range of services, the most common informal occupations in Lima include taxi drivers, informal bus drivers and *dateros*,⁴⁰ messengers, and neighbourhood watchmen. While the number of informal taxi drivers is unknown, estimates suggest that at least half of the city's cabs are unregistered, and the total number of taxis in circulation is roughly six times the number needed to meet demand. Indeed, the transportation sector in Lima is almost entirely informal, as the state has played an ambiguous role in its governance (Joseph 2004, p. 17-18). The development of neighbourhood watchmen as an informal occupational category after 1990 also arose out of government failure, as State-sponsored violence and the Shining Path guerrilla movement early in the decade brought extreme violence to middle-class neighbourhoods in the Peruvian capital.

Within the industrial sector, the percentage of small-size establishments also appears to have grown in recent decades, though again the data are imperfect. Villarán (1998, p.72) reports that the percentage of the industrial sector made up by small firms⁴¹ increased from 67.3 percent in 1971 to 82.9 percent in 1987. Table 5.6 further subdivides the industrial sector by firm size, showing that small and micro-enterprises, along with artisans, jointly accounted for about 26 percent of industrial production in 1990. Tokman (2001, p.45) estimates that micro-enterprises currently account for about 40 percent of industrial employment, with an average firm size of four employees.

5.2.2 Women in the Informal Economy

By the year 2000, women were found contributing just under half the workforce in micro-enterprises in Lima. Though men outnumber women in most occupational categories, the ratio of females to males in *micro-enterprise* employment remained significantly higher than it was in all other categories of firm size

³⁹ Lima's metropolitan government relocated or expelled many of these vendors in 1996 as part of former Mayor Alberto Andrade's effort to restore the city's historic centre (see Metropolitan Municipality of Lima 2000).

⁴⁰ *Dateros*, or "data gatherers," are people who gather information on the number of buses that pass by a particular intersection and the number of minutes separating those buses. The data help drivers compete for passengers by telling them whether they should speed up and pass the bus ahead of them, or slow down in order to put more space between themselves and competing buses ahead.

⁴¹ The data used by Villarán define "small" as units with 5-19 employees.

Table 5.6. Contribution of small and micro-enterprises to Peru's industrial sector

Size of Firm	Percent of industrial workforce	Number of firms	Percent of industrial production
Artisans (1-8 persons)	23	52,000	5
Micro (1-4 persons)	32	100,000	8
Small (5-19 persons)	18	18,000	13
Medium	15	2,300	28
Large	12	200	46

Source: Villarán (1998, p.68).

Table 5.7. Quality of employment by gender, Metropolitan Lima, 1991-2000

Country Indicator	1991		1995		2000	
	Men	Women	Men	Women	Men	Women
Income ratio	1.0	0.5	1.0	0.5	1.0	0.7
Hours per week	46.7	42.2	49.4	41.3	49.9	41.8
Pension participation	22.0	19.0	17.0	10.0	9.0	6.0
Health insurance participation	22.0	19.0	25.0	27.0	16.0	20.0
Months in employment	93.8	66.0	73.9	56.0	67.9	57.0

Source: Chacaltana (2001): 151-152.

(Chacaltana 2001, p.91). While the women-to-men ratio in micro-enterprise employment in 2000 was 0.88, for example, in large enterprises it was 0.44 – or exactly 50 percent lower. This demonstrates the difficulty for women to obtain stable employment in medium-size and larger enterprises, which are the most stable and remunerative.

Women appear to outnumber men in certain informal occupations, however. Studies of street commerce in Lima, for example, suggest that more than half of vendors are women, although the exact percentages vary (Aliaga 2002; Roever 2005a; UNMSM 2004).⁴² Women also fill nearly all jobs as domestic employees, and are common among informal handicraft producers and food vendors. Men make the overwhelming majority of taxi drivers, informal bus drivers, messengers and neighbourhood watchmen.

While women contribute a significant proportion of the micro-enterprise workforce, the quality of em-

ployment in micro enterprises remains significantly lower for women than for men. For example, in micro-enterprises in 2000 incomes were about one-third lower for women than for men, fewer women participated in pension schemes and, on average, women had fewer months in employment (see Table 5.7).

5.3 Existing Regulatory Framework

Peru lacks any comprehensive national legislation governing the informal economy. In its place, successive governments have issued periodic regulations designed to govern particular kinds of firms. Because informal economy activities are mostly commercial, the majority of laws in Peru dealing with informality are oriented toward specific commercial sectors. The following discussion highlights the differences in regulations as they apply to the two largest categories of informal commercial workers: small and micro-enterprises, and street vendors.

5.3.1 National and Municipal Regulations: Small and Micro Enterprises vs. Street Vendors

Regulations of the informal economy in Lima reflect a stark differentiation between small and micro-enterprises, on the one hand, and street vendors, on the other hand. Regulations governing small and micro-

⁴² Each of these studies examined a distinct area in Metropolitan Lima and used a different methodology for sampling street vendors. The Aliaga (2002) study drew a stratified sample of street vendors in the district of Independencia from an existing registry of vendors in the district; this method produced a sample of 73 percent female and 27 percent male (n=232). The Roever (2005a) study drew a stratified random sample of street vendors in commercial areas of two districts, San Martín de Porres and La Victoria, from an original sampling frame consisting of vending posts; this method produced a sample of 52 percent female and 48 percent male (n=228). The UNMSM (2004) study drew a random sample of street vending associations in La Victoria and selected three associations to include in the study; within those three associations, the population consisted of 62 percent female and 38 percent male (n=140).

enterprises are, by and large, rooted in comprehensive national legislation. The common objective of this body of law is to promote the formalisation, growth, development and job-creating capacity of small-scale enterprises. This is done through a variety of tax incentives, a reduction in registration requirements, and a host of State-sponsored programmes that provide training, technical assistance and privileged access to State resources. Municipal governments' jurisdiction is limited to issuing operating licenses and participating in the development of special projects, such as the creation of industrial parks designed specifically for small and micro-enterprises.

Regulations governing street vending, by contrast, are almost entirely rooted in municipal ordinances. Street vending regulations in Lima's municipalities are subject to a single metropolitan-level ordinance from 1985, which attempted to provide a consistent, comprehensive framework under which municipal governments could formulate locally appropriate policies. However, the degree of abidance by the 1985 metropolitan ordinance varies dramatically across municipal authorities. As a result, municipal regulations feature a considerable degree of inconsistency, both over time and across municipalities. Street vendors also tend to lack the privileged access to central government programmes that small and micro-enterprises enjoy.

The fact that regulations governing small and micro-enterprises are rooted in national law while regulations governing street vending derive almost exclusively from municipal ordinances is partly the result of the prevailing political-economic ideology in the country. Small and micro-enterprises are universally recognised as a critical part of the nation's economy, and their ability to remain economically viable and generate employment opportunities is pivotal for income generation and poverty alleviation. As a result, these enterprises have the political and financial support of national politicians in Congress and the executive branch.

Street vendors are more commonly viewed either (a) as a public nuisance, or (b) as nascent entrepreneurs who should respond to the same incentive structures as more developed small-scale enterprises. Neither view has allowed for the development of a strong political push to pass a national street vending law, although vending federations presented proposals for such a law to Congress on two occasions in the 1990s (Roever 2005a). As a result, the particular problems associated with street vending are addressed exclusively at the metropolitan and municipal levels.

(a) Small and Micro-Enterprise Regulation

The first important national-level laws dealing exclusively with small and micro-enterprises in the

contemporary era were issued in 1991.⁴³ These two statutes – the Micro- and Small Enterprise Promotion Law (Legislative Decree 705) and the Employment Generation Law (Legislative Decree 728) – were added to Peru's statute book in the context of newly elected president Alberto Fujimori's sweeping economic reforms designed to stabilise the economy after a disastrous episode of hyperinflation in 1989-1990 (see Tanaka 1998). The rationale behind the new laws was to make the labour market more flexible, reduce public-sector employment, and provide incentives for private sector growth.

(i) *The Micro- and Small Enterprise Promotion law (L.D. 705)*

Legislative Decree 705 established the country's first dedicated regime for small and micro-enterprises through a series of measures designed to make it easier for them to join the formal economy. The law defined micro- and small enterprises as those with 20 or fewer employees and a limited volume of annual sales; it also established joint jurisdiction over these enterprises with the Ministry of Labour and Social Promotion (MTPS) and the Ministry of Industry and Trade (MITINCI). The centrepieces of the legislation were a special tax regime for micro- and small enterprises and a specific set of rules for licensing and registration. In terms of taxation, the law proposed that micro enterprises pay a single Simplified Tax (*Impuesto Único Simplificado*), equal to one percent of monthly sales, in place of the set of nine additional taxes that previously applied to firms.⁴⁴ The law required small and micro-enterprises to keep accurate accounting books, but otherwise imposed no tax-related administrative requirements.

Legislative Decree 705 also attempted to streamline registration and licensing requirements for small and micro-enterprises: these could register with a single Unified Registry at national level, while at local level the application procedure for Municipal Operating Licenses was simplified (see Table 5.8). The law specified that applicants for Municipal Operating Licenses only had to provide the name of the firm, address, telephone and fax numbers, a description of the firm's activities, and the number of workers employed. The law further prohibited municipal governments from charging any fees in relation with such applications. Therefore, once a small or micro-enterprise had

⁴³ One earlier piece of legislation, the 1985 Law of Small Industrial Enterprises (Law 24062), first established special rules to govern small-scale industrial enterprises. However, the scope of this act was restricted to a very limited pool of small industrial firms.

⁴⁴ These additional nine taxes included: income tax, business tax, sales tax, consumer tax and five contributions to various state agencies (Chapter Seven, Article 23).

Table 5.8. Summary of Formalisation Measures in Small and Micro-Enterprise Law

Types of Measure	D.L. 705	D.L. 728	Law 27268	Law 28015
Taxation	Creates simplified tax regime for PYMES. Replaces 9 taxes with a single 1% monthly sales tax.	*	Calls for training programmes to help educate small and micro-entrepreneurs about tax regime.	Calls for tax regime to allow maximum number possible of small and micro-enterprises to access formality.
Licensing and Registration	Requires two forms of registration (unified registration certificate and municipal license). Creates simplified application for municipal license.	Calls for simplification of registration requirements and administrative amnesty.	Requires unified registration certificate, zoning certificate, compliance certificate, and fee. Prohibits additional licensing fees at municipal level.	No changes from previous law.
Labour Relations	*	Outlines a host of measures designed to flexibilise labour relations and stimulate job creation in firms of all sizes.	*	Creates new special labour regime directed toward the formalisation and development of micro-enterprises.
State Promotion	*	Calls for introduction of state programmes to provide incentives for small firms to formalise.	Establishes programmes to offer training, technical assistance, research, financing, marketing and information to small firms.	Establishes programmes to offer training, technical assistance, research and technical services, and access to finance.
Associations and Participation	*	*	*	Establishes promotion of entrepreneurial associations as a goal of the law.
Women and Families	*	Calls for the creation of special employment programmes for women with family responsibilities.	*	Establishes equal access to opportunities for women as a goal of the law.

* Not mentioned in law.

(i) purchased accounting books; (ii) been granted a Unified Registry license, and (iii) applied for a Municipal Operating License, it was considered “formal.” Admittedly, the simplified procedures were intended to provide strong incentives for small-scale firms to formalise, while substantially reducing the costs of doing so.

Beyond the taxation and registration provisions, Legislative Decree 705 made no mention of three areas: labour relations, the role of small and micro-enterprise associations, and women-related issues. This triple omission was to set a precedent for subsequent laws regarding formalisation in Peru. The equivalence between a registry licence and formalisation may have been, at least in part, a function of the highly visible activities of Hernando de Soto’s Institute for Liberty and Democracy (ILD), which focused on creating

property rights for informal squatters by registering their land. Nonetheless, the heavy focus on registration and taxation requirements has, by and large, ignored issues such as women’s role and participative national rule-making.

(ii) *The Employment Generation Law (L.D. 728)*

The Employment Generation Law (Legislative Decree 728) was promulgated four days after Legislative Decree 705, in November 1991. Legislative Decree 728 was a general employment law whose primary purpose was to “promote massive access to employment” through more flexible hiring and firing. While the bulk of the law deals with contracts and other labour relations issues, it also contains a handful of provisions that affect informal workers.

In particular, the law calls for the creation of special programmes to assist in the “productive re-conversion” of firms in the urban informal economy. The law loosely defines the informal economy as activities carried out “independently in a micro-enterprise or small enterprise setting” that reach minimal levels of productivity (as determined by the National Centre for Productivity, CENIP), and that engage in activities in one of several sectors oriented toward the domestic market. The law then calls on the Employment Division of MTPS to develop a “bank” of promotional projects for informal economy firms, in coordination with non-governmental organisations and research centres. The law also calls on the government to promote “autonomous employment” through programmes specifically designed to facilitate enterprise formation.

Therefore, whereas Legislative Decree 705 was limited to taxation and registration incentives and did not include any promotional measures, the Employment Generation Law was the first to call on Peru’s central government to promote small-scale enterprises through specific programmes.

Nonetheless, while the two 1991 legislative decrees established a precedent of encouraging small-scale private enterprise development with central government support, their actual effect remained limited. To begin with, the simplified tax was abolished less than a year after it was introduced; at the time, legislators were engaged in an effort to overhaul the tax regime nationwide, and the waivers attached to the simplified tax became unsustainable in the context of other reforms. Moreover, the Unified Registry, the second major innovation in Legislative Decree 705, lasted only slightly longer than the Simplified Tax, as it quickly became clear that the registry duplicated another one, known as the Unified Registry of Contributors (RUC), which was superior in terms of coverage (Chacaltana 2001, p.49). Subsequently and as the Fujimori government maintained its reformist drive in the early 1990s, the regime governing small and micro-enterprises became increasingly complicated and enforcement increasingly ineffective.

(iii) *The General Law on Small and Micro-Enterprises*
(Law 27268)

In May 2000, the Fujimori government again attempted to simplify the small and micro-enterprise regime through a General Law on Small and Micro-Enterprises (Law 27268). The statute defined micro-enterprises as those with 10 or fewer employees, and small enterprises as those with 40 or fewer; accompanying regulations refined the definitions with maximum annual sales volumes for each category of firm.

Law 27268 combined the approaches of the two 1991 laws as it streamlined procedures for the regis-

tration and licensing of small firms, and provided a wide range of government-sponsored promotional initiatives designed to facilitate the development of small-scale enterprises. Steering well clear of the problems created a few years earlier by the simplified tax, the new law did not change the taxation regime for small and micro-enterprises; instead, these were merely required to keep accurate accounting books. The new law also called on MITINCI and the National Tax Agency (SUNAT) to offer small and micro-entrepreneurs adequate training, so that they could understand the existing tax regime as it applied to them.

In terms of licensing and registration, Law 27268 established guidelines that were designed to restrict municipal authorities’ ability to charge fees or to delay issuance of licenses to applicants. The law required small and micro-enterprises to submit an application for a provisional Municipal Operating License; a certificate of the enterprise’s national registration (under the RUC); a Zoning Certificate; a notarised declaration that the enterprise met the definitional requirements for small or micro-enterprises; and a receipt for the payment of a one-time licensing fee. Municipal authorities were in turn required to issue a provisional license within seven days of receiving these documents, to be followed by a permanent license within one year, provided that the enterprise’s operations were found to comply with current rules and regulations. Municipalities were required to set licensing fees at a rate that would only cover the cost of processing the application, and once the Municipal Operating License was issued, they were prohibited from charging any additional licensing fees.

Beyond these licensing and registration requirements, the central tenet of the new law was the introduction of several promotional programmes designed to assist small and micro-entrepreneurs. The law designated two national-level entities, MITINCI and a new agency known as PROMPYME, to oversee the new programmes, and identified their priority areas as training, technical assistance, research and technical innovation, financing, marketing, and information diffusion.

With regard to training and technical assistance, the law called on MITINCI to put together a nationwide training programme for registered small and micro-entrepreneurs. These would access the scheme through a distribution of training vouchers (*bonos de capacitación*). The 2000 law also called on PROMPYME to provide technical assistance to small and micro-entrepreneurs at various stages in the production process. Finally, the law required MITINCI to develop networks of business service centres for small-scale entrepreneurs, and technical innovation centres to encourage entrepreneurs to improve both quality and productivity.

Law 27268 also called on public entities to assist small and micro-entrepreneurs in a variety of areas, including access to financing, increasing sales through marketing techniques, and access to information conducive to small-scale enterprise development. In particular, the law required State agencies to assist public and private sector institutions in their efforts to provide financing to small-scale firms. Another requirement was for PROMPYME to boost small and micro-enterprise sales through access to sub-contracting, government procurement, the development of consortia, and the promotion of trade/commercial fairs and other such mechanisms. Finally, the 2000 law also called on PROMPYME to promote the creation of industrial parks and *maquicentros*, or training centres, for small-scale entrepreneurs.

However, and like its predecessor (Legislative Decree 705), Law 27268 made no mention of labour relations, participation in decision-making for small and micro-enterprise associations or women's issues. A subsequent piece of subsidiary legislation (Supreme Decree 030-2000-MITINCI) recognised the existence of associations as it encouraged State entities to become involved in promotional projects, and required entrepreneurial training programmes to include women as beneficiaries. Beyond those superficial references, however, the new law overlooked women and enterprise associations, true to the pattern set nearly 10 years earlier by Legislative Decree 705.

(iv) *The Law on Micro and Small Enterprise Promotion and Formalisation (Law 28015)*

Law 27268 sought to establish a comprehensive, national-level governance regime for small-scale enterprises that would resolve some of the regulatory complications produced over the course of the 1990s. Yet it took only three years before it was superseded by a Law on Micro- and Small Enterprise Promotion and Formalisation (Law 28015). The new (2003) statute repealed Law 27268 and changed many of its provisions in order to respond to the broader changes in national political institutions that had taken place since Fujimori's resignation (November 2000) and his subsequent replacement by the democratically elected Alejandro Toledo (July 2001).

The new law again changed the definition of small and micro-enterprises. From now on, an enterprise was considered 'micro' when it employed one to 10 workers and had maximum annual sales equivalent to 150 UITs⁴⁵; it was 'small' if employing one to 50 workers with a sales equivalent between 151 and 850 UITs. The new law also called on public and private entities

to harmonise their own definitions in accordance with current legislation, in an effort to produce consistent and comparable data on the informal sector.

Law 28015 assigned jurisdiction over small and micro-enterprise policy to the newly created Ministry of Labour and Employment Promotion (MTPE), one of several national ministries that were restructured under the Toledo government. The law further created a new National Council for the Development of Micro- and Small Enterprises, CODEMYPE, as a coordinating body under the authority of MTPE, and called on the country's newly established regional governments to create Regional Councils to support small and micro-enterprises in their respective jurisdictions.

The most significant departure of the 2003 law from its predecessor lay in a slight shift of focus in favour of labour-related issues and away from taxation and registration. The law merely stated that the tax regime should be so structured as to allow as many small and micro-enterprises as possible to join the formal sector. In a related step, the law called on Peru's internal revenue service (SUNAT) to launch dedicated education campaigns for the benefit of small-scale entrepreneurs. The law went slightly further with regard to licensing and registration: in a bid to simplify application procedures for Municipal Operating Licenses, the requirements were reduced to three, including: (i) proof of RUC registration; (ii) a notarised declaration that the enterprise meets the definitional criteria for a small or micro-enterprise; and (iii) payment of a processing fee. The new 2003 law maintained two of the more favourable requirements of Law 27268: an obligation for municipalities to issue provisional licenses within seven days of receiving an application, and a prohibition on any additional licensing costs.

With regard to labour regulations, Law 28015 was innovative as it established for the first time in Peru a specific labour regime for small and micro-enterprise workers. The law affirmed these workers' right to earn the minimum wage, set a maximum number of hours in a workday and laid out rules for overtime and holidays (granting workers 15 calendar days of vacation per year). The 2003 law also granted social security and pension rights, and called on the MTPE to conduct inspections to enforce labour regulations. Although many of these provisions merely stated that workers in small and micro-enterprises should benefit from the same legal protections as those in medium-size and large firms, the fact that the statute addressed labour issues at all was a significant departure from previous small and micro-enterprise legislation.

Law 28015 also made more explicit references to small and micro-enterprise associations. It recognised the right for small-scale entrepreneurs to form business associations for the purpose of gaining greater access to government procurement, and required CODEMYPE to

⁴⁵ UIT stands for *unidades impositivas tributarias*, which are income units used to calculate various kinds of taxes and fees in Peru.

add five representatives of small and micro-enterprise associations to its board, in addition to those from government and the formal private sector. The law also called on CODEMYPE and regional authorities to promote this type of association and to involve their representatives in micro-enterprise initiatives. Though the law lacked any more specific steps to support associations, the fact that it recognised them and called on public entities to engage with them was also a departure from previous laws.⁴⁶ However, the law made no mention of women, other than to identify equal access to formalisation programmes for women as a strategic goal.

(b) Street Vending Regulation

(i) National and Metropolitan Measures

Though Peru's central government has made the formalisation of small and micro-enterprises a centrepiece of its efforts to stimulate economic development, for more than a decade it has essentially ignored street vendors as a separate category of informal workers. So far, the only comprehensive measure governing street vendors came in 1985 from the metropolitan level in Lima: Metropolitan Ordinance 002-MLM-85 was designed to provide a comprehensive policy framework within which individual municipal authorities could regulate street vending.

The central tenet of Ordinance 002 dealt with the taxation, licensing and the participation of street vending associations in policy formulation (Roever 2005a). Under the rules, individual metropolitan municipalities could charge street vendors a daily tax, called the *sisa*, in exchange for the right to occupy public space. Half the revenue from the *sisa* would be invested in a social assistance fund, called FOMA. Fund beneficiaries would be those authorised vendors who paid the tax. The FOMA governing board would include representatives of both the municipal administration and the vending federations in each district. Therefore, vendors would be taxed at municipal level, but they would also have some say in the destination of their contributions.

With respect to licensing and registration, Ordinance 002 required all street vendors to secure municipal authorisation to trade on public space. Only those vendors who complied with other parts of the ordinance could be granted licenses, and they would be required to provide evidence of compliance, along

with a licensing fee, in order to secure or renew their permit. As a *quid pro quo*, the ordinance explicitly recognised vendors' rights to peddle their wares in authorised spaces. Under the ordinance, implementation, supervision, and control of all regulations regarding street trading should be developed jointly by four distinct types of bodies: (i) the municipal administration; (ii) a consultative commission called CTMCA (comprised of municipal officials and representatives of street vendor federations); (iii) grassroots groupings of street vendors in each district; and (iv) the police (when issues of public order arose).

In this way, Ordinance 002 managed to establish a direct link between participative policy-making for street vendors and steps taken to encourage formalisation. In effect, it made it impossible for municipal authorities to bar vendors from certain streets or areas without the input of CTMCA; nor could they establish terms for licenses and authorisation without prior consultations with representatives of vendor organisations. Moreover, municipal authorities were unable to collect the *sisa* legally without allocating half of the proceeds to FOMA which, as mentioned earlier, was to be governed jointly by government officials and vendor representatives. To summarise, the municipal ordinance addressed the same basic issues (taxation and licensing) of formalisation as legislation did, but went much further when it came to bringing vendor associations into the policy-making process.

Since Ordinance 002 was adopted in Lima in April 1985, Peru has enacted only two pieces of national legislation dealing with street vending, both in 1991 and both extremely limited in scope. Supreme Decree 005-91-TR characterised street vending as a "social reality generated by the economic crisis that the country had suffered for several years," and recognised that the country's Constitution guaranteed the right to work and the right to private property. Based on this preamble, the first article of the decree granted street vendors formal legal status as "autonomous ambulatory workers," and the second article suspended the practice of impounding the goods of street vendors who were found in non-compliance with existing rules and regulations. The decree referred to a new, forthcoming national Law on Street Trading that was to detail norms and sanctions for non-compliance, but this law never materialised. Therefore, Supreme Decree 005 did little more than propose a new label for street vendors and legitimise their presence in the streets.

A fortnight later, Ministerial Resolution 022 only marginally managed to broaden the scope compared to Supreme Decree 005. Street vendors had to be formally recognised as "autonomous ambulatory workers" by the municipal authorities and were urged to comply with any relevant ordinances. The resolution also made it mandatory on autonomous ambula-

⁴⁶ It should be mentioned that a previous measure, Ministerial Resolution 281-2002-TR (published in *El Peruano* October 5, 2002: 230990-230991) created a National Registry of Micro- and Small Enterprise Associations. This registry does not confer any rights on those registered; rather, its purpose is to facilitate the circulation of information regarding small and micro-enterprise development. There is no equivalent registry for street vendor associations.

tory workers to maintain a certain amount of working capital to be determined by each municipality, and reiterated the protection against confiscation of goods affirmed in Supreme Decree 005.

The narrow focus of both Supreme Decree 005 and Ministerial Resolution 022 and their lack of practical relevance left Peru's street vendors without a comprehensive, national-level governance regime. Instead, it was for municipal authorities to improvise various ways of implementing Metropolitan Ordinance 002. In theory, the ordinance provided a clear and balanced regulatory framework for street trading; however, in practice, the vast majority of Peru's municipal authorities selectively enforced only those elements in the ordinance which they found both feasible and politically beneficial. The outcome of uneven implementation of the metropolitan regulation is that policies at individual municipal level oscillate widely between themselves and across administrative divisions (Roever, 2005b).

Notwithstanding the absence of blanket street vending laws at national level, Peru's statute book includes two pieces of legislation which protect specific groups of street vendors. Law 10674, was voted in October 1946 to protect vendors of newspapers, magazines and lottery tickets, who were viewed as having special historic and cultural value. This statute instituted dedicated local councils (*juntas locales*) responsible for registering newspaper vendors and working with vending associations to "protect their life and health." The other piece of legislation, Law 20246, was adopted in June 1990 to protect shoe-shiners, whose function was also considered of special historic and cultural value. This law created a special Fund for the Protection and Assistance of Peruvian Shoe Shiners (CAJAPALTRAC) and put in charge of soup kitchens, educational centres, credit schemes and other forms of assistance for registered shoe shiners. Though these laws have been amended over the years, both newspaper vendors and shoe-shiners have retained special privileges to this date.

(ii) *Municipal Ordinances*

In addition to Lima's Metropolitan Ordinance 002, two additional statutes provide more general frameworks for municipal governance of street vending: the 2003 Municipalities Act (Law 27972), and the 1993 Municipal Taxation Act (Legislative Decree 776). The 2003 law⁴⁷ sets out municipal jurisdiction over street trad-

ing, while the types of taxation available to municipal authorities are specified in the earlier 1993 act.

Under these three norms combined, Peru's municipal authorities are free to develop their own, locally appropriate policies toward street trading. For lack of comprehensive, current national legislation and owing to municipalities' inability to implement Ordinance 002 to the full (as discussed further below), bylaws vary significantly across Lima's 43 municipal districts, as well as across administrations within individual districts.

Generally speaking, and at odds with Peru's national policies toward small and micro- enterprises, municipal approaches to street vending are almost universally of a regulatory rather than a promotional nature. Many focus on two main issues, i.e. taxation and registration, and tend to leave out supportive measures. The fact of the matter is that municipal authorities keep issuing rules and regulations in a bid to restrict use of public space, and often do so on a highly individualised and *ad hoc* basis. The practical consequence is that whereas street vendors are often less well-placed than small and micro-entrepreneurs to comply with regulation (and to support the attendant costs), they have to take a much heavier share of the regulatory burden without the mitigating benefit of promotional policies.

Unfortunately, lack of a centralised record of Lima's municipal bylaws makes it impossible to illustrate this general pattern in the local governance of street markets. Indeed, many municipalities themselves lack an official archive of the policies they issue. In the absence of such a record, Table 5.9 below shows an example of municipal bylaws in a single municipal district, La Victoria, over a 10-year period (presented in Roever (2005b)

The policies presented in Table 5.9 highlight three broad features of municipal street vending regulations in Lima (Roever, 2005b, p.21-22). First, the sheer volume of rules issued by La Victoria's municipal government – 74 over a 10-year period – signals a high degree of instability in street vending regulations. On average, the municipality issued 7.4 policies per year during this period, or one every six to seven weeks. Unlike national laws and metropolitan ordinances, municipal by-laws are not systematically published in *El Peruano*, the country's official gazette. As a consequence, keeping abreast of policy changes poses a serious challenge to street vendors..

Second, the list of rules in the table suggests that implementation of Ordinance 002 was extremely difficult in this district. As many as 24 of the 74 rules (or 32 percent) had to do with the *sisa* daily tax, the social assistance fund (FOMA), or the CTMCA consultative commission, as each successive administration sought to redefine the regulatory regime for the district shortly

⁴⁷ Under the 2003 law, municipal authorities have exclusive jurisdiction over the regulation and control of street trading, in accordance with norms set out by provincial governments (Article 83, paragraph 3.2). In the case of Peru's capital city, the relevant provincial entity is the metropolitan authority of Lima. The 2003 law made no change in the jurisdiction over street vending as established under the previous Law of Municipalities (Law 23853, published June 9, 1984), which was in force from 1984 to 2003.

Table 5.9. Street Vending By-laws, Municipality of La Victoria, 1992-2002

Policy Number	Date	Summary
A.C. 001-92-CM	3/2/92	Prohibits vending in certain streets
R.A. 1307-92-ALC	8/25/92	Repeals pact with vendor associations in three streets; calls for immediate removal of vendors
D.A. 015-93-ALC	5/10/93	Prohibits vending in certain streets
Edicto 001-93	5/20/93	Creates new tax to fund security force
R.A. 0253-93-ALC	5/25/93	Calls for relocation of one kiosk
D.A. 023-93-ALC	6/4/93	Calls for restructuring of CTMCA
Ord. 005-93-LV	6/8/93	Prohibits vending in certain streets
A.C.020-93	8/9/93	Prohibits sale of certain foods in streets of La Victoria
R.A. 1060-93-ALC	8/25/93	Recognises individual vending association
D.A. 092-93-ALC	9/10/93	Establishes FOMA and Sisa
D.A. 093-93-ALC	9/10/93	Sets contribution levels for Sisa; restricts vending site sizes
D.A. 102-93-ALC	9/28/93	Establishes Sisa for kiosks
Ord. 009-93-LV	10/12/93	Authorises sale of food in tents
R.A. 1238-93-ALC	11/9/93	Appoints Sisa collectors and sets Sisa rates
R.A. 1239-93-ALC	*	Appoints new Sisa collectors and changes rates
R.A. 1459-93-ALC	*	Recognises individual vending association
*	*	Appoints new Sisa collectors and changes rates
R.A. 0041-94-ALC	1/13/94	Calls for immediate elimination of 4 kiosks
D.A. 004-94-ALC	2/9/94	Transfers responsibility for collecting Sisa to FOMA
*	6/10/94	Approves new regulations for FOMA; repeals D.A. 092-93
A.C. 020-94	8/9/94	Suspends payment of salaries to FOMA staff
A.C. 021-94	8/9/94	Transfers responsibility for Sisa collection to Municipal Treasury
A.C. 022-94	8/9/94	Calls on FOMA staff to return paid salary
A.C. 023-94	8/9/94	Establishes Evaluation Commission to investigate FOMA
R.A. 2205-94-ALC	8/15/94	Calls for immediate removal of vendors at one location
R.A. 1663-94-ALC	10/6/94	Authorises one company to install kiosks around district
D.A. 0033-94-ALC	12/7/94	Raises Sisa contributions and reduces rates
D.A. 0045-94-ALC	12/23/94	Authorises FOMA to launch cleaning campaign
D.A. 0046-94-ALC	12/23/94	Calls for reordering of street trading through removal of non-licensed vendors
D.A. 0047-94-ALC	12/26/94	Approves new regulations for FOMA
D.A. 0048-94-ALC	12/26/94	Approves new regulations for CTMCA
*	*	Calls on CTMCA to conduct registration campaign
R.A. 0274-95-ALC	2/28/95	Recognises representatives of one vending federation
R.A. 0275-95-ALC	2/28/95	Recognises representatives of one vending federation
D.A. 0020-95-ALC	3/15/95	Suspends payment of Sisa by vendors
D.A. 0046-95-ALC	5/22/95	Prohibits vending near Parque Canepa; authorises only vendors deemed indispensable to district
R.A. 0427-95-ALC	7/31/95	Calls for immediate removal of various kiosk and cart owners
R.A. 1737-95-ALC	8/28/95	Calls for expulsion of vendors occupying storefront garden
A.C. 006-96	1/19/96	Establishes new Commission to investigate FOMA and CTMCA
A.C. 029-96	5/9/96	Calls for new regulations for FOMA and external audit; transfers responsibility for Sisa collection to complete municipal control
A.C. 034-96	5/20/96	Calls on CTMCA to develop new vending regulations
A.C. 045-96	5/22/96	Rejects complaint filed by vendors regarding A.C. 029
Ord. 001-96	8/22/96	Introduces new tasa to be charged to vendors; repeals Sisa
A.C. 065-96	8/22/96	Approves new regulations for street vending throughout district
Ord. 003-96-MDLV	8/22/96	Outlines new regulations for street vending

Policy Number	Date	Summary
R.A. 0904-96-MDLV	11/15/96	Outlines administrative reorganisation of municipal government
Edicto 001-96	12/23/96	Establishes new organisational structure of municipality
A.C. 106-96	12/31/96	Recommends disbanding FOMA in light of <i>Sisa</i> repeal
D.A. 033	4/16/97	Creates special municipal commission to devise new strategy for formalising vendors
D.A. 048	6/18/97	Prohibits vending on certain streets
A.C.039-97	6/23/97	Prohibits vending on certain streets
D.A. 004-97-ALC	10/2/97	Announces launch of new project to reorder Jirón Gamarra, including expulsion of street vendors
Ord. 002-99-MDLV	1/6/99	Redefines municipal tax regime; repeals all previous <i>tasas</i>
Ord. 004-99-MDLV	1/6/99	Establishes framework for funding security force; duties include collection of daily payment from street vendors
Ord. 005-99-MDLV	1/6/99	Redefines time frame for charging operating licenses
Ord. 014-99-MDLV	1/28/99	Approves new regulations for issuing operating licenses
Ord. 015-99-MDLV	1/28/99	"Formalises" street commerce in the district
Edicto 001-99-MDLV	1/28/99	Creates new municipal office to oversee street vending issues
A.C. 016-99-MDLV	3/19/99	Declares urgent situation in area of wholesale and retail markets
Ord. 018-99-MDLV	3/19/99	Establishes tax incentive for vendors who formalise
Ord. 028-99-MDLV	7/23/99	Establishes sanctions and fees for various acts of non-compliance
Ord. 033-99-MDLV	10/15/99	Establishes rules for applying above sanctions
Ord. 035-99-MDLV	11/23/99	Names special zone around wholesale and retail markets; prohibits occupation of public space in that zone
R.A. 0578-00-ALC	6/21/00	Authorises vendors on sidewalks around one commercial center
Ord. 047-00-MDLV	6/22/00	Approves new comprehensive regulations for area around wholesale and retail markets
Ord. 045-00-MDLV	6/22/00	Approves formal legal text for above regulations
Ord. 050-00-MDLV	7/14/00	Grants special authorisation to vendors of certain products
Ord. 054-00-MDLV	11/30/00	Approves new regulations for authorised vendors

**In some cases, only drafts of policies (without numbers or dates) were available.*

after taking office.⁴⁸ In the event, although Metropolitan Ordinance 002 was supposed to provide a stable and comprehensive framework for municipalities, it was never fully enforced in this district.⁴⁹

Third, many of the rules listed in the table are of a relatively particularistic and *ad hoc* nature. Several measures declare street vending illegal on an individual street or block, grant legal recognition to selected vendor associations, or call for the relocation or eradication of a single stand, stall, or kiosk. These measures reflect the improvised nature of street governance at the local level, and how difficult it is to establishing a streamlined, durable governance framework.

⁴⁸ New, successive administrations took office in 1993, 1996, and 1999.

⁴⁹ Indeed, very few municipal administrations since 1985 have managed to implement Ordinance 002 in full. Most have experimented with charging the *sis*a and a handful have implemented the provisions related to FOMA and CTMCA, but those institutions have been very unstable over time, and many municipalities simply ignore the ordinance.

5.3.2 Evaluation: The Rationale and Effectiveness of Existing Regulations

As the discussion above has indicated, the rationale behind small/micro-enterprise regulation in Lima is very different from the one behind street vendor regulation. As far as small and micro-enterprise regulations are concerned, the overarching rationale has been to treat formalisation as a matter of streamlined registration requirements and reduced costs, with the overall purpose of promoting private enterprise growth. The prevailing method for doing so has been an attempt to fit small/micro-enterprises into the country's national institutional and legal framework, with the backing of several central government agencies, and in such a way as to promote their compliance with basic regulations.

The effectiveness of this approach in Lima is somewhat uncertain. The laws issued in the early 1990s do not seem to have hindered the formation of small and micro-enterprises; as shown in Table 5.1, the number of those working in single-person, micro- and small

enterprises has grown steadily since 1990, although the percentage of the labour market engaged in these enterprises fluctuated between 1990 and 2000. Moreover, the fact that by 2000 over 70 percent of urban employment was engaged in firms with 10 or fewer employees clearly indicates the critical role that small-scale enterprises have played in employment creation since the laws were enacted in 1991. Although these legislative attempts to simplify taxation and registration requirements were short-lived, they seem to have had few negative effects on small-scale enterprise formation.

The creation of PROMPYME in 1997 and the requirement in the 2000 law that PROMPYME and MITINCI allocate resources to micro-enterprise promotion have likely had a positive effect on the sector. Since inception, PROMPYME has developed a host of programmes to assist small business growth and has launched several public campaigns to disseminate information among small-scale entrepreneurs. The agency has published guides on a number of practical topics, including: how to formalise one's firm, how to participate in training activities, how to access government procurement, how to form consortia, and how to access dedicated legal and technical advice for small firms. While PROMPYME's efforts most likely reach out to relatively advanced small and micro-enterprises – whose owners are more likely to have Internet access, participate in the more influential associations, and can afford course fees – they have undoubtedly improved the diffusion of information and created opportunities for growth for those firms they do reach.

It is still too early to assess the effectiveness of the 2003 law; however, two aspects of this statute – the role of associations in CODEMYPE and allocation of regional government resources to micro-enterprise promotion – are likely to have positive effects on the sector as well. Involving association representatives could help improve smaller firms' access to information, training, and technical assistance, and may assist government officials in the development of promotional programmes that meet the needs of those entrepreneurs at the earlier stages of development. Decentralising these efforts to regional governments may also help small firms in the mountain and jungle regions of Peru to reach out to export markets, which so far have remained elusive.

At the same time, the laws have not provided an entirely clear framework for small-scale enterprise regulation. Oversight of women and family issues has likely had negative impacts on women's entrepreneurship. Definitions of small and micro-enterprises in national legislation have been unstable over time, which has added an element of confusion for entrepreneurs and limited the ability of researchers to produce comparable national statistics. Moreover, Peruvian legisla-

tion has failed to set out an entirely stable taxation or registration regime for small and micro-enterprises, and in the meantime non-compliance with tax and licensing regulations remains relatively easy. Most importantly, national legislation designed specifically to address small and micro enterprise issues overlaps with other legislation governing taxation, registration, and labour relations for firms in general; this makes it difficult for small-scale entrepreneurs with poor access to PROMPYME training to assess the relevance of each law to their own conditions.

The omission of women's issues and family-related issues from small and micro-enterprise law may also make proper formalisation difficult for many firms. Many nominally single-person firms are run by women whose teenage progeny and other family members look after the business on a part-time basis, or who otherwise must find innovative ways of balancing income-generating activities with household responsibilities. Women also have a greater need for marketing assistance, as their household responsibilities make it impossible for them to engage in marketing activities that would take them away from their homes.⁵⁰ If Through lack of consideration for the special circumstances of women with family responsibilities, regulations promoting formalisation may be less effective than they otherwise could be.⁵¹

The rationale behind street vending regulations in Lima has been to treat formalisation primarily as either relocation to off-street locales, or as a solution to the problems of congestion, trash, noise and chaos in crowded central-city areas. That is, the primary goal of these regulations in general has not been to stimulate the growth of street vendors' businesses, but rather to circumscribe their activities in order to take pressure off of crowded public spaces.

Neither of these two approaches to formalising street trading has been particularly effective in Lima.⁵² When mayors have attempted to move them to stalls in off-street lots, vendors have tended to move back onto the streets in short order, even when those lots had been offered at no cost. Often, the space in the lots is not commercially attractive and vendors have

⁵⁰ For example, it is common for women to prepare food inside their homes for sale, and then vend from either their doorstep or from small stands outside their homes or on their streets so that they can also tend to children and household chores. These women would be unable to use the on-line resources or attend courses offered by PROMPYME, experiment with different points of sale in their neighborhoods, or search out new markets for themselves.

⁵¹ Several non-governmental organisations do provide services for female micro-entrepreneurs and fill in some of the gaps left by regulations in certain parts of the city. Nonetheless, consideration of women and family issues in national legislation could help those female micro-entrepreneurs who are not reached by NGO programmes.

⁵² There are a few exceptions, which are described below in section 5.5.

a difficult time retaining customers. In other cases, competing vendors simply move into the space on the street vacated by those who relocated, which puts the original vendors out of business and perpetuates the public space problems. Because municipal authorities typically lack the resources to prevent this from happening, vendors are often reluctant to vacate their coveted spaces on the streets, even if government officials threaten them with force. Moreover, because vendors often run their businesses as household enterprises, changing locations would induce personal financial risks that can be devastating for household income in case their businesses fail.

In the same vein, attempts to clean up street vending areas through regulatory compliance have met with only mixed success in Lima. While Ordinance 002 attempted to provide a comprehensive, balanced regime for street vendors, it set a precedent for imposing a host of regulations on street vendors, including: obtaining a license, acquiring a health certificate, paying the daily *sis*a (tax), obtaining special authorisation to sell certain kinds of products, keeping vendor sites to a certain size and appearance, wearing officially sanctioned uniforms, providing proof of origin for merchandise, and vending only in authorised spaces. Even where municipal authorities have attempted to enforce the ordinance, they typically lack the capacity to enforce all these diverse provisions. Municipal authorities in Peru have among the lowest budgets in all of South America (Nickson 1995), and without the personnel and expertise to enforce these regulations and sanction non-compliance in an effective sort of way, it is simply too easy for vendors to evade them. In some districts, active vendor association support has improved enforcement, as these groups have encouraged member compliance. However, for all the participative policy-making advocated in Ordinance 002, in practice vendor associations are more often than not ignored or dismissed.

Poor administrative capacity on the part of municipal governments has combined with lack of a stable national framework to encourage non-enforcement and non-compliance on both sides of the struggle between vendors and authorities. Supreme Decree 005 and Ministerial Resolution 022, both of which were rooted in short-term political motivations rather than technical reasoning, served only to embolden vendors to stay in the streets and resist official attempts to impound their goods. Because no other national laws address street trading directly, vendors consider themselves as existing outside the country's legal and administrative framework, and as a result tend to take a relatively confrontational attitude to public authorities. On top of this, frequent regulatory improvisation on the part of municipal authorities exacerbates vendors' mistrust and further fuels the tensions.

5.3.3 Regulatory Constraints on the Informal Economy

A closer examination of regulatory constraints on Lima's informal economy shows that the extent to which small-scale entrepreneurs face obstacles to formalisation is dependent on a number of factors. While the average cost in terms of days and monies to register a small-scale firm has decreased substantially since the 1980s, taxation and licensing fees can remain high for certain entrepreneurs in certain municipalities. Regulatory constraints on street trading likewise remain high in many municipal jurisdictions. At the same time, however, weak regulatory enforcement has limited the extent to which these constraints have had significant and tangible effects at grassroots level.

(a) Regulatory Constraints

(i) *Regulatory Constraints on Small and Micro-Enterprises*

Notwithstanding the declared purpose of Legislative Decree 705, Law 27268 and Law 28015 to lower the barriers to formalisation, compliance with tax, business, labour and other regulations can impose substantial costs on small and micro-entrepreneurs in Peru. Regarding taxation, recent ILO research identified eight distinct taxes and charges to which small and micro-enterprises can be subject (Tokman 2001, p.28). Two of these, the sales tax (*Impuesto General a las Ventas*, IGV) and income tax (*Impuesto a la Renta*, IR), are national taxes administered by SUNAT, and another two are contributions to the national housing fund (*Fondo Nacional de Vivienda*, FONAVI) and the national social security system (*Instituto Peruano de Seguridad Social*, IPSS). At present, small and micro-enterprises are not necessarily required to pay these four contributions: FONAVI is being phased out and qualified micro-enterprises can benefit from a simplified tax regime known as RUS (*Régimen Único Simplificado*) which substitutes for the sales and income taxes.⁵³

⁵³ Small and micro-enterprises with small numbers of employees and annual sales can pay taxes under the RUS in place of the IGV, IR, and a third tax, the Tax on Municipal Promotion (*Impuesto a la Promoción Municipal*, IPM). A single monthly rate, based on annual sales, replaces these three taxes. The specific requirements for firm size and sales have undergone several changes since 2003; for instance, on 22 August 2005, the list of prerequisites for qualification was further extended with the addition of precise maximum levels of electricity and phone consumption, total acquisitions and charges (source: <http://www.sunat.gob.pe/orientacion/regimenes/rus/index.html>) The RUS also eliminates the requirement for small and micro-enterprises to maintain accounting books.

Table 5.10. Requirements for formal incorporation of a small/micro-enterprise in Peru

Type of Requirement	Individuals, Entities, or Documents Required for Completion
Draw up firm's articles of agreement	Lawyer
Acquire certification of articles and statutes	Notary Public
Entering enterprise in Public Register	Notary Public
Identify firm's legal representatives	n/a
Obtain RUC	SUNAT
Acquire provisional municipal operating license	Articles, RUC, and zoning certificate
Legalise accounting books (if not registered under RUS)	Notary Public
Affiliate enterprise with health insurance system (ESSALUD) (employers only)	Identification of employer, registered payroll books, RUC, municipal operating license, articles of agreement

Source: Compiled from website of PROMPYME (http://www.prompyme.gob.pe/formalizacion_pymes.php), accessed 22 August 2005; Chacaltana (2001: 55); and Tokman (2001: 93).

The remaining taxes and charges are administered at municipal level, and can include a fee for the Municipal Operating License, property taxes, fees for public services, fees for administrative services and additional licenses, and various contributions for public works and special projects (Tokman 2001, p.98). These fees and taxes vary from one municipality and one administration to another. Consequently, small and micro-entrepreneurs can be subject to a wide range of taxes and fees, or only very few, depending on the circumstances.

As for licensing and registration, formal legal incorporation of an enterprise requires its owners to comply with a string of administrative requirements (see Table 5.10). Licensing and registration requirements can be excessive for those entrepreneurs who lack the time, capital, or knowledge to comply; yet they are less onerous today than they were in previous decades. While Hernando de Soto (1986) calculated that registration requirements for small and micro-enterprises in Peru took 43 days and cost over USD5,000, a more recent study (CINCEYT, 1998) put these costs today at around 30 days and the equivalent of USD85.00 (Chacaltana 2001, p.55). These lower costs are the likely outcome of legislative efforts to lower the barriers to formalisation in Peru since publication of de Soto's work two decades ago or so.

Regarding labour-related costs, those faced by small-scale entrepreneurs with employees are almost identical with those of their large-scale counterparts. Under the 2003 piece of legislation (Law 28015), small and micro-entrepreneurs must pay workers the minimum wage, adhere to an eight-hour workday, pay overtime, offer paid vacation, and compensate workers when unfairly dismissed. While these costs may be somewhat onerous for lower-end enterprises, they secure only relatively basic rights for workers, as Legislative Decree 728 in 1991 eliminated the more rigid labour protections of previous decades.

(ii) Regulatory Constraints on Street Vendors

The extent of regulatory constraints on street vendors in Lima is also dependent on a number of factors. For instance, in theory street vendors should be subject to the regulatory constraints defined by Ordinance 002 of 1985, which are rather extensive (see Table 5.11). When enforced, these provisions impose more regulatory constraints on street vendors than on small and micro-entrepreneurs in terms of licenses and work-space, but fewer in terms of taxation.

However, in practice these regulations are rarely enforced to the full. In typical municipalities where this is the case, vendors are more likely to be subject only to the *sisa*, to licensing and registration requirements and to restrictions on their use of public space. Where municipal authorities and vendor associations have established both FOMA and CTMCA, regulatory enforcement and compliance tend to be relatively good. In those municipalities where vendor associations are lacking, compliance tends to be relatively poor and conflicts over regulations more intractable (Roever 2005b).

In theory, most street vendors could also qualify as micro- or small enterprises, under the formal definitions set out in Law 28015. Though a handful of vendors may run lucrative businesses that approach the limit on annual sales for micro-enterprises, virtually none of them would exceed the limit set for small enterprises, and no street vendor would employ more than 50 people. This suggests that some street vendors should, in theory, be subject to the regulatory constraints defined in Law 28015. These include the taxes levied by central government (sales tax, income tax and municipal promotion tax, or the monthly quota defined under the RUS) and by municipal authorities, the fee for the municipal operating license and health insurance contributions for employees. On top of these, some street vendors would have to comply with labour regulations and RUS registration requirements.

Table 5.11. Regulatory Constraints on Street Vendors in Lima

Type of Measure	Where Ordinance 002 is in force	Where typical municipal regulations are in force	Where street vendors are considered as SMEs
Taxation	Sisa (daily).	Sisa (daily).	IGV, IR, and IPM or RUS; municipal taxes and fees.
Licensing & registration	Street vending license; special license for vending food or animals; health license for sale of prepared food; accreditation for vendors of agricultural products; authorisation for use of electricity.	Municipal operating license; street vending license; special license for vending food or animals; health license for sale of prepared food.	Municipal operating license; fees associated with legal incorporation of firm (see Table 4.13).
Labour relations	—	—	Minimum wage; rules on workday, overtime, vacation, unfair dismissal.
Use of public space	Authorised zones only; size, design, and number of sites regulated by municipality; vendors responsible for cleanliness of area surrounding site.	Authorised zones only; site size regulated by municipality.	—
Other	Invoices for merchandise required for proof of origin; uniforms required for food vendors.	—	RUC; contributions to health insurance system.

Government entities at all levels have periodically launched promotional campaigns to encourage street traders to respond to the same formalisation incentives as those who operate off-street businesses. However, at grassroots level few vendors think of themselves as micro-entrepreneurs, partly because micro-enterprise legislation makes no explicit mention of them. Consequently, vendors argue that they are left out of the national legal framework. Moreover, low-income vendors have little access to clear information about the various laws that would apply to them if they were to attempt formally to incorporate their businesses. As a result, policies that clearly place street vendors into a broader administrative and legal framework for all micro- and small entrepreneurs have become a matter of urgent necessity.

(b) The Impact of Regulatory Constraints on Growth, Poverty, Employment, Income, Women's Entrepreneurship and Municipal Tax Collection

Since publication in the mid-1980s of de Soto's highly travelled argument that entrepreneurs choose informality because the costs of formalisation were excessive, Peruvian legislators have made several significant bids to simplify the regulations that are thought to constrain entrepreneurial activity. However, it is rather difficult to assess the precise impact of those reform efforts and remaining regulatory constraints on a number of crucial socio-economic conditions (such as economic growth, poverty reduction, employment creation women's entrepreneurship, and tax collection), as the 1991 legislation on small and micro-en-

terprise was weakly enforced and the 2000 and 2003 measures are relatively new.

Indeed, one crucial question for assessing the impact of regulatory constraints is, to what extent do entrepreneurs actually comply with the rules? If compliance is low, then the likelihood that regulatory constraints have a significant impact on macro-economic trends is also likely to be low. Though comprehensive data on regulatory compliance in Peru's informal economy are not available, one study from 1996 suggests that partial compliance with regulations among small and micro-entrepreneurs is five times as common as either full compliance or full non-compliance (Chacaltana 2001: 73). With regard to labour laws, Tokman (2001: 74) similarly reports that only 15 percent of micro-enterprises in Peru can afford to comply with the full costs of labour regulation.

The practical reality in Lima is that many small and micro-entrepreneurs comply with individual regulations when they perceive that they have no choice but to do so, while at the same time they conduct their businesses with significant degrees of flexibility vis-à-vis other regulations. For example, many have family members who help them oversee their stand or stall. A common practice is for teenage children of micro-entrepreneurs to watch the stand after school, while the parent purchases merchandise or runs errands; others have brothers, sisters, uncles, cousins, or friends watch over their sites at meal times or when they take care of household or business affairs. In these cases, unpaid family members are not treated as employees, and therefore labour laws are disregarded. With respect to taxation, some entrepreneurs register with SUNAT but do not keep thorough and

Table 5.12. Average Real Income and Average Hours per Week by Firm Size, 1991-2000

Size of Enterprise	1991		1995		2000	
	Income	Hours	Income	Hours	Income	Hours
Micro-enterprises	135.3	51	176.5	56.6	193.7	58.8
Small enterprises	242.6	49.5	313.3	53.3	280.9	52.9
Medium enterprises	294.2	52.3	357.5	54	457.2	55.7
Large enterprises	286.5	51.2	475.6	54	585.6	53.5

Source: Chacaltana (2001, p.98). Income figures are in 1994 U.S. dollars.

accurate books; others blend household and enterprise accounting so that the complete formalisation of their enterprise is never achieved. Therefore, while existing regulations may create bureaucratic obstacles for some enterprises, many of these find ways to work around the rules in order to maintain flexibility.

(i) *Urban Economic Growth and Poverty Reduction*

Above and beyond these issues of non-compliance, the steady rate of economic expansion in Peru over the past five years – averaging over four percent annually – suggests that any constraints that regulation of the informal economy may have imposed on urban economic growth have probably not been significant. At the same time, however, statistics compiled by Chacaltana (2001, p.93-94) suggest an inverse relationship between growth in micro-enterprise employment and growth in gross domestic product between the years 1987 and 2000; thus, as the overall economy stagnated or shrank, employment in small and micro-enterprises increased; and as the overall economy grew, employment in small and micro-enterprises shrank. This inverse relationship between growth and small-scale enterprise employment suggests that informal job creation has probably served as a “safety valve” when the other sectors of the economy have slowed down. In other words, the informal sector has reduced exposure to abject poverty, but has fallen well short of creating sustained avenues for upward mobility.

(ii) *Employment, Income and Female Entrepreneurship*

It appears unlikely that regulatory constraints have had a significantly negative effect on job growth in Peru’s small and micro-enterprise sector. The percentage of total employment contributed by micro-enterprises grew from 58 percent in 1990 to 64 percent in 1999, while over the same period the share of large enterprises dropped from 22 percent to 18 percent (Chacaltana 2001, p.92). According to Tokman (2001, p.45), the contribution of small and micro-enterprises to the industrial sector is also significant; ILO data suggest that 40 percent of industrial employment in

Peru is provided by small and micro-enterprises, or twice the rate of Brazil and Chile.

However, the quality of jobs in the small and micro-enterprise sector has not improved significantly since the onset of reform in the early 1990s. One reason is that real incomes in micro- and small enterprises peaked in 1996 and 1998 (respectively) and declined thereafter (Chacaltana 2001, p.154). These two categories together have created many more jobs than medium-size and large enterprises since 1990; still, by the year 2000 small and micro-enterprises accounted for just over 40 percent of total wages, while medium-size and large enterprises accounted for nearly 60 percent (Chacaltana 2001, p.94). Similarly, as Table 5.12 shows, the average real income of workers in micro-enterprises increased 43 percent between 1991 and 2000, compared to over 104 percent in large firms.. The relatively slow growth in micro-enterprise incomes also has been accompanied by a relative large increase in average hours worked per week in that category.

Exceptions to this general trend can be found in the two main enclaves of micro-enterprise development in the city of Lima: the industrial park at Villa El Salvador (to be discussed below), and the city’s garment district, Gamarra, located in the municipality of La Victoria. These two locations have each evolved into environments where poorer residents (many of whom are rural migrants) have been able to create vibrant businesses and enhance household incomes significantly. In Gamarra, for example, many migrants began as street vendors in the 1970s and 1980s, acquired simple sewing machines and learned the basic skills of clothing production, and grew their businesses into highly successful enterprises (see, for example, Salcedo 1993). While many entrepreneurs in these areas remain poor, many others have found avenues for thriving enterprise development, in the process breaking off the shackles of poverty and informality.⁵⁴

In Lima’s street vending sector, the impact of regulatory constraints on employment and income generation is equally unclear. On the one hand, extensive implementation of Metropolitan Ordinance 002 would

⁵⁴ For more on Gamarra, see Chion 2000; Roever 2005a; and Sulmont 1999.

impose a heavy regulatory burden on street vendors (see Table 5.11). On the other hand, the full range of regulatory restrictions mentioned in the ordinance is rarely enforced in practice, as most authorities are content with partial enforcement of the *sisá* and the requirement to obtain licenses.

Still, these two requirements can represent a significant cost for those street vendors who only earn subsistence incomes. At the same time, however, a complete absence of regulation can impose even more significant costs. The *sisá* is paid explicitly in exchange for the right to occupy public space for one day, and therefore acts as a legal guarantee against forcible removal from the streets. For a vendor who earns 10 *nuevos soles* (or three US dollars) per day at a particular post on the street, the typical charge of one *nuevo sol* for the right to work there is far lower than the cost of losing that workspace and the 10 *nuevos soles* in income attached to it.⁵⁵ Similarly, the cost of a municipal license can be relatively high for low-income vendors, but at the same time it can help protect them from having their merchandise impounded by municipal authorities – a cost that would far exceed that of a license. In these cases, complying with regulations can significantly *reduce* potential costs/risks for vendors, rather than increase them. Therefore, regulatory constraints are unlikely to have set such barriers to entry as to constrain employment creation in the street vending sector.

With regard to female entrepreneurship, it is difficult to judge whether regulations have done anything to promote proprietorship among women or to provide resources that would assist women in balancing household responsibilities with income generation. On the one hand, the ratio of men to women among enterprise proprietors declined from 84 percent in 1990 to 66 percent in 2000, a significant change (Chalcaltana 2001, p.96). On the other hand, and apart from a call for programmes to assist women in Legislative Decree 728 of 1991, a quasi total absence of attention to women's specific needs is a well-shared feature of national, metropolitan and local legislation. This pattern would suggest that any increases in female entrepreneurship are more likely the result of the efforts of non-governmental organisations in Lima (several of which are wholly or partly dedicated to female business support) than of any government-sponsored regulatory initiatives.

(iii) Tax Collection

Finally, the impact of regulatory reforms on tax revenue collection is also questionable in the case of

Lima. At national level, SUNAT found in a 1998 study that every additional *nuevo sol* of tax revenue collected from micro-enterprises had an administrative cost of 0.75 *nuevos soles*, so that the effort expended to enforce tax laws hardly produced enough revenue to make it worthwhile (Robles 1998, cited in Tokman 2001, p.35). The administrative costs of collecting taxes from micro-enterprises through the RUS were five times as high as the cost of collecting them through the specialised tax regime, and a sheer 119 times as high as the cost of collecting them through the general regime (Tokman 2001, p.103). Regarding the general sales tax, Tokman (2001, p.108) reports that evasion among small and micro-enterprises is around 40 percent and cites four reasons for this high shortfall: inadequate information among entrepreneurs, frequent changes in the tax regime, poor enforcement, and a perception that public authorities do nothing but waste taxpayers' money. Consequently, recommendations are to simplify requirements, improve information dissemination and enhance regulatory enforcement.⁵⁶

5.4 Regulatory Reform: Innovative Policies and Practices

Notwithstanding the broad problems of regulatory instability and weak enforcement described above, a pair of "success stories" in Lima demonstrates how innovative policy approaches can open up sustainable employment avenues for informal workers. The two examples below show how a regulatory and promotional regime can be implemented efficiently and successfully at the level of individual projects, rather than at the level of entire municipalities. Nonetheless, the lessons they offer could be usefully oriented toward municipal planning on a broader scale.

5.4.1 Industrial Parks for Small and Micro-Enterprises: The Case of Villa El Salvador

The Industrial Park of Villa El Salvador, or PIVES (*Parque Industrial de Villa El Salvador*), is one of Lima's premier developmental projects dedicated to small-scale enterprises. The park occupies roughly 65 square blocks in the district of Villa El Salvador and currently provides employment to more than 15,000 people in 1,200 small and micro-enterprises.⁵⁷ The central feature of the park is its structuring in eight

⁵⁵ One US dollar was equivalent to approximately 3.2 Peruvian *nuevos soles* in mid-2006.

⁵⁶ No data are available to measure the success of tax collection at the municipal level.

⁵⁷ See PIVES website, <http://www.pivesweb.com.pe/index.htm> (accessed 22 August 2005).

Table 5.13. Productive Sectors, Industrial Park at Villa El Salvador, 2000

Productive Sector	Distribution of Workers by Sex		
	% of Enterprises	% Men	% Women
Metalworking	29.5	89.4	10.6
Carpentry	28.8	64.1	35.9
Clothing	12.4	50.0	50.0
Footwear & Leather Products	11.1	78.9	21.1
Handicrafts	9.5	75.2	24.8
Smelting	4.1	89.3	10.7
Food	0.6	57.1	42.9
Other ¹	4.0	86.4	13.6
Total	100.0	80.0	20.0

Source: PIVES Website (<http://www.pivesweb.com.pe/index.htm>) and Corzo et al. (2001, p.46-47).

Note: 1. Includes plastics, masonry, paper products, chemical products, and others.

productive sectors: carpentry, metalworking, footwear and leather, clothing, smelting, handicrafts, food, and miscellaneous activities (see Table 5.13). Each productive sector is represented by its own association, and the eight associations together form a federation that governs entrepreneurial activities in the park.

The success of the park has been largely due to the partnership formed by the entrepreneurial associations, the municipal government and several non-governmental organisations that have provided funding and technical assistance over the course of its development. The park originated out of a 1987 law that allocated land for the project and appointed an administrative authority consisting of representatives from the central government and entrepreneurial associations. Notwithstanding the initial cooperation between the public and private sector, along with UNIDO backing, the park's development was slow, the administrative authority was dissolved in 1996 and management transferred to the municipal government in 1997 (Corzo et al. 2001, p.14-15).

Thereafter, entrepreneurs who occupied the park's small lots enjoyed the promotional support of local government and several domestic non-governmental organisations. PIVES expanded significantly between 1997 and 2002, and by the end of that period had become the primary developmental pole for Lima's southern cone.⁵⁸ By 2002 the park comprised a total of 1,045 lots, more than 57 percent of which are owned and legally titled.

Indeed, one of the most notable results of the industrial park is the substantial rate of formalisation among its occupants, according to a survey conducted

in 2000 (Corzo et al. 2001, p.22-27).⁵⁹ More than 95 percent of enterprises surveyed are registered in one of the three tax regimes available to them, and 82 percent reported that they keep some type of accounting records, whether managed by a hired accountant or by the firm's proprietor. As for registration, almost 95 percent reported that they had entered the firm in the Public Register, and more than 70 percent reported holding a Municipal Operating License.

Two features of the PIVES venture have likely contributed to this relatively high rate of formalisation. To begin with, entrepreneurs' associations were involved in project development from inception, and all along have played a major role in the development and enforcement of the rules governing the park. On top of this, the associations help transform members into stakeholders as they link individual enterprise management to the overall success of the project, and they familiarise members with the regulatory requirements for formalisation. The other factor behind the high rate of formalisation is that municipal authorities and NGOs have provided PIVES with more than promotional support: they have also disseminated information about current regulations and encouraged entrepreneurs to shift their firms from the informal to the formal sector.

5.4.2 Commercial Centres for Street Vendors: The Case of Polvos Azules

A second example of how governments can form sustainable partnerships with entrepreneurial associations to overcome problems related to formalisation is a commercial centre known as "Polvos Azules" in the central district of La Victoria. This is a multi-level

⁵⁸ Metropolitan Lima is divided into four regions: the central-city area, and then three outlying areas called "cones": the northern cone, southern cone, and eastern cone. The Pacific Ocean borders the city to the west.

⁵⁹ The survey took in 315 PIVES enterprises in June 2000.

Table 5.14. Evaluation of PIVES and Polvos Azules Projects

	PIVES	Polvos Azules
Regulatory compliance	Relatively high.	No research available, but interviews suggest relatively high compliance.
Impact on quality of life	Demonstrably and tangibly positive. Provides opportunities for skill diversification, technical and entrepreneurial capacity building, income generation.	Provides opportunities for income generation and entrepreneurial capacity building. Enhances job security for former street vendors.
Public-private partnership	Partnership between government, associations and NGOs crucial for project's success.	Partnership between government and associations crucial for project's success.
Sustainability	Extremely strong potential for sustainability.	Strong potential for sustainability.
Integration of women	Low in terms of both enterprise proprietorship and association leadership.	Adequate in terms of enterprise proprietorship but remains somewhat low in terms of association leadership.
Replicability	Potentially replicable in a few other municipalities.	Less potential to be replicable at municipal level.

shopping centre that provides employment to over 5,000 people, many of whom are former street vendors who were relocated from the city's historic centre after 1996. They regroup in an association which was formed in the early 1980s, when its members were still peddling their wares in Lima's historic centre. As is the case with PIVES, the partnership between the association and the government – in this case the metropolitan government of Lima – was a major factor behind the success of the project.

The impetus for PIVES was given in 1996-2002, when Lima Mayor Alberto Andrade campaigned in favour of restoring order over 200 blocks in Lima's historic centre that had become overrun by more than 20,000 street vendors. The campaign entailed an investment of USD6.8 million on the part of the metropolitan government, which mobilised thousands of personnel to study, plan, and execute the relocation of all but a handful of street vendors (Metropolitan Municipality of Lima 2000).

As part of its strategy, the metropolitan government identified several vacant lots outside of the historic area that could be transformed into commercial centres. The next step was to identify the vendor associations whose leaders might be willing to negotiate a transfer. The Polvos Azules association, which by that time had existed for more than a decade, was selected to move its members to a site in La Victoria, just outside the downtown district of Lima-Cercado. The location was commercially attractive on two counts: it could accommodate a large number of traders, and it was strategically located just a few blocks from the historic centre and at the end of the *Via Expresa*, a highway connecting downtown Lima and the middle-class districts. The metropolitan government, association members and a local bank together arranged to spend USD23 million on the new locale, which provided

space for 2,000 stalls and more than 400 parking spaces for customers.

The Polvos Azules project is similar to PIVES insofar as it provides a viable commercial location with a wide range of products. Those who own or rent stands at Polvos Azules sell clothing, shoes, handicrafts, electronics, compact discs and a variety of other products. Polvos Azules has also benefited from substantial assistance from the metropolitan government, particularly when it came to marketing the new location and passing the necessary regulations to get the centre built. As with PIVES, the vendors' association has improved regulatory enforcement at the centre by encouraging compliance and making evasion more difficult. Regular and sustained enforcement of regulations in the context of both projects has been coupled with the sustained allocation of public sector resources. Moreover, integration in a broader urban planning strategy for municipalities has been a major factor in the longer-term sustainability of these projects.

5.4.3 Assessing Good Practice

Lima's PIVES and Polvos Azules projects demonstrate how local authorities can lay out economically sustainable environments where regulations are reasonably well enforced. These projects both relied on the sustained involvement of entrepreneurial associations, which have turned individual members into project stakeholders, in the process encouraging regulatory compliance and fostering cooperation. The challenge for municipal authorities is to transpose these principles from individual projects to the more general dimension of municipality-wide regulatory regimes.

In order more clearly to demonstrate how project principles can be turned into best practices at municipi-

pal level, the following discussion assesses the PIVES and Polvos Azules projects against a set of six criteria for best practice in informal economy governance. These criteria were derived from UN and ILO standards and adapted for the purposes of identifying innovative policies that can improve the overall governance of the informal economy in developing countries. The criteria are presented in Table 5.14.

(a) Regulatory compliance

The first criterion for best practice in informal economy governance is an adequate degree of regulatory enforcement and compliance. Although no research to date has sought to evaluate how transparently and efficiently regulations are enforced in the context of these two projects, studies of compliance suggest that entrepreneurs in PIVES and Polvos Azules are more likely than average to fulfil licensing, registration and taxation requirements. For example, the 95 percent rate of registration with one of SUNAT's three available tax regimes among entrepreneurs in PIVES is undoubtedly higher than the overall average among small and micro-enterprises across Lima as a whole. Interviews with entrepreneurs in both PIVES and Polvos Azules also showed that entrepreneurs perceive the likelihood of enforcement to be relatively high at those locations because of active government involvement in both projects and the high concentration of entrepreneurs in a single area. These experiences suggest that if municipalities are to streamline regulation of the informal economy and encourage compliance at the district-wide level, they should lay out similar environments where entrepreneurs are well organised in concentrated spaces, and work with entrepreneurial associations to create positive conditions for formalisation. If associations are involved in the decision-making process and their members granted a clear stake in making regulations work, enforcement efforts are less likely to fail.

(b) Impact on quality of life

For projects to qualify as best practice they should also have a demonstrable and tangible impact on the quality of life of the target population. This positive impact is clearer in the case of PIVES than Polvos Azules, because the industrial park is oriented toward capacity-building across a wide range of productive and entrepreneurial activities. PIVES provides a host of opportunities for workers to diversify skills beyond sales and into productive sectors, thereby building capacity in a range of technical activities. The existence of *maquicentros*, or training workshops, in the park is particularly beneficial for young people who can undertake apprenticeships and training in vocations such as metalworking, smelting and carpentry. With its emphasis on pro-

duction, PIVES also creates positive linkages with other economic sectors as well as sustained opportunities for entrepreneurs to generate income.

In the case of Polvos Azules, relocation of vendors off the streets and to the commercial centre also clearly has had a positive impact their quality of life – if only because workspaces and goods were no longer under threat of police expulsion or impounding, respectively. Moreover and just like PIVES, the commercial centre opens up opportunities for income generation and entrepreneurial capacity building for vendors/entrepreneurs. However, absence of direct linkages between Polvos Azules and the productive sector restricts the potential for vendor skill diversification. With the market for low-end retail goods already saturated in many parts of Lima, municipal authorities would be well-inspired to include linkages between the productive and commercial sectors in any new regulatory approaches to Lima's informal economy.

(c) Public-private partnerships

Lima's PIVES and Polvos Azules projects are exemplary for their integration of the public, private, and civil society sectors. In both instances, informal entrepreneurs set up associations even before both projects were underway, so that public authorities merely made use of the collective infrastructure already in place to get the projects off the ground. In the case of PIVES, NGOs also provided expertise and financing to secure the viability of the project. Private and civic sector involvement has enhanced the long-term commitment of informal economy operators to the viability and durability of these projects.

The public-private-civic partnerships behind these projects and their enduring success stand as a model for Peru's municipal authorities as they look to streamline municipal regulations at the district level. Such partnerships should bring together street vendor and micro-enterprise associations, which would give them a stake in the viability of governance regimes in the long term. This type of partnership has worked well in a few districts where street vendors benefit from both the FOMA and CTMCA schemes. However, in a majority of cases, public authorities and trade associations find themselves at loggerheads rather than in a cooperative mode. Yet experience shows that sustained efforts to work with associations and grant their members long-term stakes in municipal governance would enhance regulatory compliance.

(d) Sustainability

Sustainability is another crucial consideration for best practice in informal economy governance. Any schemes designed to govern the informal economy

should be socially, culturally, economically and environmentally viable over the long term, and should feature the type of sustainable problem-solving capacity that prevents typical problems from recurring rather than simply postponing or displacing them.

Sustainability is a feature of both PIVES and Polvos Azules, although again probably more so for the former than for the latter. The industrial park and the surrounding district resulted from a planned allocation of lots deliberately designed to accommodate residents' needs and prevent overcrowding. Moreover, the park provides a physical environment that directly links productive units with commercial outlets. Many lots, for example, are divided into a storefront area where customers can browse merchandise, and a back area that serves as a workshop where the merchandise is produced. The linkage of a diverse range of productive sectors with adjacent commercial outlets has four major benefits for small and micro-entrepreneurs: it helps prevent market saturation and attracts customers seeking a variety of product choices; it diversifies the entrepreneurial skills of younger generations and generates marketing opportunities that otherwise might not exist.⁶⁰ PIVES also benefits from its integration in the urban planning regime of the Villa El Salvador district: as a result, the vibrancy of the industrial park is intimately linked to the vibrancy of the district. Although Polvos Azules is far from enjoying a similar degree of interdependence with its surrounding neighbourhood, at the very least it appears to be economically sustainable, though with the help of continuing government promotion.

If municipal regulation of the informal economy is to be sustainable at the district-wide level, the social, economic, and environmental dimensions should not be left out. At present and more often than not, street vending regulations postpone problems instead of finding them long-term solutions, as Table 5.9 suggests. Self-sustaining solutions in the street-vending sector call on Peru's municipal authorities to replicate the conditions that have made such a success of PIVES, namely: integrating production and trade, opening up opportunities for upward mobility via skill diversification, bringing vendor associations to bear on decision-making, and creating some interdependence between commercial areas and surrounding neighbourhoods so that all community members have a stake in making regulations work.

(e) Integrating women

Full female participation in Lima's informal productive and commercial sectors is a slow, evolving

process. While associations at both PIVES and Polvos Azules have brought a few women into leadership positions over the years, the gender imbalance in terms of both business proprietorship and association leadership remains relatively high, particularly as far as PIVES is concerned. For example, surveys show that only nine percent of PIVES entrepreneurs are female, while at Polvos Azules, 48 percent of men own their trading sites (as opposed to renting them), compared to 41 percent of women. At both locations, associations have appointed women as chairs, but the initiative and subsequent development of both projects were dominated by men.

Integration of women is of critical importance if municipal regulations and regulatory enforcement are to be improved. Female participation in decision-making over governance regimes for informal workers could make it easier for policy-makers to understand why certain regulations are evaded and what policy reforms could enhance income generation and poverty alleviation for small-scale entrepreneurs. The regulatory regime could also better accommodate women's need to balance income generation with household responsibilities.

(f) Replicability

A final criterion for best practice in informal economy governance is replicability – that is, whether a successful project or policy enacted in one location can lend itself to effective replication by other (in this case, public) authorities in some other location. Since PIVES, for the most part, results from the joint efforts of entrepreneurs' associations and a capable municipal authority, the 'industrial park' (i.e., productive as opposed to merely commercial) model could be replicated in other municipalities with similarly well-organised entrepreneurs and capable local authorities. Because Lima has a large population and a sprawling landmass, opening a few additional industrial parks should not saturate the market for the type of goods sold at PIVES. Moreover, the export potential of the industrial park should also mitigate the risk of market saturation.

By contrast, it is unsure whether the purely commercial Polvos Azules experience could be replicated in other parts of Lima, and for two reasons. First, the relocation of street vendors and the commercial centre were metropolitan rather than municipal projects. Vendors could only be relocated after the metropolitan government allocated hundreds of staff and millions of dollars to the project. Municipal authorities are simply unable to devote comparable resources to this type of project. Second, the proliferation across the metropolitan area of retail outlets selling similar goods to those at Polvos Azules would probably be a threat to the long-term viability of additional shopping centres.

⁶⁰ The main shortcoming of the industrial park is the extreme gender imbalance in terms of enterprise proprietors. Of the 315 proprietors selected for the 2000 survey, only nine percent were female.

5.5 Conclusion

Although the current regulatory regimes for street vendors and small/micro-enterprises are distinct in Lima, the success stories of PIVES and Polvos Azules go to show that identical principles of urban planning, combined with public-private-civic partnerships and a sustained commitment of resources to viable commercial projects can apply to both sectors alike. At the same time, no regulatory reform can afford to ignore the substantial gaps between income levels and enterprise development within these two major sectors of the urban informal economy. Therefore, a potential avenue for comprehensive reform would involve two successful steps: identifying those elements in existing regulations and projects that have demonstrated some success, and then combining them into a single, tiered incentive structure that effectively governs both street vendors and off-street merchants while recognising the particular circumstances of workers in each sector.

In order to pave the way for a single, tiered incentive structure and as suggested above, regulatory policies must fully take into account the variety of incomes and degrees of enterprise development within the informal economy. At the bottom tier, social protection schemes such as FOMA (as provided under Ordinance 002) could be geared toward poverty prevention, income stabilisation, and very basic assistance for those with poor entrepreneurial skills. Rather than expending public resources in attempts to enforce regulations which most informal entrepreneurs cannot afford to comply with, policies should focus primarily on income sustainability and skill development. For instance, street vendors with only subsistence incomes would be formally brought into a national regulatory regime of a promotional (as opposed to penal) nature and encouraged to enhance their income-generating skills; at present, such vendors are excluded from national legislation and subject only to local-level regulatory constraints.

In the middle tier of the incentive structure, social assistance programmes should be replaced by policies that encourage formalisation and micro-enterprise development. For entrepreneurs in this tier with reasonably stable incomes and some potential for business expansion, policies that encourage basic regulatory compliance and facilitate access to micro-credit and training (such as those proposed in Laws 27268 and 28015) could both help the transition from informal to formal and stimulate job creation. At the upper tier, policies could encourage full regulatory compliance and provide incentives in favour of further enterprise growth, higher productivity and global competitiveness.

A single though suitably tiered incentive structure reflecting the widely varying degrees of enterprise de-

velopment among small and micro-enterprises would facilitate both enforcement and compliance. It would have three concurrent functions: explicit integration of small operators, who are currently excluded from national legislation; encouraging growth trajectories from smaller and less formal outfits to larger and more formal firms; and streamlining legislation with a view to facilitating both enforcement and compliance. A better effort on the part of government authorities to disseminate regulatory information among small-scale entrepreneurs and their associations would further encourage compliance.

Introducing a tiered incentive structure in Lima would entail two fundamental challenges. The first is to harmonise and streamline regulations across municipalities, as Ordinance 002 attempted (without success) to do in the case of street vendors. Efficient and transparent rule enforcement requires a stable regulatory framework that is resilient to administrative changes and the individual whims of politicians who rotate in and out of office every few years.

The second challenge posed by a tiered structure is to devise practicable, easy-to-implement regulations. Municipal authorities in Lima by and large have very low administrative capacities and extremely small budgets; one practical import is that policies like Ordinance 002 and many of the licensing requirements for off-street enterprises are impossible to enforce adequately without assistance from the central or metropolitan government. Involving entrepreneurial associations in the policy process (as was the case with PIVES, Polvos Azules and in districts where the CTMCA was implemented) can also make compliance more likely as associations are granted a role in enforcement.

The informal economy in Lima represents an interesting case because of its large size relative to other Latin American cities and because of the role of Hernando de Soto when he brought up the problems of excessive regulation. Since 1991, Peru's national legislation toward the small and micro-enterprise sector has prioritised a reduction in regulatory requirements for formalisation and an emphasis on programmes designed to promote small-scale private sector entrepreneurship. Conversely, local policy toward the street vending sector has consistently tended to increase regulatory restrictions in an attempt to protect public space and without any accompanying promotional measures.

In both segments of Peru's informal economy, two primary regulatory challenges remain. First, regulatory policy for both small/micro-enterprises and street vendors has been inconsistent over time. The standard features of these enterprises change with each new law, and national legislation geared specifically toward this sector overlaps with other measures gov-

erning taxation and other issues. Municipal regulations governing street vending have been even more inconsistent over time, as each new administration in each municipality makes fresh bids to bring the streets under control.

Second, efficient, transparent and consistent enforcement of regulations on street vending and small-scale entrepreneurs remains a distant goal. Non-compliance and partial compliance with existing regulations are pervasive, and the costs of enforcing regulations in many jurisdictions exceed the benefits. Without a regulatory regime that is both transparent and enforceable, non-compliance problems will continue.

Lima's experience suggests three major recommendations. First, existing professional associations (street vendors and small/micro-entrepreneurs) should be brought into the process of formulating and enforcing regulations. Positive experiences suggest that when associations play a central role in policy and project formulation, rules become more stable and regulatory compliance more frequent. Therefore, involving associations could improve the quality, appropriateness and effectiveness of informal economy regulations.

Second, women should be directly and explicitly integrated in the process of formulating legislation regarding small and micro-enterprises and street trading. At present, women are almost entirely ignored by legislation, and in most settings they remain at the margins of associations' activities. Involving women in the policy-making process would lead to the formulation of more appropriate and effective regulations that take into account the need for the urban poor to balance income-generating and household activities.

Third, Peru's existing segmentation of the regulatory policy environment into separate regimes for small-scale enterprises and street vendors should be replaced by a single though suitably tiered incentive structure that is sensitive to the varying levels of income and enterprise development within the informal economy. Those enterprises with poor productivity and minimal earning capacities should have better access to social protection schemes and promotional support, while full-scale regulatory enforcement should focus on better-developed firms that can afford the costs. This tiered system should be complemented by locally appropriate policies that integrate comprehensive support for well-planned projects with broader urban planning regimes that are designed to protect the environment and promote sustainability.

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6 CASE STUDY: MEXICO CITY

6.1 Introduction

Over the course of the past century, Mexico has experienced a rapid process of population and urban growth. From 1900 to 2000, the country's total population rose from 13.6 million to almost 97.5 million. As Figure 6.1 shows, over the same period, the percentage of the population living in urban areas rose from 28.8 percent to 74.6 percent.⁶¹ As a result, Mexico has been turned from a rural to a predominantly urban country. As has been the case with many other developing countries, this rapid urban growth was largely the result of mass rural to urban migration. This has led

to the emergence of one megacity – the Mexico City Metropolitan Area (MCMA)⁶² – and several cities with populations above 100,000.⁶³

One effect of the mass rural migration and the consequent rapid urban growth experienced in Mexico in general, and in the MCMA in particular, has been the proliferation of slums and irregular settlements around large urban areas. As recent UN-HABITAT reports have shown, the process of urbanisation across the world has been accompanied by a series of complex social, economic and cultural problems.⁶⁴ Some of the most

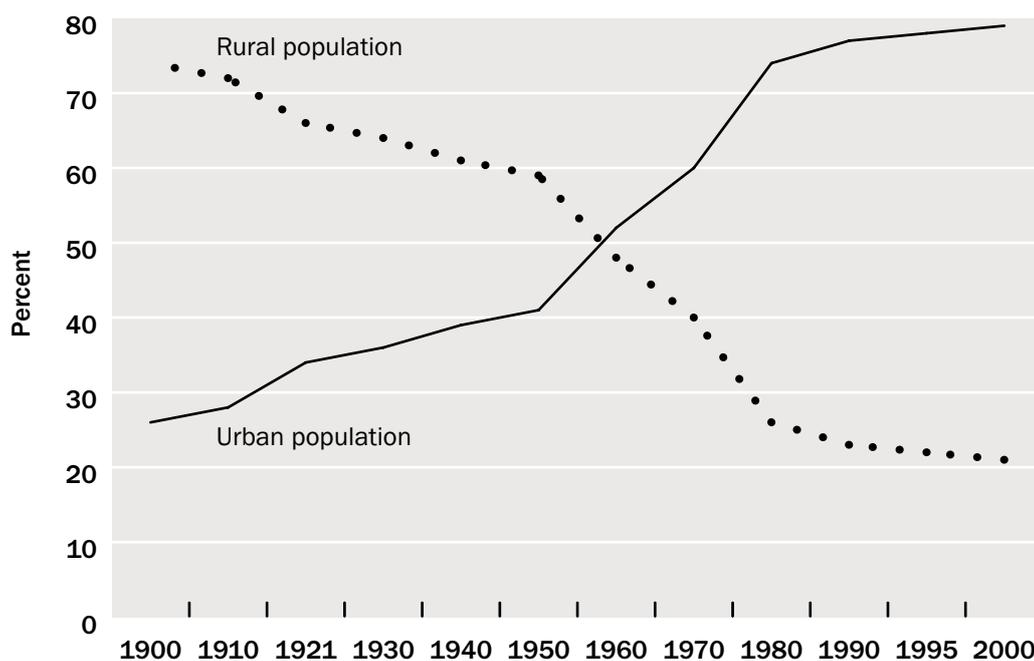
⁶¹ The criterion used to classify populations into urban and rural is the 2,500 inhabitant threshold commonly used in Mexico by INEGI. In particular, the population in localities with 2,499 or fewer inhabitants is classified as rural, while the population in localities with 2,500 or more inhabitants is classified as urban.

⁶² The Mexico City Metropolitan Area (MCMA) is comprised of all 16 administrative districts of Mexico City plus 35 contiguous municipalities located in the State of Mexico (one of the 32 federal entities that compose the country).

⁶³ A megacity is usually defined as a conurbation of over 10 million inhabitants.

⁶⁴ See, for example, the recent issues of the State of the World Cities report and the Global Report on Human Settlements.

Figure 6.1. Urban and rural populations as a percentage of the total population in Mexico: 1900-2000



Sources: National Population Census. INEGI

common problems among urban dwellers include high prevalence of poverty, crime, violence, homelessness, unemployment, substance abuse, pollution, environmental degradation, and the residents of the MCMA have not been an exception in this respect, notably with regard to the increasing urbanisation of poverty.

In the Mexico City Metropolitan Area as in many other developing countries, meeting their most basic everyday needs poses significant challenges to the poor. Part of these difficulties stem from the low levels of human capital that characterise the majority of the urban poor, which usually translate into low levels of income. The urban poor also generally lack proper access to basic infrastructure and public services, including drinking water, drainage, solid waste disposal, electricity, housing, telecommunications, roads, transportation, and education and health facilities (World Bank, 2005).

In addition to poor human capital and the lack of infrastructure and services, the urban poor must also confront the burdens imposed by the regulatory framework in which they operate, including rigid labour laws and burdensome regulations regarding the start-up, operation and bankruptcy of small businesses (de Soto, 1986). As a result, these laws and regulations typically exclude the urban poor from the protection provided by the social security and the judicial systems (de Soto, 2000) as well as from the benefits of access to the formal financial system (Mansell-Carstens, 1996).⁶⁵

6.2 National and Urban Dimensions of Mexico City's Informal Economy

This section provides empirical information regarding the informal economy, informal economy employment and informal employment as a whole in Mexico and the MCMA. It is based mainly on official national data, as well as on original analysis using the individual and household-level data from some of the household surveys collected by the Mexican national statistical agency (INEGI⁶⁶).

6.2.1 Measuring the Output of the Informal economy in Mexico and the MCMA

Since 2000, INEGI has been collecting and disseminating official data on the informal economy in Mexico, using the international statistical definition. Accord-

ing to this definition, the informal economy accounted for 12.4 percent of Mexico's gross domestic product on average during the period 1993-2002 (see Figure 6.2). One interesting fact that emerges from Figure 6.2 is that the share of the informal economy was relatively stable over that period.⁶⁷ Therefore, and contrary to conventional wisdom, the informal 'sector' has not been growing at a higher rate than the rest of the economy over the past decade, a fact that would have been reflected in an increasing share of GDP.⁶⁸

In terms of informal economy employment – a concept not to be confused with informal employment as a whole, which also includes informal employment in the formal economy and will be discussed in the next section – no time series are available from INEGI on the number of workers. Nevertheless, according to INEGI, in the year 2000 the number of informal economy employees was 9.1 million people, while the total labour force for the same year was 39.6 million people.⁶⁹ These numbers, together with the output of the informal economy as a share of GDP, imply that the typical productivity of the average worker in the informal economy is very low, since approximately 23 percent of the total labour force accounts for less than 12.5 percent of GDP.

The low average productivity of the informal economy has important policy implications. For example, Flores-Curiel and Valero-Gil (2003) analyze the tax revenue potential of the informal economy in Mexico. Based on its low average productivity and on estimates of the costs incurred by the government in collecting taxes, including the subsidies for those in the lowest ranges of income, they conclude that it would be more costly for the government to integrate the informal economy into the tax system than to allow it to continue outside of the system. A key question, then, is whether poor productivity in the informal economy is simply a reflection of the workers, or whether it is the result of impediments or barriers – including the

⁶⁵ These benefits include, among others, the ability to smooth consumption over time and across states of nature through borrowing and lending, the diversification of risks, and a variety of payment services.

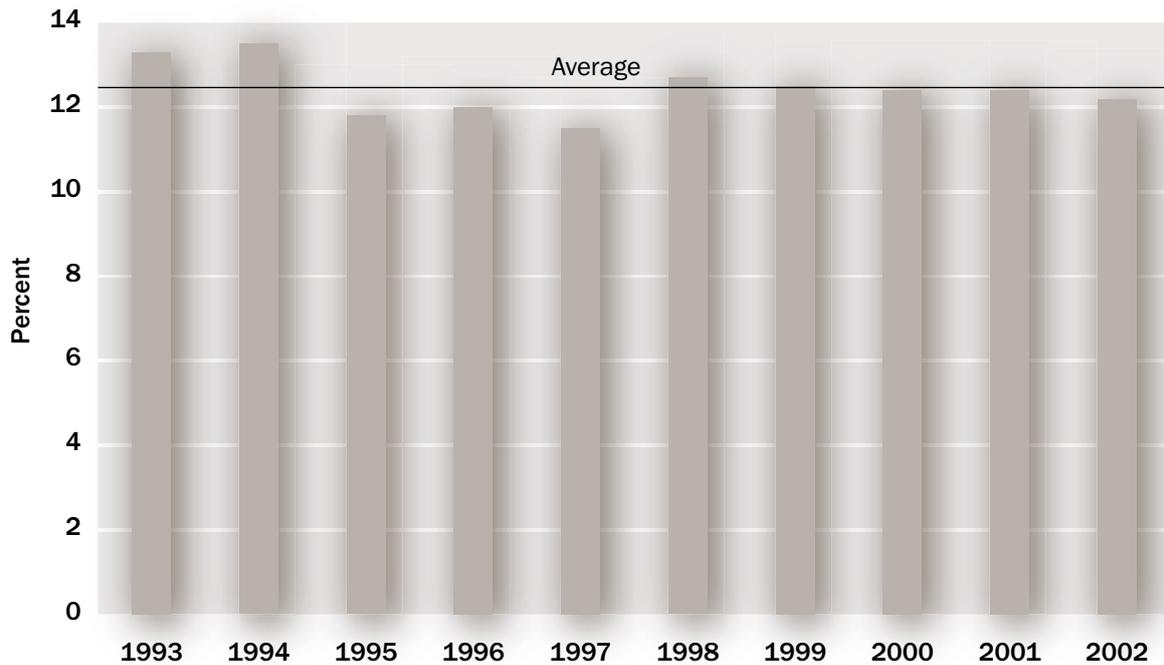
⁶⁶ INEGI refers to the Mexican National Institute for Statistics, Geography and Informatics (Instituto Nacional de Estadística, Geografía e Informática).

⁶⁷ In fact, there is a slight decline in the share of the informal economy in GDP between 1995 and 1997, which seems counterintuitive since this is the period following the balance of payments and banking crises that began with the sharp devaluation of the Mexican peso in December 1994. One possible explanation for this is that the series for output in the informal economy and total output are deflated using different series. If so, the higher share of services in the informal economy (which are typically non-tradable goods), together with the sharp depreciation of the currency, could account for this decline.

⁶⁸ The evidence below on the share of informal jobs in total employment over the same period also suggests that the informal economy has not increased its share significantly. Moreover, the data from the National Income and Products Accounts on Gross Operating Surplus as a share of GDP, which includes the income of all informal employees, also suggests that the share of the informal economy has remained constant over the same period. See García-Verdú (2005b) for a more detailed explanation and evidence on this last point.

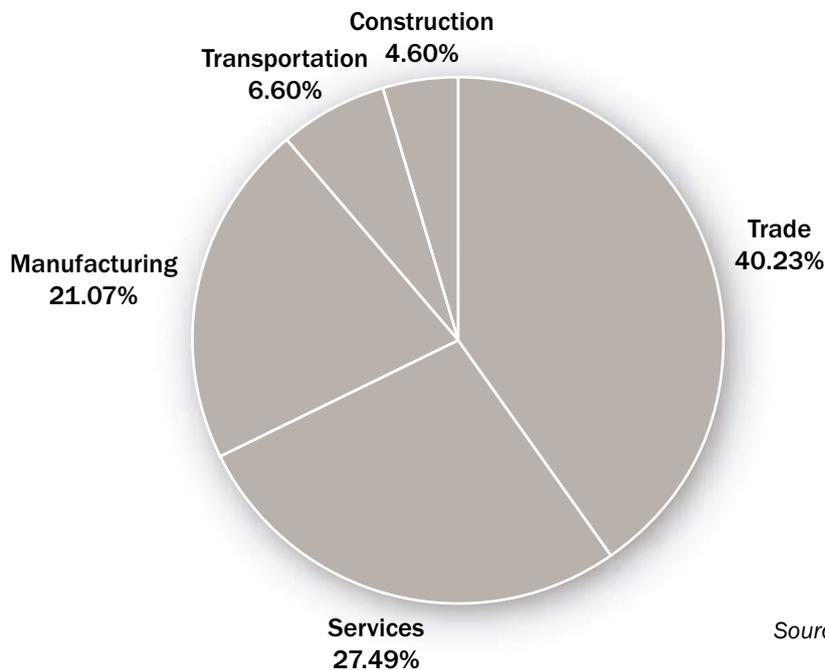
⁶⁹ The figure for informal economy employment in 2000 is from Instituto Nacional de Estadística, Geografía e Informática (2003b). The figure for the total labour force is from the National Employment Survey (Encuesta Nacional de Empleo).

Figure 6.2. Value added of the informal sector of the Mexican economy as a share of GDP: 1993-2002



Source: INEGI Cuenta satélite del subsector informal de los hogares. Cuentas por sectores institucionales. Sistema de Cuentas Nacionales de México (various years).

Figure 6.3. Sectoral output as a share of total output of the informal sector in Mexico: average 1993-2002



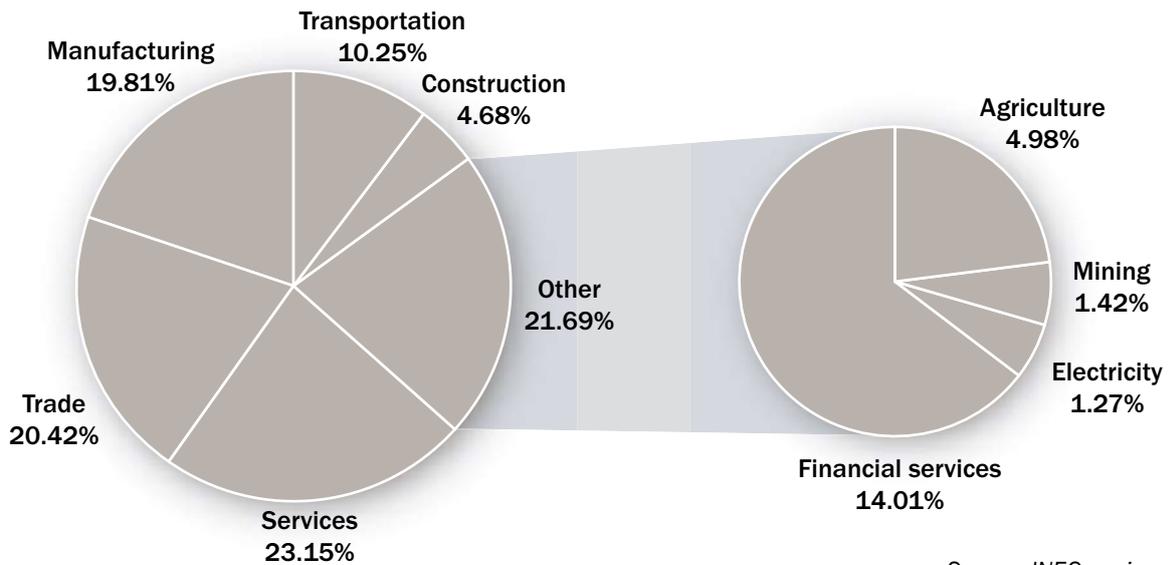
Source: INEGI, various years.

regulatory framework – which keep hindering the potential of the workers in the informal economy.

Regarding the sectoral composition of output in Mexico’s informal economy, close to three- fourths of output originates in the tertiary sector (services, trade and transportation). In fact, trade and services alone account for nearly two-thirds of total output, while

manufacturing accounts for about one-fifth of the output of the informal economy. As Figure 6.3 clearly shows, the output of Mexico’s informal economy is concentrated in the provision of services, rather than in the production of goods.

It is interesting to compare the composition of output in the informal economy with its equivalent in

Figure 6.4. Sectoral output as a share of total output of the Mexican economy: average 1993-2002.

Source: INEG, various years.

the economy as a whole. As Figure 6.4 shows, while the tertiary sector also contributes most (nearly 68 percent) to Mexico's total output, this share is smaller than in the informal economy (over 74 percent). Moreover, within the Mexican economy as a whole, tertiary activities feature sectors that are not found in the informal economy, notably financial services, which account for 14 percent of total output. Another important difference is that the share of trade in the output of the informal economy (40.2 percent) is almost twice as high as in Mexico's total output (20.4 percent).

Unfortunately, no reliable official data can be found on the magnitude or composition of output in the informal economy at the State or municipal levels. However, as the next section shows, available data on informal employment for the MCMA provide a useful insight on the dynamics of the informal economy in the Mexico City conurbation.

6.2.2 Measuring the Number of Informal Employees in Mexico and the MCMA

As discussed in Chapter 1, the international statistical definition of the informal economy can be rather restrictive, insofar as it tends to focus on unregistered and unincorporated enterprises. As a result, the ILO's expanded conceptual definition of informal employment, which is based on the nature of employment relationships⁷⁰, might provide a better picture of the extent of informality in Mexico City.

⁷⁰ As explained in Chapter 1, this expanded definition considers informal employment as characterized by lack of secure labour contracts, worker benefits or social protection, both inside and outside informal enterprises

Measuring informal employment in the MCMA is facilitated by the fact that the data in the 2000 Population and Housing Census make it possible to identify the employment status of each working-age member of a household, as well as their social security entitlements. According to the 2000 Census, 33.7 million people over the age of 12 performed some type of economic activity for one hour at least in the reference week and received some form of payment or compensation in return. The 2000 Census also shows that almost 53 percent did not have any form of social security benefits.

As shown in Table 6.1, in that same year but in the sole Mexico City conurbation (MCMA), 6.7 million people over the age of 12 performed some type of economic activity for at least one hour in the reference week and received some form of payment or compensation in return. Of these, 3.1 million people (or 46 percent of the total) did not receive any form of social security benefits.

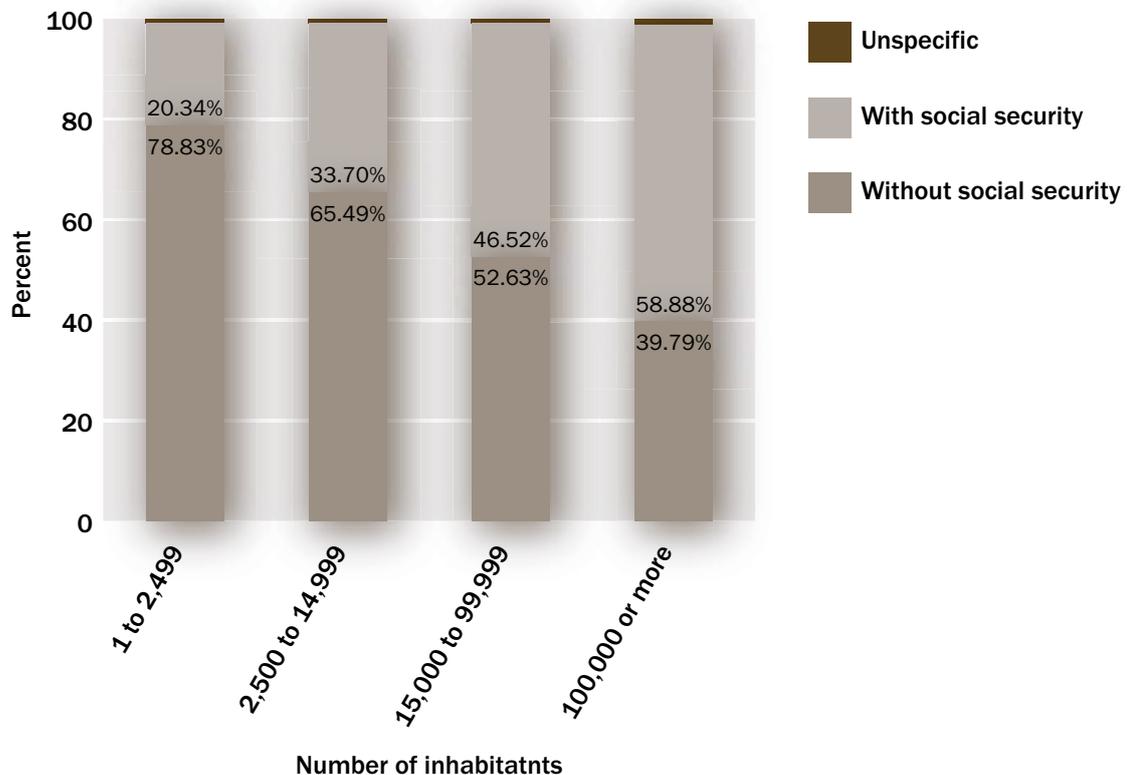
It is interesting to note that the MCMA has lower informal employment as a share of total employment than the country as a whole, and that Mexico City, in turn, has a lower share than the surrounding municipalities in the State of Mexico and consequently than the MCMA. This relationship should be viewed in the light of a more general pattern, according to which the share of informal employment tends to decrease with the population of the locality, as shown in Figure 6.5 (in terms of access to social security benefits). It is also significant that, based on this relationship between informal employment and lack of access to social security benefits, the MCMA has a higher share of informal employment than would be expected based on its population size. While 46 percent of MCMA's employed population lacked

Table 6.1. Employed population by social security status

Population	National	% Share	MCMA	% Share	Mexico City	% Share	State of Mexico	% Share
Employed population	33,730,210	100	6,741,675	100	3,575,708	100	3,165,967	100
Without SS benefits	17,765,996	52.67	3,110,425	48.14	1,584,636	44.32	1,525,789	48.19
With SS benefits	15,593,861	46.23	3,542,984	52.55	1,937,316	54.18	1,605,688	50.72
Not specified	370,353	1.1	88,266	1.31	53,756	1.5	34,510	1.09

Source: INEGI, 2000 National Population Census.

Notes: 1. The State of Mexico refers only to the population of the 35 municipalities which are part of the MCMA.
2. SS refers to social security

Figure 6.5. Employed population by social security status and by locality size in Mexico (according to the 2000 Census).


Source: Own calculations based on the Censo General de Población y Vivienda 2000. INEGI.

access to social security benefits, the average share of the population without social security benefits in Mexico's 32 largest metropolitan areas was 42 percent in the same year.

Within the MCMA, the shares of formal and informal employment in total employment vary greatly across districts and municipalities. As Table 6.2 shows, the share of informal employment across the various districts ranges from a high of 84 percent in Chiconcuac, in the State of Mexico, to a low of 33 percent in Azcapotzalco, in Mexico City. On aver-

age, the shares of formal and informal employment across Mexico City's 16 districts exhibit much less variation than those across the 34 municipalities of the State of Mexico. Given these wide variations in the shares of informal employment across different districts and municipalities in the MCMA, there is plenty of scope for the formulation and implementation of local or sub-metropolitan policies for the informal economy.

Table 6.2. Employed population by social security status in the MCMA districts and municipalities, 2000

Federal Entity	MCMA District or Municipality	Without Social Security (%)	With Social Security (%)	Not Specified (%)
Mexico City		44.32	54.18	1.5
	Azcapotzalco	33.15	65.73	1.12
	Coyoacán	39.62	58.15	2.23
	Cuajimalpa	52.12	45.4	2.48
	Gustavo A. Madero	43.11	55.77	1.12
	Iztacalco	42.06	56.77	1.17
	Iztapalapa	48.86	50.04	1.1
	Magdalena Contreras	45.76	52.65	1.59
	Milpa Alta	61.72	37.74	0.54
	Alvaro Obregón	45.84	52.38	1.77
	Tláhuac	46.62	52.32	1.06
	Tlalpan	46.42	52.08	1.5
	Xochimilco	49.22	49.48	1.3
	Benito Juárez	37.71	59.73	2.56
	Cuauhtémoc	42.65	55.79	1.56
	Miguel Hidalgo	42.17	55.17	2.66
	Venustiano Carranza	43.94	54.64	1.42
State of Mexico		48.19	50.72	1.09
	Acolman	53.63	45.34	1.04
	Atenco	58.61	40.95	0.44
	Atizapán de Zaragoza	43.63	55.11	1.26
	Coacalco de Berriozábal	34.49	64.79	0.72
	Coyotepec	45.41	53.69	0.9
	Cuautitlán	35.22	63.1	1.68
	Chalco	61.96	37.29	0.75
	Chiautla	70.81	28.24	0.95
	Chicoloapan	61.19	37.96	0.85
	Chiconcuac	84.12	15.18	0.7
	Chimalhuacán	65.66	33.59	0.75
	Ecatepec de Morelos	49.43	49.58	0.98
	Huixquilucan	56.22	36.56	7.22
	Ixtapaluca	45.03	53.68	1.29
	Jaltenco	47.39	51.17	1.44
	Melchor Ocampo	47.52	51.43	1.05
	Naucalpan	42.55	56.03	1.42
	Nezahualcóyotl	53.19	45.88	0.93
	Nextlalpan	77.79	21.54	0.67
	Nicolás Romero	44.73	54.66	0.62
	Papalotla	68.3	31.26	0.45
	La Paz	56.42	42.97	0.61
	Tecamac	55.8	43.48	0.72
	Teoloyucan	52	47.38	0.61
	Teotihuacán	59.82	39.37	0.81
	Tepetlaoxtoc	66.85	32.49	0.65
	Tepotzotlán	38.79	59.2	2.01
	Texcoco	53.58	45.68	0.75
	Tezoyuca	60.58	38.81	0.61
	Tlalnepantla de Baz	39.09	59.71	1.19
	Tultepec	44.27	54.51	1.22
	Tultitlán	38.29	61.17	0.54
Zumpango	59.88	39.64	0.48	
Cuautitlán Izcalli	33.87	65.19	0.94	
Valle de Chalco Solidaridad	64.27	35.13	0.6	

Source: INEGI, 2000 National Population Census.

Table 6.3. Doing Business - Rankings in Selected Countries, 2005

Country	Ease of Doing Business	Starting a Business	Dealing with Licenses	Hiring and Firing	Registering Property	Obtaining Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
New Zealand	1	4	2	4	1	7	1	16	15	4	21
Singapore	2	5	7	7	14	8	2	9	6	11	2
United States	3	3	17	6	12	15	7	30	17	10	17
Canada	4	1	21	24	27	10	3	12	13	34	4
Chile	25	23	35	37	30	32	36	63	42	41	82
South Africa	28	51	37	66	77	40	8	84	55	38	53
Spain	30	86	50	150	37	29	94	25	10	24	16
Czech Republic	41	77	87	60	57	21	68	70	24	21	101
Portugal	42	104	94	145	93	55	32	47	29	46	19
Poland	54	92	120	64	75	88	22	106	34	104	23
Panama	57	21	62	115	55	19	92	93	58	126	74
Nicaragua	59	65	72	80	110	71	72	130	50	22	55
Colombia	66	73	46	130	50	62	37	148	81	83	27
Peru	71	106	97	83	32	73	21	133	93	114	60
Mexico	73	84	49	125	74	68	125	95	39	100	22
Argentina	77	85	103	132	65	42	51	143	43	91	52
Brazil	119	98	115	144	105	80	53	140	107	70	141
Venezuela	120	95	96	71	47	76	142	145	91	129	129

Source: World Bank (2005).

6.3 Existing Regulatory Framework

State and municipal governments in Mexico have considerable influence over the regulatory environment in which enterprises under their respective jurisdictions must operate. For example, local governments in Mexico have considerable influence over the costs of starting and operating a firm, since they are responsible for issuing land use permits and licenses, including those related to health and safety, rights to use thoroughfares, and environmental regulations. States are also responsible for regulating public notaries, which are the only entities legally authorised by government to incorporate businesses formally and to register property.

Government employees are therefore responsible for sanctioning the large number of legal procedures required before any businesses can operate formally. These procedures include issuance of licenses and certificates which verify that the business complies with health standards, environmental regulations, zoning ordinances, labour codes and regulations, among others. In some cases, the bureaucrats in charge of the regulatory process use their positions to extract bribes and other illegal payments from businesses looking to comply with the regulations.

In other cases, bureaucrats may simply be resorting to inertia and imposing unnecessary costs regardless of the consequences.

This section examines some of the key regulations faced by the urban poor in both Mexico and the MCMA, and argues that the current regulations are burdensome and a hindrance to the development of business and the private sector. The major regulatory mechanisms can be regrouped into four broad areas: (i) incorporation and operation of businesses, (ii) labour legislation, (iii) social security contributions and (iv) issues related to good governance.

6.3.1 Doing Business in Mexico

The World Bank has developed a series of indices that rank countries according to the relative ease or difficulty of starting and operating a business in each country. The business dimensions considered are broad, and include: (i) starting a business; (ii) dealing with licenses; (iii) hiring and firing workers; (iv) registering property; (v) obtaining credit; (vi) protecting investors; (vii) paying taxes; (viii) trading across borders; (ix) enforcing contracts; and (x) closing down

Table 6.4. Doing Business in Mexico

State (City)	STARTING A BUSINESS				REGISTERING PROPERTY			
	Number of Procedures	Time (days)	Cost (% of income per capita)	Ease of starting a business (rank)	Number of Procedures	Time (days)	Cost (% of property value)	Ease of registering property (rank)
Aguascalientes (Aguascalientes)	8	32	7.3	1	7	29	3.2	1
Chihuahua (Ciudad Juárez)	9	35	32.3	4	6	34	3.2	4
Coahuila (Torreón)	9	39	16.1	6	8	50	4.3	12
Distrito Federal (Mexico City)	9	58	15.6	9	5	74	5.3	10
Estado de Mexico (Tlalnepantla)	8	46	73.9	10	7	48	6.1	11
Guanajuato (Celaya)	8	29	16.8	11	7	44	2.1	3
Jalisco (Guadalajara)	9	41	10.9	3	7	52	3.9	6
Nuevo León (Monterrey)	9	50	15.2	2	5	43	3.2	2
Puebla (Puebla)	9	49	22.1	13	7	69	4	7
Querétaro (Querétaro)	9	52	12	12	8	94	5.4	13
San Luis Potosí (San Luis Potosí)	10	41	15	7	8	34	4.1	9
Veracruz (Veracruz)	9	47	35.6	8	7	43	6	8
Yucatán (Mérida)	9	47	15.2	5	8	30	2.4	5

Source: World Bank (2006).

a business. These various indices combined provide a good indicator of the quality of the regulatory framework in a country and serve as a useful benchmark for performance comparisons across countries.

According to a report on the cost of doing business across the world (World Bank, 2005), Mexico does not provide a particularly favourable environment. Overall, Mexico ranks 73rd among 155 countries, according to the 'Ease of Doing Business' Index. The country does particularly poorly in three areas: (i) the difficulties that firms face in hiring and firing workers (125th out of 155 countries); (ii) the protection that the laws and the courts provide to investors (125th out of 145 countries); and (iii) the enforcement of contracts (100th out of 155 countries). As Table 6.3 illustrates, Mexico is ranked significantly below Canada and the United States, its main trading partners, as well as below other Latin American countries.

A more recent report on the cost of doing business in Mexico (World Bank, 2006) looks into the scope of regulations that enhance or constrain business activity in 13 Mexican cities in four areas of regulation, namely:

(i) starting a business; (ii) registering property; (iii) obtaining credit; and (iv) enforcing a contract. According to this study, Tlalnepantla (one of the most populous MCMA municipalities in the State of Mexico) and Mexico City ranked as the third and fourth cities respectively (on a sample of 13) where conducting business was most difficult.

As Table 6.4 clearly shows, Mexico City and Tlalnepantla perform particularly poorly when it comes to starting a business and registering property. For example, the average number of days needed to open a business in Mexico City (58) is higher than in any of the other 13 cities. Similarly, Tlalnepantla is the most expensive city in the sample to start a business, with the cost equivalent to about 74 percent of GDP per head. As for the number of days required for registering property, Mexico City takes on average 74 days, ranking only second worst behind Querétaro in the category. Finally, with regard to property registration costs as a proportion of property values, Tlalnepantla is the most expensive with an average cost of 6.1 percent, with Mexico City ranking fourth most expensive with 5.3 percent.

6.3.2 Labour Legislation Constraints

Labour legislation in Mexico is very detailed and intricate, being embodied in several pieces of legislation and running into thousands of clauses. It is also extremely outdated. The basic tenets of labour law are defined in Article 123 of the Mexican Constitution, which dates back to 1917, and the Federal Labour Law (LFT), which dates back to the 1930s, with a major revision in the 1970s. These two legal pillars have remained virtually unchanged over the years, with most of – only minor – changes tending to add to mandatory benefits and to reduce labour flexibility.

As in many other Latin American countries, Mexico's labour legislation is characterised by generous mandatory benefits and a high degree of job protection. Labour laws in the main require employers to comply with a number of regulations, provisions and restrictions, including minimum wages, minimum age of employment, maximum length of the working day, overtime pay, social security contributions, severance payments, seniority premia, maternity leave, on-the-job training provisions, non-discrimination policies and an obligation for employers to share profits with their employees, among others. Not surprisingly, the labour market is characterised by a high degree of non-compliance with these labour laws and regulations, as reflected in the high proportion of workers that are granted only some of the mandatory benefits, if any at all.

In view of labour unions' opposition to any changes, reforming Mexico's existing labour legislation is likely to be a challenge, including when it comes to implementation, and although such reform would likely have a significant impact on employment growth in the formal economy, as has happened in other countries such as Chile and Spain.

6.3.3 Social Security Constraints

Social security institutions are the main providers of health services and old-age pensions in Mexico. Despite this significant role, over half the labour force is not affiliated to any of the existing systems. Three main factors lie behind this relatively low coverage rate: (i) a high degree of fragmentation of social security into various schemes; (ii) high tax rates; and (iii) misalignment between contributions and benefits.

Social security in Mexico is characterised by a high degree of fragmentation. The multiplicity of schemes can be broken down into one of the following five categories: (a) private sector workers (IMSS); (b) public sector workers at federal level (ISSSTE, ISSFAM, State development banks, etc.); (c) public sector workers in State-owned enterprises (e.g. PEMEX, CFE, LFC, etc.);

(d) public sector workers at State level; and (e) public sector workers at municipal level. One problem with multiple social security systems is that each has its own accounting, actuarial and financial practices, as well as independent operating rules. The practical import is that benefits are not transferable across different systems. Given the high average rate of turnover between different jobs in Mexico, this highly fragmented social security system provides little if any incentive for informal workers to become formal: indeed, it is likely that at some point in their careers workers would lose some of the entitlements they have accumulated.

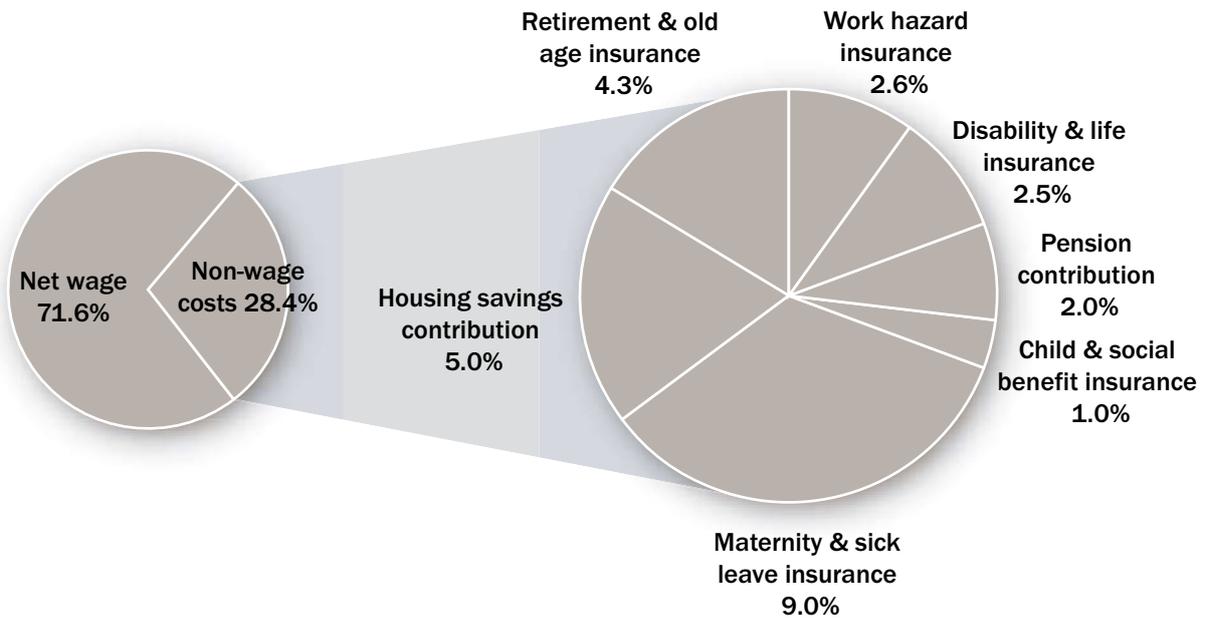
Another problem is the relatively high tax burden (on both employers and employees) that is associated with social security contributions. The non-wage costs deriving from the various payroll taxes and social security contributions introduce a very large gap between employers' overall wage costs and the net wages which workers end up receiving. As Figure 6.6 shows, non-wage costs amount to almost 30 percent of total labour costs. Therefore, high non-wage costs from the various payroll taxes and social security contributions also act as disincentives to formalisation.

The third major problem with Mexico's current social security system is that the benefits are ungenerous, particularly when compared with high contribution rates. These high non-wage costs have three major types of consequences: (i) on the Mexican economy as a whole, as they cause distortions in the allocation of labour in the economy; (ii) on the labour market, as they reduce the number of formal employees; and (iii) on the workers themselves, as contributions do not necessarily entitle them to high-quality social security services or adequate old-age pensions. The end-result is a significant misalignment between the contributions made by employers and employees on the one hand, and the benefits workers derive from the present system on the other hand.

6.3.4 Good Governance

It can be argued that Mexico's burdensome regulatory framework paves the way for corruption and bribery, as entrepreneurs look to sidestep the multiple procedures and eschew the costs imposed by the regulations. Indeed, the National Survey on Corruption and Good Governance (*Encuesta Nacional de Corrupción y Buen Gobierno*), published by the Mexican chapter of Transparency International, found that Mexico City and the State of Mexico were two of the most corrupt public entities in the country. According to the Index of Corruption and Good Governance (known as ICBG in Spanish), these two federal entities ranked as first and second, and then second and third, most corrupt entities in the 2001 and 2003 surveys, respectively.

Figure 6.6. Non-wage costs from various payroll taxes and social security contributions for private sector workers in Mexico.



Source: Instituto Mexicano del Seguro Social (IMSS).

Whether or not there is a causal link between the extent of corruption and the costs imposed by the regulatory framework, one thing is clear: in the case of Mexico there is positive correlation between the two, since the indices show that the MCMA maintains one of the most burdensome regulatory frameworks, and one the most corrupt environments, in the whole of Mexico.

6.4 Regulatory Reform: Innovative Policies and Practices

6.4.1 Simplifying Business Regulation

As the previous section has shown, the costs of setting up a business in Mexico City and keeping updated on current regulations can be substantial and therefore become a significant barrier to entry into city’s formal economy.

Four major, distinct public policies can help reduce the cost of regulatory compliance and of formal (as opposed to informal) operations, in the process reducing the opportunities for corruption that arise from a cumbersome regulatory system. These policies can be summarised as follows: (i) reducing the number of procedures required to set up a business to only those deemed essential; (ii) streamlining any remaining regulatory procedures, taking into account both the direct and indirect attendant costs imposed on participants; (iii) introduction of new technologies, such as on-line procedures to incorporate

and register businesses, as well as other regulatory processes; and (iv) introduction of benchmarks to allow easy comparison across different regulatory procedures and across various government ministries or offices and various levels of government (federal, State and municipal). Last but not least, in order to speed up response times by government agencies responsible for relevant regulatory matters, it is recommended that more extensive use be made of the *afirmativa ficta* principle, under which if no response to a petitioner’s request has been received within the legal deadline, then the decision is assumed to be favourable.

Many of these policies have already been adopted at the federal level in Mexico. Since 1989, in particular, the country’s authorities have taken significant steps to streamline the regulatory framework. Prominent among these were the Economic Deregulation Programme of the Ministry of Commerce in 1989, and its transformation in 2000 into the Federal Commission for Regulatory Improvement (COFEMER) within the Ministry of the Economy.

COFEMER is responsible for supervision and review of federal regulations, although it has also supported State and municipal regulatory reform. For instance, as part of its support for regulatory reform at sub-national level, COFEMER regularly provides technical advice and training to States and municipalities. The commission has also been responsible for the publication – in cooperation with a leading public university in Mexico City – of a series of guidelines to advance regulatory reform at the municipal level. These guidelines

Table 6.5. Positive impact of SARE implementation in selected municipalities in Mexico: 2002-2006

Municipality	NUMBER OF DAYS		NUMBER OF PROCEDURES		VISITS TO OFFICES	
	Before SARE	After SARE	Before SARE	After SARE	Before SARE	After SARE
Los Cabos	35	1	16	5	10	1
Aguascalientes	29	1	7	2	6	1
Guadalajara	2	0.01	3	2	2	1
Zapopan	3	1	N.A.	1	3	1
Tlalnepantla	20	0.01	3	1	3	1
Oaxaca	42	3	6	3	6	2
Chetumal*	22.5	1	5	3	4	1
Puebla	58	2	27	5	5	1
Celaya	30	1	8	2	4	1
Ensenada	60	2	5	5	3	1
Tapachula	40	2	5	1	5	1
Campeche	25	2	2	1	2	1
Querétaro	21	2	3	1	5	1
San Luis Potosí	14	0.01	2	2	4	1
Mexicali	58	2	7	4	5	1
Uruapan	15	0.02	1	1	1	1
Morelia	15	0.02	2	1	2	1
Apizaco	20	1	10	3	5	1
Pachuca	20	2	17	9	2	1
Tehuacán*	45	3	17.5	2	4	1
Guanajuato**	37.5	1	5	1	4.5	1
Torreón	45	1	19	5	7	1
Average	28.86	1.28	8.12	2.73	4.2	1.05
Standard Deviation	16.8	0.93	7.05	2.05	2.02	0.21
Coefficient of Variation	0.56	0.73	0.87	0.75	0.48	0.2

Source: COFEMER

* For those municipalities that reported the information in terms of ranges, the number reported is the average.

** The number is the average of the distinct SARE schemes implemented in the State of Guanajuato.

include procedures for the establishment, at municipal level, of (i) an independent regulatory review authority; (ii) an independent regulatory review council; (iii) a procedure to assess the impact of regulations; (iv) a registry of business formalities; and (v) technical norms for the issuance of municipal regulations.

Complementing COFEMER's efforts have been those of the Centre for Private Sector Economic Studies (CEESP) of the Business Coordinating Council (CEE), which has been producing annual reports and indices on the quality of the regulatory framework in various federal entities since 1999. These indices are good benchmarks against which to compare regulatory performance across States and over time.⁷¹ As a result, they

have contributed to improve both the transparency and accountability of local authorities in Mexico.

In addition, COFEMER has assisted a number of States and municipalities looking to improve sub-national regulatory regimes through programmes similar to those implemented by federal ministries and central government agencies. As of December 2005, COFEMER had signed coordination agreements with all federal entities, as well as cooperation agreements with 92 municipalities throughout the country. One example of a successful policy designed to streamline State and municipal regulations is COFEMER's Rapid Business Start-Up System (SARE in Spanish). SARE is, in effect, a one-stop-shop which allows enterprises to comply with current regulations at all levels of jurisdiction (federal, State and municipal) through a single procedure which reduces to a maximum three the number of days before they can begin operating as formal businesses.

⁷¹ It is interesting to note that these indices also consistently rank both Mexico City and the State of Mexico among the federal entities with the lowest quality regulatory frameworks; the findings are supported by the above-mentioned Index of Corruption and Good Governance compiled by the Mexican branch of Transparency International.

As of early 2006, 89 Mexican municipalities had signed agreements with COFEMER to implement SARE and many of these systems are already fully operational. As Table 6.5 shows, the number of days needed to complete all the regulatory procedures has been significantly reduced in the municipalities where SARE is in force: the average period has fallen from close to one month to slightly over a day; and the average number of procedures has also fallen from over eight to fewer than three. In addition, the average number of visits to administrative offices has fallen from around four to a single one or so.

Based on aggregate data provided by municipalities, COFEMER estimates that implementation of SARE has already brought significant benefits to the Mexican economy, including increased capital expenditure (approximately USD915 million as of January 2006) the creation of some 157,000 new jobs and the incorporation of over 60,000 additional firms. Therefore, SARE comes out as an innovative scheme whereby municipal regulation is mainstreamed with broader socio-economic objectives such as accelerating urban economic growth, generating jobs and ultimately enhancing urban incomes. Compared to other initiatives intent on regulating informal enterprises on a piecemeal basis – such as relocation of informal street vendors to official markets (see section below) – SARE has the advantage of ensuring a permanent and economy-wide change in the regulatory regime. The potential to promote the regularisation of informal enterprises is therefore much greater than it is with piecemeal schemes.

An additional benefit of SARE is that it does not favour any one particular social group at the expense of another. Such discrimination is a serious concern with regard to women, as some relocation programmes have been shown to benefit men more relative to women, even though unintentionally. In addition, SARE appears to be sustainable in the long run, since it is based on formal agreements between COFEMER and municipal authorities that guarantee its continuity. Furthermore, the potential for replication is high, since SARE does not rely on significant expenditure by municipalities. This may be one of the reasons that an increasing number of Mexican municipal authorities are joining the programme.

However, implementing SARE requires some minimum capacity from municipal authorities, which is why current participants tend to be larger towns with relatively high average incomes per head. Therefore, the federal government should consider complementary measures – including capacity-building programmes – to assist introduction of SARE in smaller or poorer municipalities.

In any case, it is clear that SARE is not a panacea when dealing with informality in Mexico City.

For example, the above-mentioned economic benefits cannot be ascribed to SARE alone, since some of the expenditure and job creations would have taken place regardless. Still, those economic benefits are suggestive of the high potential of SARE when it comes to promoting the incorporation of informal enterprises and the creation of formal jobs.

For all the regulatory streamlining that has taken place at sub-national level, several challenges remain. The agreements between COFEMER and local authorities are encouraging, yet much remains to be done – as shown by the fact that out of the 2,429 municipalities in Mexico, to date only 92 have signed cooperation agreements with COFEMER and only 89 have actually implemented the SARE system.

One crucial element, as highlighted in a recent OECD (2004b) report, is the procedure required to obtain individual tax identification numbers, which remains cumbersome and often takes more than a month to complete. Another significant regulatory burden is the relatively high cost of incorporating a firm, largely because of lack of competition among public notaries. Moreover, whereas issuance of tax identification numbers is a federal prerogative, regulation of public notaries is the responsibility of State governments. This situation calls for greater coordination of regulatory policy reform at federal, State and indeed municipal levels.

6.4.2 Reforming Labour Legislation

The experience of other comparable countries, such as Chile and Spain, shows that streamlining labour legislation can also encourage business formalisation. Due to Mexico's burdensome laws in this area, making the labour market more flexible seems to be an inescapable requirement. One avenue is to introduce more flexible terms and conditions, such as the fixed-term contracts introduced in Spain which do not entail any severance payments for the duration.

Another significant area in need of reform involves the intricate procedures for labour disputes. The current arbitration and mediation process is very slow and uncertain, both for employer and employee. The experiences of Chile and Spain, which have introduced oral court proceedings and have effectively reduced the length of the process, should prove all the more valuable as these countries' legal systems are relatively similar to Mexico's. Another worthy innovation could be the substitution of the current high and burdensome severance payments with a system of unemployment insurance based on tripartite contributions (employers, employees and possibly public authorities).

6.4.3 Reforming Social Security

The fragmentation of the social security system in Mexico calls for concerted reform to ensure that benefits are at least transferable across different schemes. The Individual Retirement Accounts (IRAs) introduced under the System for Retirement Savings (*Sistema de Ahorro para el Retiro*) in 1992, along with the reform of the Social Security Law in 1997, have helped mitigate this problem as they allow workers to recover a larger proportion of the benefits in case they leave the system. Nevertheless, it is important to remember that so far the reforms have only benefited private sector workers (IMSS), and then only to a limited extent as they are not assured of the minimum guaranteed pension unless they remain in the formal sector for a very long part of their careers.

In this respect, the 'portability' of pension contributions could effectively be enhanced if all the other systems were turned from pay-as-you-go (PAYG) or defined-benefit to fully-funded or defined-contribution schemes. Once IRAs have been introduced for all pension schemes, rules must ensure portability across systems. Since all PAYG systems are rapidly becoming unsustainable due to an aging population, they are all likely to need to go down this avenue at some point.

The financial conditions of the main social security systems in Mexico suggest that it will be very difficult, at least in the short run, to reduce relevant contributions or taxes significantly. Consequently, the only feasible option is to tighten the link between contributions and benefits through improved quality of services. Currently, one of the main obstacles to health service improvement is the collective labour contract with IMSS workers; a re-negotiated contract could introduce more flexibility and enhance productivity in this area.

As far as old-age pensions are concerned, competition among private pension fund managers (*Administradoras de Fondos de Pensiones*, or AFORES) has so far been limited and therefore must be increased. Over the past decade, the trend has been one of consolidation, leaving the business concentrated among a few large participants, as has happened in the financial/banking sector as a whole. The practical outcome for savers is a combination of high fees and relatively low net rates of return on contributions. Encouraging more competition among pension fund managers would surely improve net returns for the saving public.

6.4.4 Micro- versus Macro-Policies

As shown earlier, more than half of the labour force in Mexico and the MCMA are in informal employment, a share that has remained relatively constant over the

past years, although the economy has experienced episodes when GDP per head has grown above trend. The inability of the economy to create sufficient formal jobs to absorb fresh entrants into the labour force – even during periods of strong economic growth – suggests that the factors behind the expansion of the informal economy in both Mexico City (or the MCMA) and the country as a whole are of a structural rather than cyclical nature.

In the MCMA, most of the public policies that have been implemented at the State, municipal and district levels to reduce the prevalence of informality have been partial and have not addressed the structural causes. For example, some of the major schemes, such as the relocation of street vendors and street markets, seek to alleviate the symptoms of informality rather than the structural factors behind it. Not surprisingly, these micro-policies and programmes have failed to reduce the magnitude of the informal economy.⁷²

In most instances, the success of relocation programmes has been only temporary, since many of the original street vendors were prompt to return to their old locations, or new vendors quickly took their place. Even such relocations have been extremely difficult to conduct, as street vendors typically oppose these schemes, and violently so on occasion. Moreover, relocations are, at best, a partial remedy, as they affect only a small proportion of the millions of informal workers in the MCMA.

Paradoxically, some of the policies that may have contributed most effectively to the reduction in the share of the informal economy, and that are likely to continue doing so in the near future, are macro-economic policies that were not primarily intended to address this problem. This is the case, for example, with the recent expansion of the financial system in Mexico, which has experienced a significant deepening over the past five years. After a protracted period of economic turmoil following the December 1994 currency and financial crisis, the return to stability has been gradual: inflation has been reduced to single-digit levels while nominal and real interest rates have fallen significantly. As a result, credit to the non-banking private sector, particularly consumer and mortgage credit, has been expanding at double-digit rates over the past five years. Renewed access to credit, together with the fact that it is more readily extended to those in the formal sector, may be one of the most important incentives for own-account workers and informal employees to

⁷² In some instances, politicians, legislators and policy-makers have even suggested that informality should be "solved" or "remedied" by decree, such as through registration, regulation and taxation of informal vendors, or even prohibiting their activities altogether. See Cross (1998) for a description of some of the policies implemented in the MCMA to relocate informal street vendors as well as a discussion of some of the factors that may lie behind their failure.

enter formal employment. The main reason is that credit in general, and mortgage credit in particular, is more likely to be extended and is usually available on better terms to formal workers.

Given the magnitude of the problem and the poor results of most public policy solutions so far, the focus should shift to public, and notably macro-economic, policies that: (i) are broad in scope, in the sense of affecting most if not all of the targeted population; and (ii) are structural in nature, addressing the structural causes of the informal economy, not its symptoms.

6.5 Conclusion

With the trend decline in the MCMA share in Mexico's total manufacturing output, as well as in manufacturing jobs as a proportion of total employment in the country as a whole, informal employment is likely to increase its own share of total employment in the MCMA in the future – unless, that is, effective measures promote the regularisation and formalisation of informal enterprises. As this chapter has shown, the regulatory costs of establishing and operating a business in Mexico act as a serious barrier to entry and a formidable obstacle to formalisation.

Besides complementary measures to reduce the burden of labour legislation and the social security system on formal enterprises, regulatory reform should focus on current regulations at the federal, State and municipal levels, particularly those related to starting, operating and closing a business, as well as granting licenses and permits.

At the same time, the decision made by COFEMER to establish a formal review process for new regulations as well as a formal registry of procedures should not remain isolated. All federal ministries and sectoral regulators should similarly identify their main regulations, perform impact assessments of new regulations and propose improvements. This type of systematic review would improve both the rationale and efficiency of new and existing regulations.

At municipal level, COFEMER's Rapid Business Start-Up System (SARE) can be considered as one of the most promising innovations as far as streamlined municipal rules are concerned. Mexico's membership of the Organisation for Economic Cooperation and Development (OECD) has also proved very useful in this respect, as the agency makes periodical reviews of the quality of member countries' regulatory frameworks (OECD, 1999, 2004(b)).

With regard to the regulatory framework in the MCMA in particular, it is important to recall that several distinct regulatory regimes correspond to different levels of jurisdiction. As highlighted in a recent

OECD (2004a) report, the different administrative and regulatory regimes in Mexico City and adjacent MCMA municipalities in Mexico State have given rise to fiscal and regulatory asymmetries, with an attendant lack of coordination between public authorities when it comes to devising a metropolitan regulatory environment in tune with the needs of a competitive urban economy.

Although a full analysis of the differences in the administrative and regulatory regimes between the Federal District (Mexico City) and the State of Mexico lies beyond the scope of this case study, it is important to stress that these asymmetries may, in some cases, lead to regulatory arbitrage by individuals or firms in order to avoid regulatory compliance. Asymmetries and incentives for arbitrage, combined with the lack of coordination between State and local governments, are some of the factors behind poor compliance with many of the current regulations in Mexico City.

Based on the evidence and analysis provided above, it is clear that several of the policy reforms proposed in this chapter have the potential to improve the welfare of millions of poor urban dwellers in the MCMA who are currently being excluded from the benefits of formality including, in particular, a regulatory environment that facilitates the establishment and operation of formal businesses.

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7 CASE STUDY: NAIROBI

7.1 Introduction

The growth and development of micro- and small-enterprises (MSEs), also referred to as the informal sector, has been an important item on government agendas in both developed and developing countries as a consequence of increasing confidence in their potential to contribute to economic recovery and growth. The informal sector is currently one of the fastest growing types of economic activity in sub-Saharan Africa as far as labour absorption and poverty reduction are concerned (Parker, Riopelle & Steel, 1995). In fact, MSEs are the backbone of job creation in many African countries. The sector is relatively easy to enter and many individuals do so to supplement agricultural or formal sector employment. Combined with the fact that individual savings can provide the capital required to start small businesses, the need for new jobs has turned small enterprise development into an attractive employment strategy in cash-strapped African countries.

This chapter reviews the performance of the informal economy in Kenya, and focuses on the conditions and problems the sector is facing in the capital, Nairobi. The issues include the structure of the sector and its characteristics, including social and gender dimensions; the legislative environment; the role of the informal economy in urban growth and employment; as well as best practice and innovative policies. The chapter ultimately argues that the informal sector should be included in mainstream economic activities and recognised as a major tenet in the economic development of both Nairobi and Kenya as a whole.

7.2 National and Urban Dimensions of Nairobi's Informal Economy

7.2.1 The Informal Economy in Kenya

The informal economy can hardly be ignored in Kenya: 61 percent of the 14-million labour force work in non-agricultural employment, while 35 percent

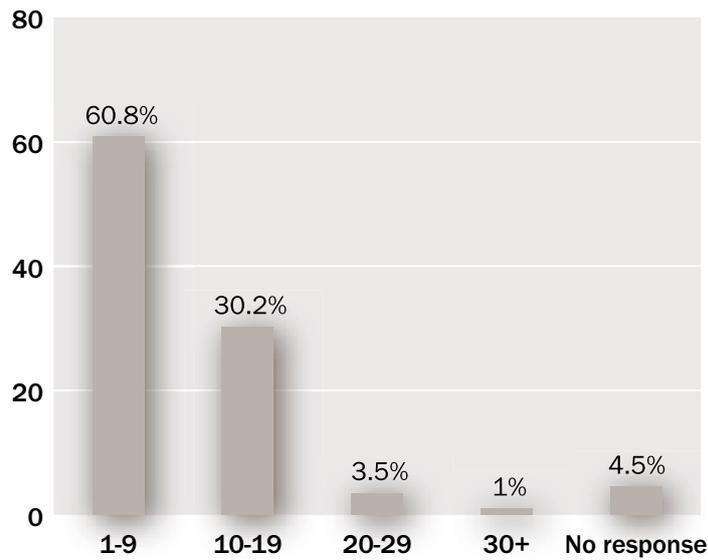
of urban and 59 percent of rural households respectively are involved in small businesses.⁷³ Whether rural or urban, the informal economy is comprised of MSEs which produce and distribute basic goods and services in unregulated competitive markets that lie outside the regulatory framework of either national or municipal government. This sector is a permanent fixture of the country's development and is as old as Kenya's independence, although it continues to experience all sorts of challenges. This is due to lack of effective policy implementation and, ultimately, of appreciation by policy-makers of the role this sector continues to play in job creation, poverty alleviation and economic growth. Existing legislation does not effectively address the problems of Kenya's informal economy, largely for lack of political will and serious commitment by policy-makers.

7.2.2 The Informal Economy in Nairobi

The informal economy in Nairobi is very diverse and heterogeneous, providing goods and services which nowadays seriously compete with formal businesses. Being a source of employment for over 30 percent of Nairobi's population, the informal economy has taken on many forms. One of the more prominent types of informality in Nairobi can be found in a sub-sector known as *jua kali*⁷⁴, whose operators have resisted concerted government efforts to steer them well away from mainstream economic activities. All the same, 85 percent of informal enterprises in Nairobi operate side by side with formal businesses. Informal enterprises do not just seriously compete with formal ones: on oc-

⁷³ According to the 1999 baseline survey, 36.4 percent of Kenya's non-agricultural employment was found in the informal economy.

⁷⁴ *Jua kali* means 'hot sun' in Kiswahili, as most activities are carried out under the hot African sun without sheds or stalls. *Jua kali* artisans' trade is mainly in metalworking, hardware and building materials, as well as repair of motor vehicles and appliances. *Jua kali* is a male-dominated type of business and contributes 15 to 20 percent of the informal economy in Nairobi. It is widespread across the capital, with major concentrations in suburbs (Gikomba, Muthurwa and Shauri Moyo) in the Eastland area.

Figure 7.1 Years Spent in Street Trading in Nairobi

Source: NCBDA (2004)

casation they even introduce new products in the market. A broad categorisation splits informal economic activities in the city into two major groups: production and manufacturing, as epitomised by *jua kali*; and the services sector, which is best represented by street trading⁷⁵.

The informal economy in Nairobi expanded considerably in the 1980s and 1990s due to harsh economic circumstances, including a suspension of World Bank loans and assistance. Unemployment and inflation both worsened significantly during that period, leaving as many as 16.8 million Kenyans below the poverty line of one US dollar (USD) per day. Furthermore, the structural adjustment policies imposed by the International Monetary Fund and the World Bank led to massive lay-offs in the formal employment sector. Rising poverty in rural areas further exacerbated the problem as it drove migrants to the cities, where no employment was readily available. In 1999, it was estimated that street-based workers in Kenya numbered more than 415,000, with Nairobi accounting for about 200,000 (World Bank, 2004).

In Nairobi, 58 percent of street vendors are aged 35 years and under, and 68 percent are married women with at least two children. These women rely on street trading to maintain their families, with hardly any assistance from relatives (NCBDA, 2004). Many vendors have been working informally in the street for a long time. As Figure 7.1 shows, an estimated 60 percent or so of Nairobi's street vendors have been engaged in this activity for one to nine years, and another 30 percent for 10 to 19 years.

Individual informal traders are part of larger networks that include suppliers, competitors, money-lenders, customers and public authorities. Informal trade in Nairobi has very strong patronage in middle- and low-income groups. The vast majority (92 percent) of the vendors buy their goods from local manufacturers. They operate on makeshift structures, including mats, tables, racks, wheelbarrows, handcarts and bicycles. Others simply carry their wares in their hands and/or on heads and shoulders. Others hang their goods, such as clothes, on walls, trees or fences. Some are more advanced and have set up temporary shades with stands to display their goods. Most street vendors operate without any formal tenure for the sites they use, nor with formal business names, and do not meet the requirements for registration under the law. Only 11 percent have acquired business licenses.

According to recent research published by the Nairobi Central Business District Association (NCBDA), 12.2 percent of street vendors in Nairobi sell foodstuffs (NCBDA, 2004). A majority are female, as in the fabrics and clothes trades. Conversely, male vendors are predominant in hardware, toys and assorted goods, shoes and electrical appliances. As Table 7.1 shows, the most common items sold by street traders are, by far, clothes and textiles. Recent data also shows that street vendors account for a significant amount of the city's capital stock. A survey of the 8,000 to 10,000 vendors in Nairobi's Central Business District has shown that they hold a combined daily capital stock worth USD935,000 (NCBDA, 2004). Their average individual profit is equivalent to USD72 per month, an improvement over Kenya's national minimum wage (USD62), as shown in Table 7.2.

The significant expansion of street trading in Nairobi has given rise to heated debates about its environmental impacts, such as cleanliness and sanita-

⁷⁵ Street vendors, commonly known as hawkers, are the most visible form of informal traders in Nairobi. They, too, operate in the entire city, but the major concentrations are in the Central Business District and other business hubs.

Table 7.1. Type of Core Business

Type of Core Business	% of Informal economy	Gender	
		Male	Female
Vegetables/Fruit	12.2	6.2	25.5
Hardware/Toys/Assorted Goods	11.7	12.1	9.4
Electronics	9.9	12.8	-
Clothes, Bags	48.8	49.4	55.7
Shoes	12.5	16.7	4.7
Utensils	2	1.2	0.9
Books	2	1.6	-
Cooked Food	1	-	3.8
TOTAL	100	100	100

Source: NCBDA(2004)

Table 7.2. Stock, Sales and Profit levels (in Kenyan shillings)

Per Month	Average Stock	Average Sales	Average Profits
2002 (Before relocation)*	12,601.90	20,101.30	7,011.42
2003 (After Relocation)*	8,769.95	19,534.81	5,778.04

Source: NCBDA (2004)

* The relocation of the vendors from the open streets, to the back lanes within the Nairobi Central Business District, took place in March-April 2003. The purpose was to ease congestion and improve security after many complaints from members of the public and formal traders.

tion, as well as issues related to congestion and crime. Competing formal businesses in the central business district have been particularly frustrated by the continuous proliferation of street vendors and their avoidance of legal regulations and taxation. It is worth also noting that many formal businesses have decided to face informal street competition by deploying their own street traders.

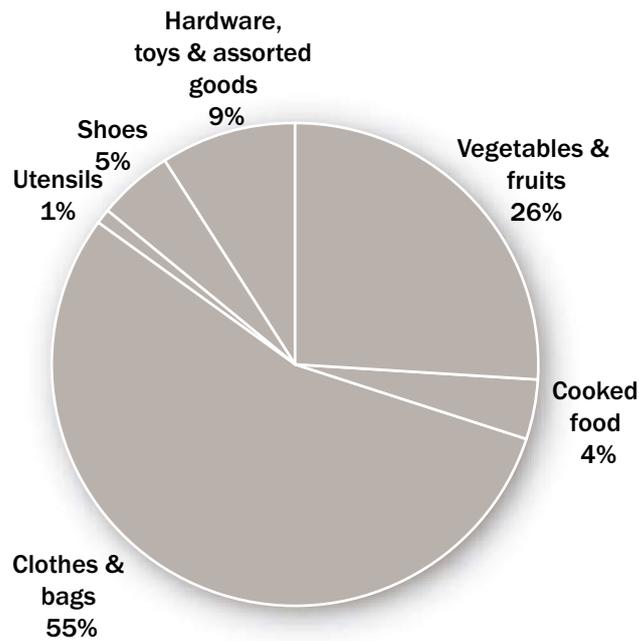
In response to this controversy, public authorities have declared a difficult-to-enforce ban on street trading in Nairobi's Central Business District. The rationale is that a ban will reduce congestion, stem insecurity, clean up the city centre and eliminate unfair competition with the formal sector. This current clampdown makes the future of informal traders uncertain. Their removal creates further problems for the city, including the potential for increased crime and other forms of violence arising from the recent relocation that has left 6,000 to 8,000 street vendors jobless.

7.2.3 Women in the Informal Economy

In Kenya as in many other African countries, women's access to the labour market is consistently more difficult than men's. Employment opportunities as wage-earners are often denied to women because of their family responsibilities, lack of skills, social and cultural background or lack of opportunities. In this context, self-employment or running micro-enter-

prises can give women the only opportunity to get access to employment and earn a living. This makes them entrepreneurs in the strictest sense of the definition. However, women's contribution to the informal economy often goes unrecognised and undervalued in official statistics, just like their work in the domestic and agricultural sectors (Nugent and Keen, cited in McCormick & Pedersen, 1996). Statistics in several developing countries like Kenya categorise women as homemakers and do not credit them with earning incomes through informal provision of goods and services, an activity that is not normally considered as part of the monetary economy.

In Nairobi, for example, there are two types of female entrepreneurs. One group is those from rural areas who make regular visits to the city to peddle their wares on various markets and business sites. They include female vendors who commute daily from Kiambu and Kinangop (Lower Nyandarua) to sell produce (tomatoes, greens, cabbages, onions, potatoes, maize, beans) in the main wholesale market, known as "Wakulima"; while others sell in other small markets such as Ngara, Gikomba, Soko Mjinga, Kawangware and Githurai. This category also includes women who come to Nairobi for a few days to sell merchandise from upcountry: and those who bring in handcrafted baskets from Machakos and Kitui, fish from Kisumu and second-hand clothes from Taveta and Western Kenya. The second category of female entrepreneurs in Nairobi consists of women who reside in the capital

Figure 7.2. Female Entrepreneurs in Nairobi - by Type of Business

Source: NCBDA (2004)

and operate fixed businesses such as food processing and catering, garment-making or beauty and hair salons.

Female informal vendors tend to concentrate in activities and enterprises that conform to their traditional gender roles, including food processing and garment-making, which make important contributions to the local and national economies (Kinyanji & Munguti, cited in Mullei and Bokea (1999)). Therefore, female businesses concentrate on a small number of activities while men's are more varied (McCormick, 1992). Nonetheless, the female participation rate in informal trading in both Kenya and Nairobi is relatively high: while women contribute 46 percent of entrepreneurs in Kenya as a whole, over 40 percent of informal vendors in Nairobi are estimated to be female (Parker and Torres, 1995).

In research on female street vendors in Kenya, Alila and Mitullah (1999) found them involved in the following: vegetables (31.2 percent), new and second-hand clothes (22.9 percent), cooked food and snacks (19 percent), fresh fruit (13 percent), cereals and grains (5.5 percent) and miscellaneous (8.3 percent). A more recent study conducted by NCBDA (2004) showed that 55 percent of female vendors in Nairobi were selling clothes and bags and a significant number were trading in vegetables and fruit (26 percent), as well as shoes and cooked foods (see Figure 7.2).

Although women play an active role in informal trade in both Kenya and Nairobi, they run into serious obstacles. The above-mentioned study by Alila and Mitullah (1999) estimated that over 56 percent of female street vendors experienced some form of har-

assment, and that a majority of this affected group (57 percent) was also harassed by local authorities. Harassment is most prevalent in Nairobi and on four main counts: lack of trade licenses issued by the local authorities, inappropriate locations, poor waste disposal, and failure to comply with regulations.

Female-headed enterprises cannot be envisaged in isolation of their economic and socio-cultural environment. Discriminatory social attitudes and practices – such as under-valuation of women's economic role, sex-role stereotyping and women's limited access to certain types of vocational training – reduce the effectiveness of women in business, or may even exclude them from those segments of the informal economy with high growth potential. In addition, they often lack the collateral required for credit. It is generally more difficult for women to obtain business premises as they lack land rights, and female-owned enterprises seem to start smaller, grow more slowly and end up smaller than males'.

7.3 Existing Regulatory Framework

The significance of the informal economy and its substantive contribution to the overall economic development of Kenya were first discussed in the path-breaking 1972 ILO report – entitled "Employment, Income and Equity in Kenya" – mentioned in Chapter 1. However, it was not until the mid-1980s that the Kenyan government began officially to recognise this significant factor in the local and national economy. However, this chapter shows that despite the publica-

Table 7.3. Government Efforts to Promote Efficiency in the Informal Economy

Document	Year	Summary
Sessional Paper No.1	1986	Economic management for renewed growth that set out to create an enabling environment for the informal economy. It sought to review all policies, local authority by-laws and other regulations governing informal economy activities with a view to eliminating unnecessary obstacles.
Government of Kenya Report	1989	Strategy for small enterprise development reinforced the Government's commitment in Sessional Paper No. 1. The report set out mechanisms for the removal of legislative and regulatory constraints to the growth and development of the informal economy.
Sessional Paper No.2	1992	Small enterprise and jua kali development in Kenya in order to establish an enabling environment for the development of the informal economy.
Government Development Plan (1989 – 1993)		The plan declared that the Government would speed up the ongoing review of local authority by-laws and regulations that had proved restrictive to the development of the informal economy.
Budget Speech	1992/93	The budget speech stated that the Treasury would announce a more lenient substitute for the Trade Licensing Act to facilitate licensing for small enterprises looking to set up business.
Small Enterprise Policy Implementation Programme (SEPIP)	1994	Mission report launched to help the Government devise proposals to adjust the policy framework for small enterprise development.
Small Scale and jua kali Enterprise Development Programme		Finalise the review and implementation of amendments to existing laws.
Government Development Plan (1994- 1998)		Pledged to harmonise the licensing regime and simplify requirements to encourage commercial and industrial investment.
The Eighth National Development Plan (1999-2003)		Proposed the following steps: the Cooperative Act to be made more trade-oriented, allowing cooperatives to operate competitively as the informal economy relies heavily on them for funding; the Factories and Other Places of Work Act and the Public Health Act to be reviewed and strengthened with regard to occupational health in the workplace incl. in the special context of the informal economy.
Budget Speech	1996/97	Called on local authorities to consolidate licenses into a single payment, in order to reduce the licensing burden on business in general and jua kali in particular.
Sessional Paper No. 2	1996	Industrial transformation to the Year 2020 invited the Attorney General to review the Vagrant and Public Nuisance Acts to make allowances for genuine jua kali enterprises.

tion of various policy documents as listed in Table 7.3, little has been done effectively to address the problems of the country's informal economy.

7.3.1 Existing Legislation

The informal economy in Kenya – and in particular street vending – has been subject to a number of statutes and by-laws that proposed to improve its governance in the country. Instead, the regulations have led to an unfavourable business environment. The reason is that many rules were in place before Kenya came under the influence of globalisation and economic liberalisation and have not been adapted or reviewed to suit the attendant changes in the business environment. Instead, local authorities have, in one way or the other, used

many of the current statutes and rules to suppress the development of street vending and other forms of informal trade. The body of legislation and rules that have been used in vain attempts to regulate trading activities in urban centres includes the following:

(a) Local Government Act (Cap 265)

This Act is largely blamed in Kenya for creating the conditions that have rendered local authorities unable to deliver effective services to the public. Many local authorities are deadlocked by serious conflicts between elected (political) officials and appointed (administrative) officers over their respective roles. Such power struggles largely affect their ability effectively to plan for local development, including informal trading

issues. As a result, decisions affecting informal trading have tended to be *ad hoc* and purely top-down.

(b) Physical Planning Act

This Act ignores both the considerable expansion in informal trading and its impact on urban space as planned for other uses. Such inflexible inability to accommodate informal activities remains a source of conflict.

(c) Land Act

This Act has been abused to the extent that much of the public land that could have accommodated informal traders is no longer available in the land banks. If the Act had been effectively enforced over the years, most of Kenya's town centres would have had the land resources required for potential informal trading malls.

(d) Trade Licensing Act

This Act requires applicants for trade licenses to state their address of trade, but many informal trade activities operate without any physical address and therefore are not recognised, which means they are perceived as illegal. The Act is also ambiguous in many areas: for example, the trade license provided under its terms is not necessarily considered, in practice, as the final document authorising informal trading. Even street vendors who acquire the hawker's license as provided by local authorities have been arrested during regular crackdowns on unlicensed informal trading.

(e) Public Health Act

This Act prohibits informal trading in unsanitary conditions, sets standards for trade in foodstuffs and lays down general trading conditions. However, many local authorities have failed to enforce this Act in any rigorous way, leading to faster and uncontrolled proliferation of street vending, some of which in unsanitary conditions.

(f) Employment Act (Cap 226) and Other Employment-related Act

This statute can act as a hindrance to informal activities, although its purpose is to protect workers' wage payment, work hours and general welfare. It is interesting to note that, according to the Act, *women cannot be employed in an industry undertaking mining or manual work*. Together with the Regulation of Wages and Conditions of Employment (Cap 229) and the

Factories and Other Places of Work Act (Cap 514), this is another piece of legislation to which public authorities should pay particular attention if Mexico's legal framework is to be adapted to the particular conditions of the informal economy.

(g) City and Urban Council by-laws (subsidiary to the Local Government Act Cap 265)

The City of Nairobi (Hawkers) By-Laws 1963 (see Appendix 1) are the main impediment to street trading and other micro-enterprises in the capital, since the bulk have been adapted neither to the changing conditions of Nairobi's urban development nor to new economic challenges such as street trading. The City Inspectorate has often used these by-laws in order forcibly to remove informal vendors from the street, where their presence was perceived as an offence. Interestingly, the same by-laws do allow hawking as a licensed activity, but fall short of defining how and where such trade could or should be carried out. It is a paradox that under these by-laws, even those traders who had secured hawking licenses have also been forcibly removed alongside those without licenses.

Clearly, street vendors make use of public space, which is a public good and therefore entails some sort of charge. Many vendors would readily regularise their informal activities, but are prevented from doing so as much by complex regulations as by lack of support or repressive action by public authorities. Yet for all the wasteful efforts to evict them from public space, most vendors continue to use it illegally. This pinpoints the lack of government recognition of their economic contribution as one of the main sources of the problem. By contrast, the Government of Uganda has moved far ahead of Kenya in this respect: on top of formal recognition of the informal economy, it has published a handbook setting out the diverse types of informal trading and their various rules of entry and operation. Since informal operators in Nairobi feature a high degree of self-organisation, the Ugandan experience would be easy to replicate.

7.3.2 Evaluating Existing Legislation and Its Effects on the Informal economy

In Kenya, the requirement to obtain trade licenses is one of the major constraints on not just entry into business at all levels, but also on subsequent operation and expansion. This stands as one of the major barriers to the development of the Kenyan economy, together with lack of access to finance, workspace and utility services. A particular problem is that revenue generation has become the motivating factor behind local authority trade licensing; consequently, as the need

for revenue increases, so does the number of business licenses required, and the controls they impose.

This problem is compounded by three related factors: (i) licensing requirements are duplicated at central government and local authority levels; (ii) the degree of discretion given to licensing officers leads to inconsistent application of the legislation, uncertainty and opportunities for corruption; and (iii) the system is characterised by lengthy and cumbersome approval procedures and use of inappropriate enforcement measures. Therefore, a more favourable legal and regulatory environment may be achievable only through consolidation and harmonisation of trade licensing and regulation.

Admittedly, the informal economy has been a victim to conflicting regulations, which make it difficult to integrate informal traders in the formal legal system. Clashes have persisted due to three main reasons: (i) lack of clear-cut definitions in national and municipal laws and regulations; (ii) an absence of reliable mechanisms to resolve contradictory definitions; and (iii) an absence of policy continuity over time within individual urban authorities. In this broad context, legal and policy contradictions in a number of specific areas have damaged trust between representatives of street vendor organisations and local authorities; this in turn, is far from paving the way for any stable, effective governance of informal trade. The eight major problem areas that must be addressed, or are currently being addressed, are as follows:

(a) Land Issues

In 1997, Kenya's Ministry of Lands set up a task force with a mandate to review, harmonise and streamline more than 30 pieces of land legislation, including: (i) identifying and documenting all land earmarked for the *jua kali* sector; (ii) undertaking and facilitating formal reservation and registration of such land; and (iii) assessing and determining the need for land in various centres for the *jua kali* sector. The committee recommended that the central government hold the land identified or reserved for use by the *jua kali* sector until its *bona fide* associations were registered.

(b) Trade Licenses

As provided under Kenya's 1994/95 budget, in 1994 the government set up an inter-ministerial committee (IMC) to address the licensing problem with regard to all trades. The mounting feeling at the time was that the number of license requirements should be drastically reduced through the establishment of a "one-stop window" for approval and issuance of licenses by both the central government and local authorities. Nothing effective happened after the presentation of

the IMC findings, though its recommendations were incorporated in a report by the Deregulation Section, "Improving the legal and Regulatory Environment through Trade Licensing Reform".

In this report, the Deregulation Section of the Ministry of Planning and Economic Development recommended the repeal and/or amendment of 14 Acts of Parliament and 13 by-laws relating to trade licensing. A Cabinet Memorandum summarised these recommendations in May 1997. The Finance Minister's proposals for comprehensive reform of trade licensing, as set forth in his Budget Speech in 1997, were a direct result of the work of the Deregulation Section. The main changes announced were: (i) cancellation of license fees payable under the Trade Licensing Act (Cap 497); and (ii) consolidation of all local authority (LA) licensing into a Single Annual Business Permit Registration Fee to be issued by "one-stop shops" (OSS). Though these changes did not cover health, safety and environment regulations, they were intended to ease the compliance burden on enterprises and increase revenue collection by the Local Authorities, as relaxed rules would hopefully attract more of those vendors who had hitherto dodged the authorities' cumbersome requirements. However, the 1997 budget speech made no specific mention of informal trade. In addition, in 1998, the Ministry of Local Authorities (MOLA) introduced the *single business permit* to enable local authorities to shift from the existing complex system of multiple licenses to a new, simplified system.

Nonetheless, most local authorities in Kenya, including Nairobi City Council, have not been able to deal effectively with the informal retail sector, that is, unlicensed hawkers. This failure is due not just to the numbers involved, but also to the political and social pressures that are often exerted. Although hawking appears to have potential as a lucrative business, most such vendors operate at a loss because of the many direct and indirect costs they incur. Indirect costs include bribes paid to the city council *askaris* (guards) and losses from either impounded goods or those that perish if unsold. In summary, two central problems affecting hawking operations that must be urgently addressed are the lack of licenses and of adequate operation sites. The sites considered illegal for hawking by city authorities are the very ones regarded as most appropriate by hawkers because of proximity to potential customers. This conflict of interest has resulted in running battles between street vendors and council *askaris*.

(c) Health Sector Reform

The Ministry of Health is in the process of undertaking a review of relevant legislation and regulations, including those that promote occupational health, many of which apply to informal trade.

Table 7.4. Repealed and Amended Acts Affecting the Informal economy

Repealed	Amended
Vagrancy Act (Cap 58)	Local Government Act (Cap 265)
Outlying Act (Cap 104)	Chief's Authority Act (Cap 128)
Special District Administration Act (Cap 105)	Societies Act (Cap 108)
	Preservation of Public Security Act (Cap 57)
	Public Order Act (Cap 56)

(d) Review of Nairobi City Council (NCC) By-laws

The "Model By-laws Relating to Business Registration and Street Trading" set out a rational methodology for introducing model by-laws to regulate street trading. A tariff schedule to replace the existing schedule of fees and charges under the Licensed Trade and Premises By-law is also being designed by the Deregulation Section in conjunction with the Kenya Local Government Reform Programme (KLGRP) and Nairobi City Council.

(e) The Inter-Party Parliamentary Group (IPPG)

As a result of the IPPG meeting before the 1997 elections, a number of Acts that affected informal trading were either repealed or amended (see Table 7.4). While these Acts did not primarily govern business, the potential indirect impact of this legislative action on (formal and informal) business can be significant.

(f) The Committee for Improvement of Small Business Environment (CISBE)

The Committee for the Improvement of the Small Business Environment (CISBE) is a coalition of 37 organizations brought together for consultative dialogue on issues affecting small businesses. The rationale behind CISBE is to make it easier for the private sector to take a leading role in the implementation of policies affecting the business environment in Kenya.

CISBE is a non-profit and non-governmental organisation which forms a common front to review the legal and administrative structures affecting micro- and small enterprises, including the launching of various schemes in favour of the informal economy. However, implementation of the policy framework (as set out in Sessional Paper No. 2 of 1992) failed to make any progress despite the government's declared intention to carry out a review. This failure can be ascribed to the following factors:

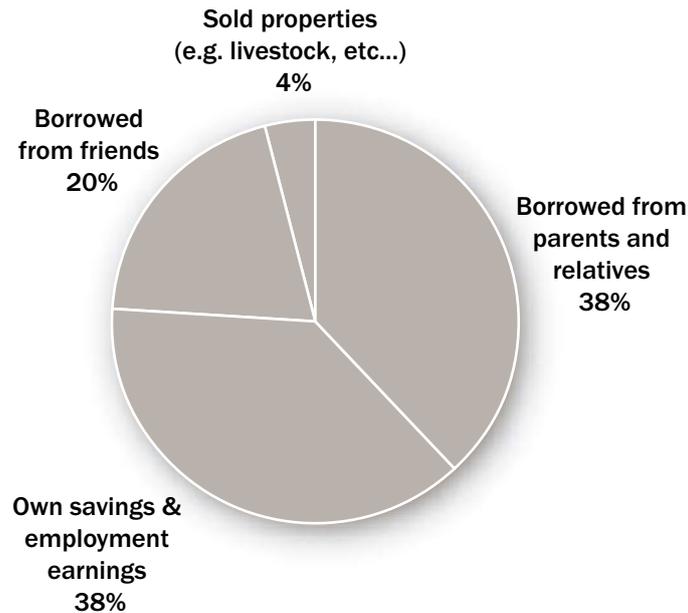
- (i) The review overlooked the absence of the political will and financial resources that are

necessary to implement such an ambitious programme;

- (ii) The relative absence of *measurable results* clearly indicates that the policy framework needed revision and that more should have been done to promote the informal economy;
- (iii) A survey by the Regional Centre for Socioeconomic Studies and Development showed that local authorities lacked adequate human and financial resources to review the *by-laws* that were considered *outdated and repressive* with regard to informal economic activities;
- (iv) Mechanisms for information dissemination were not put in place and, therefore, no major efforts were made to sensitise the major stakeholders about their respective roles in the *policy formulation and implementation* process;
- (v) No dedicated programmes or activities were set up in the various ministries and other organisations that were expected to lead the policy formulation and subsequent implementation process;
- (vi) After amendment or repeal of some of the disabling laws and regulations that inhibit the operations of the informal economy, the outcomes were not adequately disseminated to appropriate users for action;
- (viii) No mechanisms were put in place for the *coordination, monitoring and evaluation* of the various activities envisaged in the policy framework. Consequently, the various stakeholders at different levels of implementation of the policy and strategy framework have lost energy and momentum, resulting in minimal impact on target beneficiaries;
- (ix) The other policy documents that followed, such as sessional papers and development plans, only managed to highlight a strong case for an *enabling policy environment*, but no specific policies were spelled out as such;
- (x) Inconsistent *statements of intent* were made after the 1992 policy framework was set out.

(g) Gender Issues

When orienting and directing policies, laws and regulations, it is important to take into account the specific needs of women to ensure that they have equitable and affordable access to facilities and services of all kinds. Women's needs for opportunities are also structured according to their typical gender roles and responsibilities. It is encouraging that

Figure 7.3. Sources of Credit for Street Traders


public authorities recognise the need for a gender-mainstreaming framework in all actions targeted at the informal economy. In recognition of the potential for female employment that is inherent to the informal economy, many programmes in Kenya have been looking to further entrepreneurship in general, and female-driven entrepreneurship in particular, including:

- (i) Managerial and skills training for potential female entrepreneurs or to upgrade those of existing entrepreneurs;
- (ii) Provision of credit (for capital expenditure and/or for working capital purposes), together with measures to strengthen financial institutions that support female entrepreneurship;
- (iii) Marketing assistance and other support services, such as provision of information, technology, sub-contracting and consultancy services;
- (iv) Action to facilitate female involvement in the economy, including practical and financial support for child care, basic literacy and numeracy training, and group discussions to enhance social awareness of women's role;
- (v) Reviewing the legislation on land ownership and inheritance;
- (vi) Enhancing awareness of women's rights among both men and women; and
- (vii) Compilation of a database on female entrepreneurs by the Ministry of Planning, in order to assess the degree of women's involvement in the informal economy, including achievements and problems.

(h) Other Major Issues: Lack of Participation, Training and Credit

One of the most glaring obstacles to the success of the above-mentioned policy initiatives has been a lack of participation by informal economy representatives in the formulation process. Since these representatives could not take ownership of any of those initiatives, they were not convinced that the goals were any different from previous ones, which were intended to vilify and ostracise them. No effort has been made in the first place to alert informal economy operators to the change of heart and tactics by central and local government. As a result, and despite government efforts to provide a policy framework for the informal economy, progress in improving the policy environment for the sector remains stifled, partly due to the lack of participation or consultation of informal sector representatives over policy reformulation and implementation.

In addition, reform efforts run against an absence of appropriate policies to tackle the serious training, credit and financial shortfalls faced by informal operators, some of which are associated with lack of property rights and collateral guarantees. Most street vendors in Nairobi claim that they would graduate faster to formal trade if they were given training and provided with better access to credit. At present, vendors' main sources of external funding are cooperatives, Rotating Savings Credit Associations (ROSCAs), relatives and friends. In Nairobi, family and friends are estimated to provide the highest share (58 percent) of credit, as shown in Figure 7.3. These sources, however, can only provide low amounts of funding which are rarely adequate for business expansion. Finally, the

existing savings and credit associations are plagued by governance problems, including leadership and mismanagement.

7.4 Regulatory Reform: Innovative Policies and Practices

For all the problems outlined above, Nairobi still features a few successful innovations, either of a regulatory or a promotional nature, with regard to informal business, including: (i) the construction of sheds for *jua kali* vendors in Nairobi's central business district during the 1980s; (ii) the opening up of hawkers' markets in various locations around the city; and (iii) a time-sharing scheme at the High Court of Kenya parking lot when the magistrates are not in session (i.e., during weekends and public holidays). In addition, a similar sharing scheme has been agreed between street vendors and a major chain supermarket in the Lang'ata suburb, which allows craft sellers to display their wares on specific days. Such provisional arrangements could be expanded to other areas and become semi-formal in order to benefit both formal enterprises and informal vendors on a more systematic basis.

A comparative evaluation of these innovative interventions – with respect to outdoor vending – is provided in Table 7.5 below. The rest of this section will examine two of these innovative interventions in more detail, namely *jua kali* sheds and hawkers' markets.

7.4.1 *Jua kali* Sheds

These sheds have become a permanent feature of the cityscape. As mentioned earlier, *jua kali* entrepreneurs specialise in metalworking (*jikos*, also known as meat-cooking appliances) and the fabrication of clothes boxes, wheelbarrows and many other hardware products. The sheds operate in a self-regulated environment and most have acquired city council licenses. The (predominantly male) operators have blended in well with the surroundings; their craft is fully recognised and associated with the various handicrafts. This is a sub-sector with a high degree of organisation and marketing ability. The traders fully comply with city council by-laws and there is very little conflict between them and the city authorities.

Jua kali craftsmen run a very vibrant business, with each striving to produce high-quality products at competitive prices. This is particularly important in a city where high prices have made it difficult for many residents to buy products from the formal sector. For instance, the average price of a wheelbarrow from Nairobi's *jua kali* sheds costs approximately 10 US dollars, whereas in the formal sector the same product

may cost up to 35 US dollars. Moreover, and thanks to increasing competition from *jua kali*, the prices of some goods produced in the formal sector have often remained stable or even been forced downwards. The craftsmen have also introduced innovative methods to make and market their products.

Another economic benefit of *jua kali* sheds lies in the economies of agglomeration and the local multiplier effects they have in Nairobi, as they attract new formal businesses to their surrounding areas, including businesses dealing in hardware materials, lubricants, motor spares and other products related to *jua kali* goods. In addition, *jua kali* sheds generate reliable tax revenue for municipal authorities through strict adherence to fiscal rules. In summary, the *jua kali* craftsmen have demonstrated that informal business can be sustainable and make an important contribution to the local economy.

7.4.2 The Informal Traders' (Hawkers') Markets

During the first half of the 1980s, the Nairobi City Council launched a programme whereby street vendors were to be relocated to new designated markets. This process has always met stiff resistance from the city's street traders, who typically see it as a way of running them out of business. Most perceive many of the zones as far removed from the crowded central business district that is a major market for them. In a stark contrast with *jua kali* entrepreneurs, mistrust is well shared between authorities and street vendors in Nairobi. Both the leaders of street trading organisations and the policy-makers interviewed in central Nairobi for this case study painted the other side as intransigent, with neither willing to believe that the other would faithfully hold up its end of any bargain. Street traders' diffident views of government agencies further imply that without an arbitrating third party, they cannot solve their problems.

Nonetheless, many of the vendors who move to relocated markets tend to adapt to their new workspaces, as evidenced by the fact that all the markets opened under the relocation programme are still thriving to date. Those previously opposed by street vendors and yet still in business to this day include Forest Road Hawkers' Market, Mutindwa Market in the Eastland area of Nairobi, City Stadium, Gikomba Market, Globe Cinema Curios Market and, lately, the Saturday Curios market adjacent to the High Court in central Nairobi.

These markets have remained stable and have played a vital role in stimulating competition in the retail sector, stabilising prices while also providing employment. These benefits are of particular impor-

Table 7.5. Evaluation of Best Practices

	Outdoor Vending	Jua kali Sheds	Hawkers' Markets	Time-sharing Zone
Regulatory Compliance	Very weak. 89% of street vendors in Nairobi are not licensed.	Fairly strong. 45% acquire/renew license and abide by the law.	High. Strong association encourages good relations with authorities	Fair. A newly emerging practice mainly trading in curios and antiques.
Impact on Quality of Life	Weak. Environment is not secure. Income is low. The future is uncertain	Weak. Environment is very polluted. Poor sanitation.	Fair abidance by Public Health Act. Authorities in Nairobi have been very strict in enforcing the law.	Very strong. Leave sites clean after use. Are major tourist attractions.
Public- Private Partnership	Very weak. Poor links. Suspicion from formal business	Have some links with government and council.	90% of clientele from industry, government and formal businesses. Have great potential for partnerships.	Very good potential as they are associated with affluent markets.
Sustainability	Poor potential for sustainability due to poor relations	High potential for sustainability.	Very high potential. Traders markets in Nairobi first established before independence.	Very high potential for sustainability. Catching up fast around major malls.
Integration of Women	Very high female participation.	Very low female participation.	Very high: over 50% are female.	Very high (over 60%).
Replicability	Strong in most urban centres. Need legal recognition.	Fair presence in other towns and fairly strong job creation.	Good potential. Requires significant capital expenditure.	Started with Maasai goods, spread fast around the city.

tance in an economy where high consumer prices remain a major factor in the cost of living and where unemployment is very high (World Bank, 2004). However, hawkers' markets have also been challenged on a number of issues: marketing and promotion, product attractiveness and layout, customer service, hygiene and sanitation, product variety and quality standards. If these issues were properly addressed, hawkers' markets would become even more viable and acceptable.

Over 95 per cent of vendors in these markets sell produce and they have expanded their customer base well beyond their immediate surroundings. Motorists commonly drive to hawkers' markets for fruit and vegetables, and hawkers have made efforts to attract higher-income customers. In addition, a few vendors go out of their way to seek customers in office compounds, in homes and beyond. Since much of the produce sold is locally grown, hawkers' markets have also become important outlets for the local agricultural sector, in the process strengthening urban-rural economic linkages.

7.5 Conclusion

Based on the evidence and analysis provided in this chapter, the following policy recommendations and innovative measures could enhance the contribution of Nairobi's informal economy to income- and em-

ployment-generation, poverty alleviation and, ultimately, higher rates of urban (and national) economic growth.

7.5.1 Local By-laws and National Legislation

This chapter has shown that the informal economy in Nairobi (and in Kenya as a whole) is particularly inhibited by cumbersome laws and regulations, most of which are out of tune with current development realities. Some statutes include provisions that are either plainly hostile to the informal economy or insensitive to the needs of informal enterprises. An enabling environment for small business must be provided if Kenya's need for economic growth and employment opportunities is to be met effectively and in a sustainable way. One of the tenets of such a supportive environment must be the removal of legal and regulatory obstacles. Against a fast-changing socio-economic background, simple and adaptive legal instruments are called for that can effectively respond to the needs of diverse economic activities, including those of the informal economy.

As part of this effort, all local authority trade licensing by-laws should be consolidated into a single set of by-laws, providing a well-adapted regulatory regime and a single fee structure. For these purposes, local authorities need adequate resources and some

technical assistance, not only to design a business licensing system but also to maintain and enforce it with the required degree of transparency. It is also for local authorities to ensure that such a system guarantees simple, speedy and effective processing of vendor license applications. Another factor to consider is the affordability of license fees, which is crucial to securing the full cooperation of informal traders and other businesses.

Local authority by-laws, and in particular the *The City of Nairobi (Hawkers) By-laws 1963* (see Appendix 1), should be reviewed and standardised with a view to promoting business in general, including micro- and small enterprises, and taking account of the business needs arising from the rapidly changing current economic environment. Furthermore, in order to give the informal sector legislative recognition and provide an appropriate legal framework supportive of its expansion, the Kenyan government should consider specific legislation for micro- and small enterprises, which may take its inspiration, for example, from a number of initiatives taken in South Africa. Such legislation should provide a legal and institutional framework that would facilitate and support the deployment of dedicated informal economy policies.

In addition, public authorities must provide informal operators with adequate, practical information about current by-laws and regulations. So far, such dissemination has been very poor. Moreover, no significant efforts have been made to make operators in the informal economy more aware of their roles if any in policy development, or of their rights and obligations. All of this makes it difficult for them to factor guidelines and legal issues into their decision-making processes. To informal economy operators, the day-to-day end-result is continued harassment by law-enforcement agencies.

7.5.2 Street Trading

If the specific challenges posed by street vendors in Nairobi are to be met, public authorities must take concerted action to encourage lawful trade, while balancing vendors' interests against those of the capital at large, the formal business sector and the population. Nairobi City Council has proposed open-air markets that would operate on specific days and where hawkers and street traders could sell their wares without claiming ownership of the sites. This initiative deserves strong support and must be followed through, and be advertised among all potential vendors and entrepreneurs. In addition, five further steps deserve some exploration:

- (a) Using car parks and playgrounds as night-time markets;

- (b) Making use of temporarily vacant urban lots;
- (c) Assigning traders to secondary streets in an orderly manner, in order to eschew conflicts over land use;
- (d) Using or designating some streets for hawking purposes, through temporary motor traffic diversion or closure; and
- (e) As proposed by Nairobi City Council, introducing open-air markets that operate on specific days and where hawkers and street vendors can sell their wares without claiming ownership of the sites.

7.5.3 Access to Workspace and Security of Tenure

In Nairobi, lack of access to workspace is complicated by land allocation and tenure issues, and further made worse by the stringent building standards and regulations controlling provision of utility services such as electricity, roads and water. Absence of legal titles entails lack of access to credit, harassment by local authorities, and disincentives for the development of, and capital expenditure on, the worksite, which in turn discourage improvements in technology and productivity. Public authorities should continue to review and streamline the laws governing land ownership, and should harmonise them with other relevant legislation. In addition, local authorities should be encouraged to earmark land for informal economy development.

7.5.4 Broader Access to Finance

In the above-mentioned 2004 NCBDA survey, street vendors proposed that a dedicated bank be set up under the authority of a government department to grant them affordable loans. Government officials recognise that access to credit and financial services is a key to the growth of any enterprise, including informal businesses. In this regard, relevant government agencies should also promote the development of the financial services sector through appropriate incentives, in order to attract savings and investment and expand the stock of venture capital.

One way of doing this would be for the government to establish a Micro-Finance Trust Fund from which micro-finance institutions (MFIs) could borrow for onward lending to the informal economy at affordable interest rates. In any case, the authorities should grant additional funding to the newly created Micro-Enterprise Support Programme Trust (MESPT), which acts as wholesale lender to MFIs. In addition,

the government should encourage commercial banks to develop an appropriate risk rating system combining loan collateral and individual risk evaluation for informal enterprises; this would pave the way for greater commercial lending to the financially reliable segments of the informal economy.

7.5.5 Tax Burden

Kenya's existing tax regime is not just cumbersome but also a deterrent to the growth and development of the informal economy. It does not encourage informal entrepreneurs to register or to pay taxes; instead, it acts as a barrier to the graduation of informal enterprises into the formal sector. The system also adds to the costs of compliance and restricts any upward mobility of the informal economy. Value Added Tax (VAT), which is liable on most products and services, is costly to administer, increases transaction costs and inhibits cash flow for enterprises.

Therefore, government should facilitate the inclusion of informal operators in the tax regime through streamlined tax structures for the informal economy, increasing the tax threshold and lowering rates. Similarly, city authorities should ensure that municipal fees on informal trade are as affordable as possible in order to encourage regularisation.

7.5.6 Enterprise development and capacity building

Business management and enterprise skills are critical to the growth and development of the informal economy. The government should encourage universities, polytechnics and technical institutions to develop certified, demand-driven courses on entrepreneurship and business management. In order to nurture a widespread enterprise culture, the government should also introduce entrepreneurship programmes in schools and other training institutions.

A weak business linkage is one of the causes of poor market access by informal enterprises. Therefore, government agencies should also provide incentives for the private sector to invest in areas that enhance development of business linkages between the informal economy and large enterprises, through trade information centres and improvement of the services and products of the informal economy.

As far as capacity building and street trading are concerned, hawkers and vendors should be enabled to regroup into associations and cooperative societies. These would promote their economic interests as a group and put them in a better position to assist members. Some stakeholders' forums have also argued for

the issuance of block business licenses that would enable small enterprises to be developed collectively.

7.5.7 Minimum Health, Safety and Environmental Standards

Any rules and standards that are to be included in legislation or by-laws should be confined to a small number of areas: matters of public order, orderly trading, and minimum standards for public health, safety and the environment. In the particular case of minimum standards, a thorough review should be carried out to establish: (i) what standards are in force that pertain to health, safety and the environment; (ii) whether those standards are currently enforced with respect to the small-scale and informal economy; (iii) whether the appropriate implementing agencies are able to enforce the standards; and (iv) whether the standards are practicable and can be complied with by informal operators and enterprises. Government should streamline compliance standards or even waive them for appropriate segments of the informal economy. As with other areas of regulation, it is imperative that informal traders are not only provided with copies of relevant by-laws, but also properly briefed on their rights, duties and obligations.

7.5.8 Gender Mainstreaming

As noted earlier, the Kenyan government recognises the need for gender-mainstreaming throughout the informal economy. The policy framework should therefore galvanise the productive potential of women, who contribute the bulk of the country's labour force. Further measures should be taken to identify gender-related constraints and opportunities that affect equal participation of both women and men, at all policy levels. The impact of any gender-mainstreaming policies introduced subsequent to this review should be adequately monitored.

One of the major goals should be to encourage equal access to financial services. In order to address gender disparities, the government should, in particular, opt for policies that improve women's access to credit by encouraging them to form Savings and Credit Cooperative Organisations (SACCOs), and facilitate networking with banks and MFIs. Other recommended policies include (i) the promotion of better access to technology and technical skills for women; (ii) improving women's access to entrepreneurship development through training; and (iii) improved collection of gender-disaggregated data to facilitate gender-responsive planning and policy formulation

In conclusion, it must be emphasised again that the informal economy in Kenya in general, and in Nairobi in particular, has come of age all by itself. It has developed into a booming sector with many participants. Most are desperate and trying to make a living out of challenging circumstances. Whereas a few have opted for the informal economy for their own convenience, large segments of the urban poor rely on it as their only possible source of employment and income generation. Whichever way brought them there, the informal economy is here to stay and will expand, if only because it fulfills certain basic human needs, namely deprivation and poverty alleviation. This is why the informal economy must be nurtured and developed with full government backing and blessing.

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APPENDIX 1

THE CITY OF NAIROBI (HAWKERS) BY-LAWS 1963⁷⁶

1. These By-laws may be cited as the City of Nairobi Citation (Hawkers) By-laws, 1963.
2. In these By-laws –
 - “City” means the City of Nairobi; council means the City Council of Nairobi; “Hawk” means whether as principal, agent or employee –
 - a) For the purpose of carrying on trade by the sale or exchange of goods, wares, merchandise or refreshment, to place oneself in any street or public place or un-enclosed land (other than in shop premises approved as such by the Council), or to go about in streets or public places or from premises to premises; or
 - b) By any of the means aforesaid to carry on trade by sale or exchange, or the offer or exposing for sale or exchange, of any good, wares, merchandise or refreshment;
 - c) But it does not include the seeking or taking of orders for subsequent delivery, or the delivery of goods, wares, merchandise or refreshment to premises for the purpose of re-sale.
 - d) “License” means a license issued under these by-laws.
 - e) “Town Clerk” means the person for the time being holding the office of Town Clerk of Nairobi and any person authorised in writing by him for the purpose of these by-laws.
3. Any person who – Shall be guilty of an offence if she/he
 - a. Hawks in the city without valid license or
 - b. Being the holder of a license hawks in the city otherwise than in accordance with the terms and conditions thereof.
2. Every application for a license shall be made to the Town Clerk on a form issued by him for that purpose, and the applicant shall furnish the Town Clerk with particulars of his/her place of abode and the commodity, and the place or places at which, she/he intends to engage in hawking.
3.
 - (a) The Council may in its discretion, upon payment to the Town Clerk of the appropriate

⁷⁶ Part IV Section 1 of the City of Nairobi (Hawkers) By-laws 1962 was repealed on 17 December 1963 and replaced with the this set of by-laws

fee thereof prescribed in the Schedule of these by-laws issue under the hand of the Town Clerk a license permitting the person named therein to engage in hawking, subject to such terms and conditions, if any, as may be specified in the license .

- (b) Without prejudice to the generality of paragraph a) of this by-law, a license may be restricted to a particular area or place, and may be issued in respect of specified goods, wares, merchandise and refreshments.
- (c) There shall be issued with each license a badge relating thereto.

4.

- (a) Every person required by these By-laws to hold a license shall, whilst engaged in hawking, carry the license with him/her and produce it on demand to a police officer, City Inspector or council askari in uniform, or a duly authorised licensing officer of the council, and shall wear in a conspicuous place the badge relating to his/her license
- (b) Any such officer, inspector or askari may inspect any article which he/she has reasonable cause to believe to being used for purpose of hawking.
- (c) Any person who obstructs, hinders or otherwise interferes with any such officer, inspector or askari in execution of his/her duties under this By-law, or who fails to comply with any of the provisions of this By-law, shall be guilty of an offence.

- 5. The council may in its discretion upon payment to the Town Clerk of the appropriate fee therefore prescribed in the Schedule to these By-laws, issue under the hand of the Town Clerk a license permitting the person named therein to be employed by or to assist a person licensed under By-law 5 above who
 - i. Hawks refreshment; or
 - ii. Is disabled by reason of the loss of a limb; Provided that
 - (1) Not more than one license shall be issued under this By-law in respect of each license issued under By-law 5 of these By-laws; and
 - (2) Where a license is issued under this By-law the relevant license issued under By-law 5 of these By-laws shall be endorsed with the words 'one assistant's license issued'.
- 6. Any licensee who, without the written consent of the Town Clerk transfers his/her license or any badge issued relating thereto to any other person, shall be guilty of an offence.
- 7. Any person who is guilty of an offence under these by-laws shall be liable to a fine not

exceeding one thousand shillings.⁷⁷

- 8. The City of Nairobi (hawkers) By-laws, 1962, L.N. 420/1962 are revoked, provided that every license issued or purported to have been validly issued under Legal Notice No. 420 of 1962 shall, for the period of its issue, be deemed to be a license validly issued under these by-laws.

SCHEDULE	Fee (Ksh)
For a period of three months	40
For a period of one month or less	15
For a license issued under By-law 7	2

Other Subsidiary legislation under the City Council of Nairobi By-laws that remain in the books and yet are an impediment to Informal economy economic growth are as follows:

Part XXII By-laws with respect to control of persons entering and remaining in the city

By-law 717 No person shall, without reasonable excuse, loiter in any public place within the municipality

By-law 718 No person shall be within the Municipality excluding Sundays and Public Holidays unless

- a) He/She has reasonable and sufficient means of maintaining herself/himself
- b) She/he is in possession of a valid resident's or visitor's permit

SECTION III BY- LAW RELATING TO PUBLIC PLACES

PART XI

Sub-section 1 By-laws with reference to Africans, African locations, African stadium and African dancing
 Sub-section 541 prohibits Africans from residing unless by permission of the Town Clerk

Subsection 558 Council may set aside certain stands or other portions of African estates for the purpose of trading and sale of goods of any description and only such places shall be used for trading or sale of goods

Subsection 559 Requires the council to provide and maintain latrines and receptacles for domestic refuse in the African estate as they consider sufficient. No stand holder or occupant of a stand shall permit refuse or rubbish of any kind to accumulate for more than 48 hours

PART VIII For establishing and regulating public markets and for prohibiting the establishment of any market within the city without permission of the council.

Subsection 474 A person shall not within the precincts of any public market hawk any goods; A person shall not interfere with or molest any other person, or tout or shout or call out for custom.

⁷⁷ One thousand Kenyan shillings was equivalent to approximately 13.75 US dollars in mid-2006.

8.1 Appropriate Regulation for Urban Economic Growth and Employment Generation

The emerging international agenda for employment identifies productive employment, well-remunerated jobs, entrepreneurship and enterprise creation as central components of national development and poverty alleviation strategies. Furthermore, as poverty becomes an increasingly urban phenomenon, it is obvious that the most direct and important contributing factor is a shortage of well-paid formal sector employment in cities. Therefore, generating jobs and adequate incomes for the urban poor who rely on the informal economy for their livelihoods is critical to the achievement of the poverty-related Millennium Development Goals.

Employment opportunities for the urban poor are affected by diverse factors including favourable macro-economic conditions, an enabling environment for increased private sector capital expenditure, sustained public expenditure on urban infrastructure and basic services, together with well-adapted regulatory constraints on small enterprises. As employment becomes ever more informal in the urban economies of many developing countries, the promotion of small and micro-enterprises can be one of the most promising economic measures to address the needs of the working poor. Since many of these enterprises operate informally, there is an urgent need for broad economic development strategies that recognise the contribution of the urban informal economy to growth and employment generation.

The above case studies highlight the significant dimensions of urban informal economies in terms of non-agricultural employment and economic output. Evidence also shows that informal employment grows even when formal employment is stagnant. In fact, since the mid-1990s, the majority of new jobs in many developing countries – both self-employment and wage employment – have been generated in the informal economy (ILO, 1998; 2004). The growth of the informal economy has made it possible for urban labour markets temporarily to absorb both the impact

of economic crises on employment and the displacement of workers from less competitive activities that is associated with the current process of economic globalisation.

This report shows that the considerable expansion of the informal economy in developing countries is partly associated with heavy or inefficient regulations that make it difficult for small businesses to operate efficiently in the formal economy. Regulation of the informal economy is, of course, essential to promote its gradual regularisation, improve access to property rights and credit, and generate tax revenues. Regulation is also required to maintain minimum labour, health and product quality standards. However, the report argues that appropriate regulation should focus on measures to release the economic potential of the informal economy.

This concluding chapter puts forward a policy framework – primarily based on the analysis contained in the six case studies – aimed at improving the operational efficiency and productivity of the urban informal economy, in order to enhance its contribution to urban (and national) economic growth. Given the importance of the informal economy to low income groups, this policy framework is ultimately aimed at maximising income and employment benefits for the urban poor. This, in turn, is likely to make a decisive contribution to urban (and national) poverty alleviation and social development (see UN-HABITAT, 2003).

The case studies actually show that the urban informal economy has a considerable potential to contribute to overall economic growth, employment generation and poverty reduction. This goes to explain why several developing countries have started implementing streamlined registration and licensing procedures and setting aside designated areas for street vendors in order to strengthen the positive employment and income impacts of the informal economy on the urban poor.

Streamlined regulation can, of course, also provide powerful incentives to gradual regularisation of informal activities – ranging from micro-enterprises

and informal transport to street vendors and home-based workers – and thus make an even greater contribution to the growth of the formal economy. Furthermore, together with streamlined procedures, some municipal authorities throughout the developing world have been experimenting with innovative developmental policies, such as promotion of micro-credit provision and taxation policies conducive to the creation of a more favourable business environment. Last but not least, the policy reform process should be as transparent and participatory as possible.

8.2 Innovative Policy Options to Enhance the Productivity of the Informal Economy and Encourage its Regularisation

Two broad categories of regulatory policies can have direct impacts on the informal economy: (i) economic policies affecting the establishment, operation and productivity of informal enterprises; and (ii) social and labour protection measures affecting workers' rights and employment benefits. While the latter is critical to the livelihoods of urban low-income groups and should be supported at both national and international levels, policy recommendations in the area of labour and social protection reform lie outside the scope and mandate of this report. It is clear, nonetheless, that compliance with minimum social and labour protection standards is less likely in unregistered and/or unregulated enterprises. In fact, evidence from many developing countries shows that "micro- and small enterprises that are able to overcome regulatory or bureaucratic constraints and develop their dynamic potential are much more likely to observe labour rights than informal enterprises" (see ILO, 2002a).

This report argues that complex regulatory requirements on the establishment and operation of micro- and small enterprises contribute to the informal economy since they act as a disincentive to regularise informal businesses. Therefore, streamlining regulations and by-laws can enhance not only the productivity of the informal economy, but also the rate of formalisation or the gradual regularisation of informal businesses.

Improved rates of regularisation will depend on whether informal operators perceive the regulatory costs of entry and operation to be lower than the potential benefits of regularisation. Such potential benefits include recognition of property rights, greater access to credit, access to basic urban services, productivity gains, as well as higher savings arising from a reduction in corruptive practices. Poorer self-employed operators at the bottom end of the urban informal economy are particularly affected by complex, costly

or time-consuming requirements. Their low incomes often make the costs of regularising their informal activities too high. In any case, several case studies demonstrate that even those informal operators willing and financially able to regularise their small businesses can be discouraged by a complex regulatory framework. Moreover, this lack of compliance is often exacerbated by inadequate information on existing requirements.

Regularisation of informal enterprises can, however, have adverse effects on profitability and savings, one of the more frequent being a drop in net income. In addition, the higher costs attached to regularisation can also cause entrepreneurs to reduce employment. Because urban informal enterprises enjoy lower administrative and legal charges – as well as greater flexibility in hiring new employees – they are also able to generate large numbers of urban jobs at low costs. In fact, it is argued that "legalisation could wipe out a large number of small enterprises, or at best substantially reduce the number of employees, as they would be unable to bear the additional costs" (ILO, 2002a). Alternatively, regularised enterprises may increase retail prices in order to offset additional administrative and legal costs, which could hit consumers' purchasing power and, ultimately, the local economy.

Against this background, municipal authorities should make concerted efforts to ensure that the administrative and legal costs of incorporating and running businesses are kept minimal if they want to encourage micro- and small informal enterprises to join the formal sector. Many street vendors in developing country cities are willing to regularise their informal activities, provided that local authorities recognise their legal status, offer the basic urban services and fiscal incentives available to larger, formal enterprises, and enforce transparent agreements over rights and responsibilities. However, there are limitations to the regularisation of the informal economy *as a whole*, even if its costs are kept minimal. Such limitations have been identified as the inability of many municipal authorities in developing countries to process the vast volume of license applications, and a lack of public funds to provide all informal enterprises with the types of incentives available to larger, formal businesses (Chen, 2004).

Nonetheless, it is possible to devise a menu of policy options ultimately aimed at facilitating the regularisation of informal enterprises or at least reducing the costs of working informally. The following policy framework can be divided into two areas: (i) a streamlined policy and regulatory framework to create and operate businesses and (ii) complementary developmental policies required to maximise the benefits of streamlined regulation. As has emerged from several case studies in this report, appropriate regulation must

combine with developmental interventions in order to maximise the economic benefits of regulatory reform on the operation of the informal economy.

However, the policy framework proposed below is not meant to be a “one-size-fits-all” strategy, as any practical policy must be context-specific and take into account the unique local (and national) socio-economic dynamics. Since the policy proposals below are based on a detailed analysis of the more promising reforms implemented in the six selected case studies, they can inspire other cities into developing policies that best suit to their specific local contexts.

8.2.1 An Appropriate Policy and Regulatory Framework

(a) Simpler registration, operation and reporting procedures

Since the costs of complying with complex regulations (as a share of total revenue) tend to be higher in smaller than in larger enterprises, regulatory reform should pay particular attention to the needs of small informal businesses and own-account/self-employed operators. Affordability is often critical for their compliance and regularisation. Efforts should also be made to ensure that implementation of existing regulations is practicable and that they can be enforced in a transparent sort of way. Therefore, the regulatory framework should facilitate the establishment and operation of micro- and small enterprises, including own-account operators, through the following types of measures, among others:

- (i) Reduce the number of procedures required to register, license and incorporate a business to an absolute minimum;
- (ii) Ensure that trade licensing fees are as affordable as possible to informal traders and businesses, as opposed to being a lucrative source of municipal revenue generation;
- (iii) Make greater use of new technologies, such as on-line procedures to incorporate and register businesses, as appropriate;
- (iv) Allow the collective registration of own-account/self-employed operators through informal sector or trade associations;
- (v) Simplify other regulatory procedures for operating businesses, taking into account their costs and impacts on enterprise profitability;
- (vi) Review and repeal outdated regulations and by-laws constraining the development or regularisation of the informal economy;
- (vii) Reduce the type and number of inspections, as well as accounting and data reporting requirements; and
- (viii) Introduce ‘one-stop shops’ on a systematic basis.

One-stop shops can be a particularly effective way of encouraging compliance with existing by-laws and national regulations. They invariably make it far easier (and often cheaper) for informal businesses to meet all registration, incorporation and trade licensing requirements under one single roof, rather than dealing with different municipal and national government offices. The single Unified Registry in Peru, for example, sought to simplify registration and licensing requirements for small and micro-enterprises, though effective implementation was undermined by the existence of another registry. In any case, it is worth recalling that the cost of registration requirements for small and micro-enterprises in Peru is estimated to have fallen from more than USD5,000 in the mid-1980s to as little as USD85 in the early 1990s. Furthermore, as shown in the Lima case study, municipal authorities can also be prevented (by national legislation) from charging any fees related to applications for business licenses.

Similarly, allowing firms to comply with all existing regulations through a single procedure has allowed Mexico’s Rapid Business Start-up System to reduce the waiting period required to begin operating formally to 72 hours at most. In addition, municipal and national government offices should consider the *afirmativa ficta* proposal made in the Mexico City case study in order to speed up response times by regulatory agencies: they would allocate a maximum period for processing applications to register a business, after which the decision would automatically be assumed to be favourable.

(b) Policy coherence and harmonisation

All six case studies show that greater policy harmonisation would facilitate compliance with licenses, permits and regulations. Therefore, public authorities should make concerted efforts to harmonise and consolidate legislation or policies for the informal economy at various levels (national, metropolitan and city/district), as well as across municipalities. Such legislation is often inconsistent across different levels or leads to unnecessary duplication in requirements to register and operate informal businesses. Suffice it to say that a uniform regulatory system should be imposed in all districts of large cities, as stressed in the Bangkok case study. In the particular case of large conurbations comprised of distinct municipalities, governments should also consider setting up a metropolitan-wide regulatory environment conducive to the promotion of a competitive urban economy, as suggested in the Mexico City case study.

There is also a need for greater policy consistency across the various sectoral ministries dealing with the informal economy. As concluded in the Durban case study, for instance, the success of a developmental ap-

proach to the informal economy will, to a large extent, depend on the institutional location within government of the responsibility for managing regulatory and incentive policies for the informal economy.

In addition, many municipal authorities in developing countries require adequate resources, advisory support and capacity building if they are to implement consistent regulatory or incentive policies with regard to the informal economy. A good example of such support is the federal provision of technical advice and training to Mexican States and municipalities in order to help them introduce regulatory improvement programmes.

(c) Differentiated regulatory and incentive measures

Evidence shows that government measures to deploy an enabling environment for the development of the private sector in many countries have often resulted in favouring large enterprises, at the expense of micro-enterprises (ILO, 2002a). As a result, governments have set up ad-hoc offices to facilitate the development of micro- and small businesses. Bearing in mind that many such businesses actually belong to the formal economy, governments must also introduce regulatory and incentive policies that address the specific dynamics and requirements of the urban informal economy.

Furthermore, particular attention should be paid to the heterogeneous nature of the informal economy. The case studies document the great diversity of the so-called 'informal sector', from small and micro-enterprises to street vending, informal urban transport, waste collection and home-based work. The Durban case study, for example, highlights the problems caused by an undifferentiated policy framework for both small and medium-size enterprises on the one hand, and micro-enterprises and street vendors on the other. As they lumped together two groups with clearly different needs, these policies and programmes have effectively crowded out micro-enterprises, since the larger ones were better qualified to benefit from any available incentives. Therefore, regulations and incentives should be flexible enough to accommodate the diverse needs of individual informal sub-sectors and, in particular, to address any critical constraints on higher incomes.

Ideally, as concluded in the Lima case study, regulations regarding various sub-sectors should be integrated in a single though suitably tiered incentive structure, so that both regulatory and promotional measures are adapted to the widely varying degrees of enterprise development within the informal economy. For example, at the lower end, street vendors who earn only a subsistence income would be explicitly provided with incentive schemes to enhance earnings.

The middle tier of the policy incentive structure would promote formalisation of informal enterprises and micro-enterprise development. At the next, upper tier, policies should focus on full regulatory compliance and incentives to promote higher productivity, further enterprise growth and global competitiveness.

(d) Awareness-raising and advisory support

Even where streamlined, harmonised and differentiated regulatory policies are in place, awareness-raising campaigns and advisory support to informal operators and businesses are still in order. This is because, as mentioned in several case studies, many of these operators are unaware of regulatory requirements or do not understand them. As concluded in the Nairobi case study, it is imperative that informal traders are not only provided with copies of existing regulations and by-laws but also briefed on their rights, duties and obligations. Therefore, national and municipal authorities should take proactive measures to provide adequate information, technical advice and, if possible, legal assistance to informal operators and businesses with regard to regulatory compliance.

8.2.2 Complementary Development Policies

(a) Access to workspace, markets and urban infrastructure

Most case studies show that access to attractively located markets and suitable urban infrastructure is not only critical for the success of the urban informal economy, but can also act as an incentive to gradual regularisation.

Government and municipal policies should assist informal enterprises with access to adequate workspace and markets – including, in particular, allocation of commercially attractive public spaces for street vendors, as argued in the case studies of Bangkok, Delhi, Durban, Lima and Nairobi. Innovative approaches to urban space allocation include (i) designating adequate pavement space for both street vendors' stalls and pedestrians, as in Bangkok; (ii) allocating greater amounts of street space to vendors on weekends, as in the case of Delhi's Sunday book market; and (iii) open-air markets on given days for informal vendors – on either public or private land – as in the case of Nairobi's Maasai markets. The Nairobi case study proposes a number of alternative approaches, such as using car parks and playgrounds as night markets; using temporarily vacant urban lots; and closing off some public thoroughfares to motor traffic at specific times for the benefit of street vendors.

In addition, as also concluded in the Nairobi case study, governments should review stringent building standards, making sure that they remain consistent with public safety without constraining the productivity or potential for expansion of the urban informal economy. Nairobi's *jua kali* sheds demonstrate that once informal producers are provided with urban space and appropriate working conditions, they can make a significant contribution to the urban economy, not only in terms of employment and income-generation for the poor, but also through increased competition, lower prices, technical innovation, multiplier effects and increased tax revenues for local authorities. At the same time, as stressed in the Bangkok case study, access to public urban space for informal activities should be conditional upon compliance with minimum sanitary, environmental and product quality standards.

Similarly, access to basic urban infrastructure and services is critical to any improvement in the productivity of both formal and informal enterprises. On top of commercially attractive urban locations, informal businesses need reliable delivery of basic services such as electricity, water, toilets, garbage removal, security, storage, together with convenient transportation links. Municipal authorities could consider introducing pro-poor user tariffs to ease the burden on some sectors of the informal economy. As emphasised in the Durban case study, local government approaches to infrastructural improvements and payment for basic services can either help or hamper the employment and income prospects of the urban poor.

As further discussed below, municipalities should consider municipal license fees as a form of local tax, one that entitles street vendors to improved urban infrastructure and services. Municipal authorities should also consult with informal economy representatives in order to bring their specific needs to bear on urban services and infrastructure. In this respect, Durban sets a good example, with its local departments or offices dedicated to street trader management and support, together with significant resource allocation to infrastructure development for informal traders (including the building of new street markets and the upgrading of existing ones). Efforts to integrate the needs of street traders into city plans – as illustrated by Durban's Warwick Junction Project – has also led to the provision of attractive and appropriately designed trader infrastructure, as well as services like childcare facilities and affordable overnight accommodation.

(b) Property rights and security of tenure

Some case studies suggest that where institutional property systems are weak, fear of eviction acts as a severe constraint on informal operators and businesses. Lack of legal protection for their capital

dissuades, informal micro-entrepreneurs from spending on optimal locations and/or business expansion. In addition, absence of legal title contributes to lack of access to credit by informal micro-businesses and self-employed entrepreneurs. Conversely, property rights and security of tenure lower the costs of inputs, improve access to basic services and to lower-interest loans which, ultimately, support expansion and create more jobs.

Therefore, municipal and national authorities should facilitate formalisation of property rights for informal operators and businesses, in order to encourage them to convert their informally-held assets into genuine capital. It can be argued that such measures would not only improve access to credit but also, ultimately, release the entrepreneurial potential of the urban poor and thus contribute to a more dynamic process of local economic growth and poverty alleviation (see de Soto, 2003). The Bangkok case study shows, for example, that a pragmatic regulatory approach to street vending – which is recognised as a legitimate operation for traders with permits – has also allowed street vendors to use such permits as collateral assets in order to obtain formal sector loans under a conversion-of-assets-to-equity programme.

Similarly, most case study cities have made efforts (admittedly, with varying degrees of success) to improve security of tenure through allocation of public space to street vendors. This need appears clearly in all case studies, even though individual responses are not the same, ranging from 'top-down' initiatives by municipal or national authorities (Mexico City, Nairobi) to more participatory or consultative approaches (Bangkok, Durban and Lima) and 'bottom-up' initiatives (Delhi). It can be concluded, nonetheless, that improved security of tenure on workspaces acts as a powerful incentive to gradual regularisation of the urban informal economy, notably where it is matched by complementary schemes in favour of development.

(c) Access to credit and finance

Access to finance is one of the most important requirements for the establishment, operation and expansion of businesses. Conversely, several case studies show that lack of access to adequate credit and finance is one of the major constraints on further capital expenditure by informal businesses (and sometimes on eventual regularisation).

The capacity of small entrepreneurs to borrow from formal financial institutions is particularly limited by their lack of collateral assets. This often leaves them little choice but to rely on informal money lenders and other informal sources of finance which typically charge higher interest than those available to larger enterprises. In many cases, informal trad-

ers find themselves closed out of credit markets and forced to rely on informal social networks – such as family and friends – for funding that falls well short of the amounts they need to expand their businesses. In this respect, the Nairobi case study shows that family and friends account for almost 60 percent of the credit made available to the city’s street vendors.

Governments should introduce specific measures to lay out a level-playing field for smaller informal enterprises. The role of public policy is not to provide subsidies to micro-enterprises and informal entrepreneurs; rather, it should create the conditions that will effectively lower the costs of lending to such enterprises by either State-owned or private financial institutions. In particular, governments should adopt policies that encourage competition among financial institutions and promote innovation that lowers the costs of providing credit to micro-entrepreneurs. In that regard, several innovative policies identified in the Bangkok case study are apt to alleviate the credit constraints faced by small entrepreneurs and informal operators.

National governments in other developing countries should, therefore, explore credit extension programmes, like Thailand’s People’s Bank, that feature less stringent screening procedures regarding collateral assets for targeted groups (such as small-scale and self-employed entrepreneurs). Although larger borrowers may secure better repayment terms than smaller ones, such initiatives still allow the latter to enjoy lower interest rates than those available from private money lenders. Another apt remedy for the lack of collateral by informal operators is to allow these to use vending permits as assets for the purpose of obtaining loans, as in Thailand’s conversion-of-assets-to-equity programme.

Urban community funds that help informal operators develop occupational skills and create or expand small-scale businesses can also help increase capital expenditure in income- and job-generating activities. As suggested in the Bangkok case study, revolving loans can be more effective if matched by complementary measures to build capacities at the community level and to create markets for local products. Greater efforts should also be made to increase the provision of government loans for the development and marketing of local products by small businesses, as promoted by Thailand’s OTOP programme. Such loans should be targeted at the creation or expansion of small businesses and the development of production processes, markets or distribution outlets for products. The Bangkok case study also shows that the city’s metropolitan authority has taken several initiatives within the OTOP programme to expand employment opportunities in local communities and to enlarge the pool of independent informal traders in those communities.

However, further measures are required to create a national market for OTOP products.

It is worth also mentioning past efforts made by the South African Government – through the Khula Enterprise Finance Facility – for provision of credit guarantee mechanisms to reduce the risks of commercial lending to micro-, small and medium-size enterprises. Although the Khula programme ascribes risk assessment to commercial banks – effectively barring most informal economy workers from Khula-backed finance – similar efforts can reach out to those small and micro-enterprises with basic business plans, many of which operate in the informal economy. As proposed in the Nairobi case study, governments should also foster the creation of credit rating or risk classification systems for the informal economy. This could encourage commercial banks to open up small lines of credit to those segments of the informal economy considered ‘less risky’ for the banks.

(d) Enterprise development and capacity building

Provision of business development facilities for small entrepreneurs has a major role to play if the productivity of the informal economy is to be enhanced and its gradual regularisation promoted. The private sector and large business associations can make a significant contribution in this area, but it is largely for public policies to help build the capacities of informal traders and small businesses. Specific measures highlighted in several case studies include (i) training to improve entrepreneurial skills; (ii) promoting the transfer of appropriate technology and knowledge; (iii) providing information on investment and trade opportunities; and (iv) upgrading marketing skills.

A good instance of this can be found in Bangkok, where municipal provision of occupational training, (including in the use of local raw materials) and of initial capital inputs (to occupational training centres) support the above-mentioned OTOP programme. The training centres help disseminate information, occupational training, skills development and basic financial support on an integrated basis. The OTOP programme also encourages participants to use the knowledge centres that promote the self-help capabilities of local communities.

The Durban case study examines two government programmes specifically designed to provide training to the small, medium-size and micro-enterprise (SMME) sector. Manufacturing Advice Centres offer sector-specific advisory services to manufacturing SMMEs in order to enable them enhance productivity and improve international competitiveness. The Nt-sika Enterprise Promotion Agency provides a range of facilities to small businesses, including management and entrepreneurship schemes, technology transfer

schemes, and market access and business development programmes. However, the case study argues that these programmes should give more attention to the needs of micro- (as opposed to medium-size and small) enterprises.

In addition, following the introduction of national legislation requiring all food premises to obtain a hygiene certificate, Durban's Health Department has devised a set of minimum health standards for informal traders and developed a code of good trading practice. City health officials have also provided interactive training sessions for an estimated 1,500 vendors. The case study concludes that thanks to this proactive initiative, the city has reached its objective of maintaining an acceptable standard of hygiene, namely, protecting the health of the general public while supporting informal traders.

The Lima case study shows that a nationwide training programme has provided technical assistance to small and micro-enterprises at various stages in the production process. Networks of entrepreneurial service centres have been developed for small-scale businesses, together with technical innovation centres to stimulate improved product quality and productivity. National legislation has also called on government entities to boost small and micro-enterprise sales through access to sub-contracting, government procurement and promotion of fairs and other commercial opportunities. The Nairobi case study further suggests that governments should encourage universities, polytechnics and technical institutions to develop certified, demand-driven courses on entrepreneurship and business management.

(e) **Reduced tax burden**

As stressed throughout this report, when the costs of regulatory compliance are set too high, informal traders will choose to avoid them and remain informal. In fact, low rates of compliance are associated not only with high taxes but also with complex tax regimes. As the Nairobi case study concludes, a cumbersome tax regime acts as a barrier to the graduation of informal enterprises into the formal sector. Low rates of compliance may, in turn, lead to a vicious cycle identified in the Mexico City case study: "governments faced with a low tax base due to high tax avoidance by the informal economy may try to increase revenue through higher marginal tax rates; higher tax rates in turn increase the incentives to become informal, leading to an even lower tax base".

Furthermore, as noted in the chapter on Lima, the potential gains arising from significant reductions in the cost of registration can often be offset by high taxation and license fees. Both national and municipal governments should, therefore, make concerted efforts

to lower not only the cost of registration but also the cost of running formal businesses. Particular attention should therefore be paid to reduce unrealistically high tax burdens – including municipal licensing fees and social security contributions by both employers and employees – in order to promote gradual regularisation of the informal economy. Streamlined tax regimes for small enterprises – as experimented with in Peru – can also encourage regularisation, as long as they eliminate duplication.

The case studies also show, however, that many informal operators face various types of fees and payments – including through sheer extortion – that can be considered as a form of taxation. This, in turn, raises the issue of their rights and obligations as taxpayers. Therefore recognition of street vending as a legitimate economic activity should entitle license holders to tangible benefits, such as provision of basic services and improved access to credit and training, as happens in Bangkok.

The case studies of Durban and Lima further suggest that differentiated fees should be introduced so that informal (and formal) businesses are charged different rents and rates for different levels of service. Such fees would be a function of site or enterprise sizes, desirability of location and the services provided. Other proactive municipal policies could include cutting fees across the board for informal businesses, a move that would further encourage regularisation while generating more jobs and better incomes for the urban poor.

Durban, for example, charges substantially less than other South African cities for street vendor use of inner city space. Furthermore, a new policy currently in the pipeline proposes charging a differentiated rather than flat rental fee for different levels of service, allowing traders to comply with existing rules according to their ability to pay. As a *quid pro quo*, the city would provide a package of services that includes basic shelter, solid waste removal, water, toilets, lighting and storage facilities. Therefore, innovative tax policies for the informal economy should consider the costs of regulatory compliance relative to their benefits.

(f) **Macro-economic stability**

One of the main factors behind the expansion of the informal economy is macro-economic instability and the attendant crises. Therefore, it can be argued that any policies specifically designed for the informal economy (as summarised above) would be more effective if accompanied by broader, stability-oriented macro-economic policies in favour of growth and employment, low inflation and interest rates, and accelerated urban economic development. From this perspective, piecemeal micro-policies – such as relocation

of street vendors to dedicated markets – must come hand in hand with financial sector reform, reduction of interest rates and credit expansion.

As argued in the Mexico City case study, some of the policies that may have contributed most effectively to the regularisation (and thus reduction) of the informal economy, and which are likely to continue doing so in the near future, are macro-economic policies that were not primarily intended to deal with informal economic activities. This is particularly the case, for example, of the financial stabilisation policies put in place in the aftermath of Mexico's currency and financial crises in the mid-1990s. The stabilisation programme led to significant reduction in both inflation and interest rates. As a result, credit to the non-banking private sector, particularly consumer and mortgage credit, expanded rapidly and became generally available on better terms. Improved access to credit arising from macro-economic reform policies can therefore provide powerful incentives for self-employed workers and informal businesses gradually to move into the formal economy.

On the other hand, as also argued in the Durban and Lima case studies, macro-economic policies often have different impacts on the formal and informal economies. Industrial and trade policies that enhance competitiveness often benefit large (formal) enterprises but have little or no impact on small or informal businesses. Similarly, larger businesses invariably benefit far more from general tax or credit incentives than smaller informal enterprises. This is why policies and incentive packages specifically targeted at micro-enterprises and informal traders can also contribute to urban economic growth and produce tangible employment and income benefits for the urban poor.

8.3 Policy Process

At this concluding stage, it is essential to make a clear distinction between the formulation of innovative policies designed to release the economic potential of the urban informal economy on the one hand, and participatory policy processes that include all stakeholders and ensure transparent enforcement of regulatory mechanisms, on the other hand. This final section focuses on the latter.

8.3.1 Participation and transparency

Formal business interests are often brought to bear on national and municipal policy-making through consultation with trade associations, such as chambers of commerce. As concluded in the Lima case study, associations of street vendors and small and micro-entre-

preneurs should also be integrated in policy-making, particularly when dealing with rules and incentives for the informal economy. This participatory process should involve not just micro-level decisions, such as relocation of street markets, but also the formulation of urban economic development priorities as a whole. Greater efforts should therefore be made to ensure that the policy-making process dealing with the informal economy is as participatory, inclusive and consultative as possible. One clear lesson from Lima's innovative initiatives is that when informal sector and entrepreneurial associations participate in decision-making, enforcement efforts are less likely to fail.

In some cases, bottom-up approaches can be effective in bringing about more favourable working environments for informal operators, as illustrated by Delhi's Velodrome Road and Sunday book market experiences. For all the teething problems, such bottom-up initiatives can be effective in creating relatively successful street markets and improving employment and income opportunities for the urban poor. However, as the Delhi case study also emphasises, government support is essential to ensure more stable, metropolitan-wide business environments for informal operators and enterprises.

The policy process in Durban is a particularly useful example of consultative and inclusive regulatory reform. The success of the Warwick Junction Project, for example, can be at least partly attributed to "the participation of all interest groups in determining the appropriate regulations and regulation system." It should also be reiterated that informal economy operators and businesses can, in effect, be part of the solution to common areas of concern, such as cleanliness and efficient use of public spaces, as well as crime and urban congestion.

At the same time, all case studies stress that policy-making processes must be transparent and that mechanisms should be established to facilitate interactive communication among all stakeholders. This can also be facilitated by the existence of a simpler regulatory framework. As the Mexico City case study cautions, complex regulatory frameworks increase the potential for corruption and bribery, as informal operators attempt to sidestep the multiple procedures and avoid the costs imposed by regulations. It should be axiomatic by now that efficient and transparent enforcement of regulations is critical to the gradual regularisation of the informal economy.

8.3.2 Gender-sensitive approach

Several case studies (Delhi, Durban, Lima and Nairobi) show that there are significant gender disparities in earnings and conditions within the informal economy,

and that women are often at a disadvantage to men in several informal sub-sectors, ranging from street vending to small industrial enterprises. A gender-sensitive approach to policy-making should take into account the unique constraints and problems faced by female informal workers, as well as the productive and reproductive roles of women and men in the informal economy.

The Nairobi case study, for example, draws attention to the need for specific government programmes to further entrepreneurship in general, and female-driven entrepreneurship in particular, in the areas of managerial and technical skills, marketing, the establishment of women's associations and credit provision to female entrepreneurs, among others. Particular emphasis is laid on policies that increase women's access to credit by encouraging them to form savings and credit cooperative organisations and promoting networking with commercial banks.

As stressed in the Lima case study, the particular concerns of female informal entrepreneurs should be taken into account through direct participation of their representatives or associations in both the formulation and implementation of regulatory policies for micro-enterprises and street commerce, at both national and municipal levels. Involving women in the policy process is likely to lead to more appropriate and effective regulations that take into account the need of the urban poor to balance income-generating and household activities. In particular, women have a greater need for marketing assistance, given that their household responsibilities often prevent them from engaging in promotional or marketing activities that would take them away from their homes.

Two promising innovative experiences of direct participation – in Delhi and Durban, respectively – deserve to be highlighted as examples for other developing country cities. The proposed women's market in Delhi, for example, is designed to overcome the frequent exclusion of women from the most lucrative street vending tasks. It also shows the important role of self-employed women's associations when it comes to negotiating improved business conditions with municipal authorities.

In Durban, a similar type of association brought together female cardboard collectors and lobbied the local government for assistance. As a result, an interesting three-way 'public-private-community partnership' was established. The city council provided an inner city plot for the establishment of a buy-back centre, whereas a private sector recycling company provided the scales, storage containers for the cardboard and trolleys for the collectors. The women's association cooperated with city officials to devise and implement this initiative, and also provided training to the cardboard collectors. The success of the inner

city buy-back centre has since led to the opening of several similar schemes throughout Durban. Such proactive and cooperative initiatives by both informal sector associations and municipal authorities can therefore result not only in better incomes for informal sector women, but also more environmentally sustainable avenues for urban development.

8.3.3 Improve data collection for policy-making

As discussed in Chapter 1 and as the six case studies have shown, there is no universally accepted definition of the informal economy and statistical data across countries differ widely in this respect. Therefore and as a matter of urgency, the international community should support and strengthen ongoing joint efforts by national statistical offices, research institutions and organisations of the United Nations system to produce more reliable and internationally comparable data (see ILO, 2002b). As stressed in the Nairobi case study, government statisticians, in collaboration with the private sector and the international community, must also collect gender-disaggregated data to facilitate gender-responsive planning and policy formulation.

More specifically, it is for the international community to provide technical assistance to developing countries, as required, to collect data on the informal economy and bring national systems to international standards. Particular efforts should be made to gather and disseminate more accurate national and urban data on (i) the informal economy's share of gross national income or output; (ii) informal employment as a percentage of total employment; and (iii) the gender and age characteristics of those engaged in the informal economy.

Gathering accurate and reliable data is critical not only for formulating appropriate policies and programmes, but also for promoting comparability across countries and over time. Last but by no means least, improved statistics would help focus the attention of policymakers on the contributions of the informal economy to urban economic growth and, in particular, to better incomes and employment prospects for the urban poor.

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