

The Informal Economy for local economic development

SDG 11 Make cities and human settlements inclusive, safe, resilient and sustainable.

Target 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

SDG 1 End poverty in all its forms everywhere.

Target 1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 per day.

Target 1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.

Target 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

” Key Statements:

Many slum dwellers are engaged in economic and livelihood activities that sustain families and contribute to the broader urban economy.

Participatory city-wide slum upgrading is an approach that:

- 1) Improves all stakeholders understanding of slum dwellers' contribution to local and city-wide economies and,
- 2) Harnesses the assets of that activity to strengthen economic activity.

Harnessing and integrating the informal economy into the broader urban context, is thus a quality of life and sustainability win-win for all.

KEY MESSAGES:

- Informal employment comprises more than one-half of non-agricultural employment in most regions of the developing world – specifically 82 per cent in South Asia, 66 per cent in Sub-Saharan Africa, 65 per cent in East and Southeast Asia and 51 per cent in Latin America. In the Middle East and North Africa informal employment is 45 per cent of non-agricultural employment. Eastern Europe and Central Asia have the lowest level – at 10 per cent – which reflects the legacy of a centrally planned economy where informal activities were considered illegal and even forbidden¹.
- There are important productivity and livelihood dynamics operating in slums specifically that enable people to earn enough money to survive but also to service the needs of many broader urban economic activities². These activities are largely unrecognized and untapped but should be considered a benefit and asset for all.
- Slum dwellers and participants in the informal economy contribute to the formal economy in many ways including their cheap labor as well as income generation systems such as the payment of smaller fees for conducting business. This is often against the background that slum dwellers are perceived as ‘non-contributors’ to these systems.
- There is often a strong gender component to the informal economy in slums³ as in many countries, the percentage of women in informal employment is higher than that of men⁴.
- Informal economic activities are often the only feasible way to earn a living for slum dwellers and therefore pose the solution to income generation. Ways of undertaking business are adapted to a fast and ever changing atmosphere regarding the circumstances of the informal entrepreneur and worker as well as to the business environment
- Those working in the informal sector often face a range of impediments to growing their subsistence livelihood activities to more secure productive businesses. While many have honed entrepreneurial skills, most have limited skills to run a more substantial business. They lack access to critical business, marketing, and employment networks. Likewise

they have neither the capital for startup investments nor the necessary working capital. Because many live a ‘hand to mouth’ existence, they cannot take advantage of educational opportunities. Although some technologies like cell-phone communication are becoming wide spread other technologies are usually their beyond reach. Limited access to land and especially secure land rights prevents them from moving from the subsistence economy into more productive businesses and the formal economy.

- The provision of basic services such as water and electricity make a significant difference to the capacity for economic activity and should be prioritized in slum upgrading activities.
- Participatory slum upgrading is a tool to understand and map the informal economy. It can be undertaken alongside other key community mapping processes.
- Participatory slum upgrading also provides an entry point to understand how the positive dimensions of the informal economy of slums and informal settlements can be harnessed. Attention to public space for livelihood generation, the types of activities women are engaged in (reflecting the often high proportion of female headed households in slums), where broader transport, mobility and market linkages can be created, and how micro-financing networks can be strengthened, can help.

KEY RECOMMENDATION:

Recognize that slum dwellers economic activities strengthen families and livelihoods and contribute to broader urban development via the informal economy.

KEY ACTIONS:

Utilize a participatory enumeration process via the national or city-wide slum upgrading strategy, to understand the depth and breadth of the informal economy and how it links with the rest of the urban environment.

Address the impediments limiting the inclusion of the informal economy with broader city-wide socio-economic functions. Take incremental action to improve local infrastructure, strengthen savings networks and develop business knowledge.

1 Chen, Martha (2011). Women in the informal sector: a global picture, the global movement. Professor, Radcliffe Institute for Advanced Study Lecturer in Public Policy, Kennedy School of Government Coordinator, WIEGO

2 WIEGO (2013). Men and Women in the Informal Economy.

3 Chen, Martha (2011). Women in the informal sector: a global picture, the global movement.

4 xi. WIEGO (2013). Men and Women in the Informal Economy

Table 1: Additional Recommendations and Actions for local economic development

ADDITIONAL RECOMMENDATIONS	ADDITIONAL SPECIFIC ACTION
RECOGNIZE SLUM DWELLERS	
Start to institutionalize a more positive outlook focusing on what slum dwellers actually contribute to the broader urban environment (employment, livelihood activities, local economic development and cultural activities).	Use the development of a national or city-wide slum upgrading strategy to foster mind-set change towards slum dwellers and promote the link between human rights, economic development and sustainable urbanization.
Recognize that broader urban economic development cannot be addressed in isolation nor without recognizing and understanding the contribution of slum dwellers.	Undertake a review of local economic development plans and city-wide economic development plans, considering transport, mobility and infrastructure development plans and land issues – to understand how they are connected with slum upgrading (make links to the city-wide slum upgrading strategy).
Reflect a 'city-wide approach' to understanding the informal economy and how slum upgrading can support local economic development.	
UNDERSTAND THE DIMENSIONS OF THE INFORMAL ECONOMY IN ALL URBAN AREAS AND ITS ROLE IN SUPPORTING THE FORMAL ECONOMY	
Understand the depth and breadth of the informal economy in slums and its relationship to the rest of the urban context.	Work towards a detailed participatory enumeration process to map livelihood and economic activities in your urban slums. Pay attention to how they relate with and link to broader urban economic activities and who is and isn't benefit-ting from these.
Use this information to inform local economic development and planning activities.	
MAKE 'ECONOMIC INCLUSION OF SLUMS DWELLERS' A KEY URBANIZATION ACTIVITY	
Make the socio-economic inclusion of slum dwellers a priority for facilitating city-wide prosperity.	Develop a broad stakeholder group to develop a city-wide slum upgrading strategy which considers the strengths of slum dwellers and how local economic development can better be supported.
Understand the negative impact of poor quality infrastructure and utility on economic activity.	Make efforts to improve access for slum dwellers to broader economic development opportunities by prioritizing investments in infrastructure that connect slums to other parts of the urban context as part of an upgrading programme, support local infrastructure improvements.
Understand micro-financing options in your urban context especially that are available for slum dwellers.	Undertake a review of micro-financing options for various vulnerable groups.
Understand the role of policy and plans to support economic development in slums.	Review current policies and plans and assess how they support economic development in slums. Ensure future policies and plans are underpinned by a pro-poor dimension.
Strengthen financial and networking mechanisms which enable informal entrepreneurs access to the necessary resources to grow their businesses and find adequate employment.	Support local community groups in slums to strengthen their skills and formal business 'know-how' paying particular attention to women and youth. In collaboration with the other key government departments and levels of government, develop a mechanism to provide 'soft loans' to community based and managed local enterprises to support promising businesses. Develop loan funds that use government and philanthropic funds as collateral for new businesses. Ensure business training and ongoing support to new businesses. Create technical and non-technical business hubs and incubators for small scale enterprise development, Establish network based employment services. Establish virtual and actual meeting places for initiatives to go from ideas to ventures.

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