

Towards Sustainable Urban Poverty Alleviation Strategies For Informal Sector In Developing World

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Introduction

The developing world is currently faced with a serious development challenge resulting from rapid urbanization. The pace of urbanization in certain countries has accelerated. The consequences of urbanization in terms of environmental degradation and deteriorating living standards are in fact already visible. In most cities of the developing world investment in infrastructure including housing has failed to keep pace with the growth in population, which has a direct negative consequence on the living conditions and productivity of labour and other resources. It has however become increasingly clear that unless the level of urban poverty is significantly reduced there is little chance of reversing current trends¹. Substantial urban poverty not only limits the scope for mobilizing the revenue of urban authorities; but also it limits the demand for housing and basic urban services due to low incomes. Employment is the most effective instrument to reduce poverty on a sustainable basis it is imperative that the development policies place emphasis on higher productivity and incomes of workers².

Since the informal sector, consisting of very small scale economic activities, accounts for a substantial, and increasing, share of urban employment in most developing countries, and since a large majority of the urban poor depend on such activities for their livelihood, any credible strategy to reduce urban poverty in these countries must pay due attention to this sector. This policy paper addresses the issue of raising incomes of workers in the informal sector. It presents and summarizes the lessons learnt from critical appraisal of the on-going efforts and operational activities in the developing world especially in Egypt. More importantly the paper emphasizes the need to consider certain reforms and the creation of an enabling environment for the poor to help themselves.

Efforts are being made to assess the extent of damage caused to the urban environment as a result of: localized air pollution resulting from energy combustion in transport, industry and households in densely inhabited areas; toxic and non-toxic wastes; poor and insufficient waste disposal systems; heavy reliance on biomass materials as the main energy source for domestic needs; increasing share of urban population living in marginal and environmentally vulnerable locations due to scarcity of land and inappropriate human settlement policies; inadequate water supplies of acceptable quality pushing households to draw water from sources that are increasingly polluted; and poor city maintenance causing a variety of atmospheric pollution and traffic congestion. Improving the urban environment in developing countries thus clearly involves major challenges on several fronts: resources, management, institutional and technological capacity of the urban authorities. It also raises questions about the capacity to maintain the systems on a continuing basis once they are established versus, sustainability³.

Urban Poverty And The Informal Sector

The very small units in the informal sector or "micro-enterprises" as many prefer to call them, have diverse objectives. Inadequate understanding of this has often been a major source of confusion, and has led to contradicting policy prescriptions. It was initially believed that most of those in this sector are there by default i.e., in the absence of jobs in the public and modern private sectors they had no where else to go but to set up their own small business to earn their livelihood a survival strategy. It was therefore argued that the focus of policy interventions should be to assist those in the sector to help themselves i.e., enable them to maximize their incomes. But further studies have shown that this is not entirely true. Motives for participation in this sector vary:

- Existence of profitable opportunities. *Some enter this sector voluntarily because there are profitable opportunities, they leave formal sector to establish own enterprises in the informal⁴.*

- Labour market flexibility. *Many, particularly women, prefer this sector because it offers flexibility in participation e.g., combine household responsibilities with income earning opportunities by choosing their own hours and place of work as well as the activities*⁵.
- Non-compliance with regulations. *Many units often choose to be small and remain unlicensed or invisible and thus get mislabelled into the informal sector so that they can avoid compliance with some or all regulations, since compliance with them adds to cost burden*⁶.

These appear to be mutually exclusive categories, but over a period of time the informal sector units straddle between them as they discover new opportunities. Though the motives for participation vary they do have a single common characteristic each of these units is independent in the sense that it is free to make its own decisions about business. The policy implication of this is of course that the incomes and productivity of these units can be influenced through direct assistance programs aimed at strengthening their productive capacity and changing the business environment in which they operate.

Finally it should be stated that the scope of the informal sector covers only the *gainful economic activities that are considered socially desirable*, and it thus excludes activities such as criminal, begging, and drug trafficking which are considered as anti-social. In some countries, the activities may themselves be legitimate but the authorities consider them otherwise because they violate existing regulations. Insofar as these are not criminal activities aimed at exploiting certain market opportunities the remedy seems to lie in the conditions that give rise to such activities in the first place.

Response From The Governments And International Donor Community

The governments of developing countries and the international donor community have responded to the challenge of increasing the employment and incomes of workers in this sector. National authorities in many countries were initially reluctant even to recognize, let alone support, this sector; it was believed that with modernization and economic growth the sector would disappear. But over years they have come to realize that this sector is unlikely to disappear in the foreseeable future.

1- Current interventions to assist the urban informal sector: International interventions

A number of initiatives to assist the informal sector have been underway in a number of countries for almost two decades. Some of them have focused on the broader objective of micro-enterprise development while others have sought to ease one or more specific constraints⁷. The following section of this paper introduces current efforts on the international and national level to assist this sector of the society, and how these interventions have been effective in raising incomes:

a) Easing access to credit

Perhaps the most widespread intervention has been the provision of credit. Since credit is not accessible from formal sources the focus has been on the creation of alternative sources and developing alternative delivery mechanisms. Most of these interventions have focused on alleviating credit constraints for the rural poor but some have also targeted the urban poor⁸. Access to credit has been made easier by simplifying documentary procedures and repayment terms, and by reducing the time for loan disbursement. These interventions have successfully managed to cover the very high overhead costs of handling a large number of very small loans by charging a rate of interest well above the commercial rate⁹. Though interventions in favour of the urban informal sector have been taking place only during the last two decades there is a considerable literature assessing their effectiveness. It reflects the growing concern among the donor governments as well as multi-lateral agencies about the problem of urban poverty in developing countries and the effectiveness of solutions proposed thus far. Credit to micro-enterprises being the most popular form of intervention these studies have focused on. Most of them agree that interventions designed to ease access to credit have been successful¹⁰.

b) Easing access to training and technology

Efforts to alleviate other constraints such as, lack of access to training through formal institutions have been few. Some non-governmental organizations have been trying to make skills accessible to underprivileged youth in urban areas by organizing training courses, paying due attention to their aspirations, constraints and capacity. Project based training in informal sector generally emphasized

training on-the-job. In some cases, they have sought to improve the existing informal apprenticeship system. Leaving aside these few efforts it would seem that there has been no systematic attempt to improve the skills of workers in urban informal sector. Further skill upgrading through ad hoc projects included an element of subsidy since the beneficiaries were rarely asked to pay for the training cost¹¹.

Regarding interventions designed to ease access to other resources or markets there has been little critical evaluation. There are few quantitative assessments of projects designed to improve skills and technology in the informal sector. Since the beneficiaries were rarely asked to pay for these services it is not clear if the benefits generated were adequate to cover the cost. Further many of these projects had multiple interventions viz., provision of credit, upgrading skills and technology, and consequently it is difficult to assess their individual effectiveness. In isolated cases where government authorities made specific inputs or imported materials to specific activities in the informal sector they seem to be quite successful. In fact a survey of literature suggests that projects adopting a minimalist approach, aimed at alleviating some specific constraints based on a limited coverage have been successful¹².

c) Access to land and infrastructure

Turning to infrastructure, attempts have been made by some city governments to create kiosks or market places by allocating land and by constructing low cost structures where street traders might locate themselves and thus provided them legal recognition and support. For informal manufacturing units industrial sheds have been constructed and made available on a rental basis in some countries. Only in a few cases such as Kumasi town in Ghana did the city plan provide land for selected informal sector activities and thus attempted to integrate it with the mainstream urban economy. With regard to the provision of infrastructure the main problem has been one of excess demand; the facilities created were insufficient to satisfy total demand and consequently they had to be rationed on the basis of certain criteria. In many cases the rental charged for the facilities automatically served as a screening device. Where mini industrial sheds were attempted they seem to have had a very low rate of success either because they were too costly to rent or they were in inappropriate locations, usually far away from central markets. There have been instances where the micro-entrepreneurs deliberately avoided occupying the facilities because it implied immediate conversion into formal sector, drawing the attention of various regulatory authorities and hence the threat of additional cost burden. Success or failure of an intervention depends on what is being done to alleviate other constraints¹³. It underlines the need to have an integrated approach to the informal sector promotion in which micro interventions are complemented by other macro interventions like improved policy and regulatory environment.

d) Regulatory framework

With regard to regulations very few attempts have been made to modify them and simplify their application to the informal sector. In Mexico a legislation known as the "Special Statute for the Promotion of Micro-enterprises" was passed in 1988. Similarly Brazil adopted a "Micro-enterprise Statute" in 1985. In Bolivia, Chile and Brazil tax reforms were simplified to facilitate the micro-enterprises. A similar attempt was made in the Philippines but failed to receive political support. In few other cities informal sector projects have successfully persuaded the city governments to give legal recognition to workers in it (e.g., Rwanda)¹⁴.

e) Policy framework

Few interventions have focused on policy changes that would enhance the opportunities for participation by the micro-producers. Certain countries stated their support for the informal sector in official documents such as national development plans. In a few cases the governments even created special units or agencies to oversee the policy implementation (e.g., the government of Kenya established a special unit within the government in the Sessional Paper No.1 in 1986). Though the question of enhancing the demand for informal sector goods and services was addressed in one or two countries by changing the prevailing procurement practices of the government the emphasis has been by and large on easing the supply constraints. In most cases the changes were aimed at assuring the informal sector that they may continue their activities without being harassed by the police or local authorities which no doubt reduced the legal risk and improved the incomes¹⁵.

f) Building capacity among self-help organizations

One of the innovative approaches to raise the incomes of workers and to improve their conditions of work in this sector has been to *strengthen the capacity of grassroots organizations* to defend their interests. Non-governmental organizations have sometimes successfully provoked policy changes using this approach. For example during the 1970s a local NGO in Nagpur city in India successfully organized the rickshaw pullers, about 18000, into a union. Since one of the major reasons for their low incomes was that the vehicles were not owned but instead rented by them, and consequently they were obliged to pay a quarter of their daily earnings as rent, they were keen to obtain government support in obtaining ownership of the vehicle. The union was able to persuade the government and change the law the Public Vehicle Act in 1979 and it became illegal for anyone other than a genuine puller to own a rickshaw. The government even facilitated access to loans so that they can acquire a vehicle¹⁶.

2- Sustainable urban poverty alleviation strategies in Egypt: National interventions-case study of urban upgrading project of Manshiet Nasser District

A series of projects were commissioned to position the approach within the Egyptian context, describing policy implications and future prospects, as well as identifying elements in urban poor communities in Egypt. The paper introduces and analyses one of the major projects, "Urban Upgrading of Manshiet Nasser District", as a local national intervention to alleviate urban poverty in Egypt. Manshiet Nasser is one of the largest informal areas in Greater Cairo, with a population of more than 400,000. Social indicators show that the inhabitants are among the poorest and most deprived in the city. The settlement is located in the foothills and quarries just east of the historic city, and over the last three decades citizens have progressively built their own housing on State-owned, non-agricultural land. *This process has led to a dense pattern of development with a narrow random street pattern and almost no social amenities or open space. Basic water and wastewater services are minimal or non-existent. Tenure lacks security and political representation is weak. The difficult living conditions are exacerbated by rocky terrain and sheer cliff faces* (Fig.1).

In one of Manshiet Nasser's neighbourhoods (Ezbet Bekhit) counting 40.000 inhabitants, the Governorate of Cairo, with assistance from German Development Co-operation, launched first operations in 1998, supported by German Technical Cooperation. Water supply, sewage networks and other civil works are financed by the German Bank of Reconstruction. Today the collaboration between the District of Manshiet Nasser and the Ministry of Housing is well established. A guiding plan shows how the remaining informal areas of Manshiet Nasser can be progressively upgraded. All parties have accepted the concept of participatory development of the whole Manshiet Nasser¹⁷.

The objective is to alleviate urban poverty through the improvement of the living conditions of the residents in a cost-effective manner, and to demonstrate a feasible approach that can be applied to other similar informal settlements in Egypt. A key strategic aim is to promote the maximum amount of community participation in the upgrading process, both to ensure that interventions are appropriate and to guarantee a sense of community ownership of the improvements¹⁸. The project of Ezbet Bekhit involves: re-planning streets and public spaces, providing water and wastewater networks, widening and paving main streets, removing dangers due to unstable cliffs, providing secure land tenure, applying proper building guidelines, making community facilities available, and supporting participatory community development and environmental health initiatives¹⁹ (Fig.2).

Conclusion and Recommendations

As a result for the previous discussion of international and national strategies and interventions generated to alleviate urban poverty for informal sectors in developing countries, the paper concludes by determining several lessons learned from these interventions, and proposes a new effective strategy that could be used to development the urban informal sector in developing countries

1- Lessons learnt from these interventions

A number of lessons seem to have emerged from the experience during the last two decades: (a) Since most interventions were *aimed at channeling resources through ad hoc projects* designed to

reach specific target groups which may be labeled as "supply driven" tended to be costly and time consuming²⁰; (b) These interventions also raise questions about *sustainability*, provision of credit and other forms of assistance imply that the beneficiaries must not only repay the loans with interest but also other operating costs such as the establishment and operation of support institutions or organizations; (c) There may be problems relating to *replicability*, the major bottleneck in replication may not be funding but the capacity of local institutions to expand their programs. The latter implies capacity to manage, train its staff, conceptualize the solutions, and operate in a decentralized manner²¹; (d) These interventions have been *less than comprehensive in terms of coverage*, mainly due to the limited availability of funds and institutional capacity. They reached specific groups or activities only²²; (e) Many interventions *stressed equity rather than productivity increase*; credit interventions were seen as a means of empowerment of the poor. Few recognized the production potential or the need to raise productivity of workers in this sector on a sustained basis; (f) Though some of the interventions, notably by NGOs, sought to consult with the beneficiaries and offered them a tailor made program of assistance respecting their needs and priorities, the same can not be said for many government sponsored program that failed to consult with the beneficiaries; (g) These interventions paid *little attention to the factors which govern profitability*. By focusing exclusively on supply constraints they tended to ignore the macroeconomic policy and regulatory environment or the physical infrastructural facilities needed to ensure a good return on investment²³.

It is evident from the discussion earlier that if the goal of interventions is to eliminate poverty by raising the productivity of the poor on a permanent basis then they must go beyond easing specific supply constraints at the enterprise level to include measures to improve the environment in which the microenterprises function. The evidence also shows that in dealing with the problems facing the urban informal sector not only the national but also the regional/local governments are involved. Generally speaking the national governments have emphasized employment and poverty issues in their action while the local governments have stressed the urban physical environment. The latter plays an important role in enforcing various regulations on the informal sector. But there is hardly any coordination between the different levels of government. Often there are overlapping responsibilities between them. Though the local governments have to deal with the sector on a day-to-day basis they rarely command the resources they need, partly because they lack the necessary political authority.

2- Towards a new effective strategy to develop the urban informal sector

The arguments presented above imply that the approach to deal with the informal sector needs serious rethinking. They emphasize the need for significant structural changes in the developing countries. Elimination of anti-informal sector bias in government policy, which has been advocated for some years now, would no doubt give the sector a level playing field with the formal sector, and thus improve its chances of seizing the opportunities resulting from development successfully. In concrete terms this would be reflected in a modified policy and regulatory environment. Reorienting and restructuring the supply sources in the formal sector, and linking them to their informal counterpart would be a step in the right direction. Improving access to infrastructure would entail a review of existing legislations regarding land use, ...etc.; and regulations regarding supply of power, water, communication facilities, most of them under the control of urban authorities, need to be reviewed too.

a) Encouraging and supporting the development of informal sector organizations

Informal sector organizations have played a key role in the urban poverty alleviation level, they have many opportunities and constrains. The opportunities of these organizations include: The Integration of the informal sector units with the mainstream economy owe it to the existence of grassroot organizations and the pressure exerted by them on the authorities; In the field of credit, it is now widely acknowledged that one of the most effective ways to *improve access to credit* to the poor is through group-based mechanisms; These organizations have been relatively successful in bringing about a *change in the legal environment*, with a partly external assistance from an NGO; *The governments find it easier to deal with such "groups" rather than individual units* within the informal sector, for administrative and communications reasons; These organizations could also serve as a mechanism to *overcome infrastructural constraints and market imperfections*. There however remains

some constrains: *Failure of governments to pass legislations providing these groups legal status; the inherent weakness of such organizations to manage their affairs.*

The various arguments above suggest the need to consider promoting organizations from within the informal sector and, where they exist, to strengthen their capacity to deal with matters that govern their incomes or participation in economic development. But this can run into some political problems if the concerned governments do not recognize such organizations and lend the necessary support. It is imperative that the governments officially recognize such organizations where they exist, and encourage their development where they are absent.

b) Design of direct interventions: Looking into the future

The arguments in favour of this approach are several. It minimizes the dependence on external intermediaries i.e., institutional capacity would be a less limiting factor; and consequently it is more easily replicable. It is also sustainable in the long run because the main actors are the beneficiaries themselves. *The emphasis is on the creation of an enabling environment in which the participants could help themselves.* Since they are already responding to the opportunities the best way they can the creation of an enabling environment could only facilitate the adjustment process and accelerate their integration in the market economy. This approach based on market mechanism being self-targeting, one need not be concerned about issues such as identification of beneficiaries. Since the current experience shows that the poor place more emphasis on accessibility of credit rather than the cost, the market based mechanism, if properly developed, could gain wider acceptance. Perhaps the most important reason for seriously considering *this approach* is that it *has the potential to reduce the vulnerability of the poor.* In the absence of friendly and accessible markets most of the poor, are lured into accepting various kinds of sub-contracting arrangements that are not monitored by the governments. Even if the market based mechanism receives support it needs to be complemented by a direct action program aimed at building individual capacities using the current approaches.

The approach outlined above implies the need to redefine the role played by the various actors in the promotion of the urban informal sector. It places greater emphasis on the individual units in this sector and their ability to interact with the markets directly. Since the poorest may lack such a capacity there is a need build it through appropriate interventions such as training and information (as many NGOs have been doing already). For this strategy to work the markets must be made to work in an equitable and efficient manner, which implies that the governments must *create an appropriate market environment viz.,* undertake the necessary restructuring of institutions and firms as well as revisions in the regulations governing the markets. More importantly the government should create a policy and regulatory environment that is conducive to the growth of productivity and incomes in this sector. Non-governmental and governmental organizations in this framework would play a supportive role in strengthening individual and collective capacity of those in this sector. They could go beyond creating an enabling environment to ensure gradual extension of social protection measures.

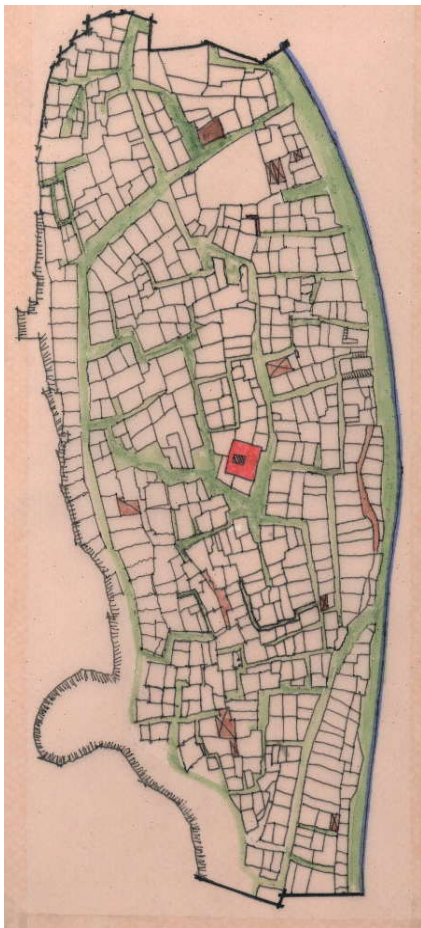
If such market-based mechanisms are seen to have a potential then it would imply a careful reassessment of the current donor funded projects aimed at strengthening the institutional capacity. It seems the focus of donor assistance would shift from microenterprises as at present to governments with a view to enabling them to bring about the necessary changes in the market structure, policy, regulatory and institutional environment. With regard to NGOs the object of assistance would be to strengthen their capacity so that they in turn could build capacity at the individual or unit level. As for organizations from within the informal sector the donor community could facilitate their emergence where they do not exist; and where they do their capacity could be strengthened to take on the multiple role discussed above. With emphasis placed on capacity building at the institutional level including the government (national, urban and local) and on policy and regulatory reforms the role of international donor community could be seen as one of building sustainable capacities in the developing world.

The discussion above suggests that there are a number of issues pertaining to urban governance that remain to be dealt with. In a new strategy what role should be assigned to the different levels of government? What role should be assigned to the private sector, the voluntary NGOs and self-help organizations from within the informal sector? These issues need to be addressed at the national level through involvement of concerned social partners. It is a new direction that deserves to be explored.

3- Conclusion

The urban informal sector is a major source of employment and income in developing countries and it is expanding. It has provided jobs to millions who would have been unemployed otherwise. Many have improved their capabilities and incomes. They have in the process acquired both physical and human capital. And yet the process of generating jobs and incomes in this sector remains inefficient. A majority of the poor is to be found in this sector. There are unmistakable signs that the pressure on this sector to absorb more labour will increase in the future. Such increase in employment is unlikely to be accompanied by increase in incomes unless drastic action is taken soon.

The accumulating experience and knowledge suggest that it is possible to make the process more efficient and equitable. But it would imply surmounting a number of challenges including reforms in policies, regulations and institutions, leading to the integration of the sector with the mainstream development eventually. They are unlikely to come unless those in the informal sector organize themselves and exert pressure on the authorities concerned. The prospects for reducing urban poverty in developing countries also depends critically on their overall economic performance for without adequate economic growth development in the informal sector will only be involutory.



Manshiet Nasser Mass Plan



Difficult living conditions are exacerbated by rocky terrain and sheer cliff faces and housing deterioration



Water and wastewater services narrow random street pattern

*are minimal or non-existent
and almost no social open
space*

Figure No. 1

Environmental degradation and deteriorating living standards in Manshiet Nasser District.
Ref.: Mona Soliman, Ahmed Rashed, Cairo 2002.



Re-planning streets and public spaces, providing wastewater and water networks, and removing dangers due to unstable cliffs

Figure No. 2

Urban upgrading project of Manshiet Nasser District.
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