



Growing out of poverty:

How employment promotion improves the lives of the urban poor

by

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“Growing out of poverty: How employment promotion improves the lives of the urban poor”

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Foreword

Improving the life of slum dwellers is a compelling mission. Creating decent work for all is a similarly ambitious goal. But the day-to-day reality for poor people living in rapidly expanding urban centres is lack of appropriate shelter and the absence of proper jobs. This escalating situation is driving them to work on their own solutions, with their own means.

Local governments and their partner organizations, together with the agencies that support them, can turn these often desperate initiatives into valid opportunities for job creation and better livelihoods. For that to happen, there are two requisites – political will and popular support for integrated approaches that build on and strengthen community organizations and the local private sector. Certainly, national governments need to create the space for local authorities to act and should facilitate the resources this requires. International agencies should provide the necessary technical and financial support that will enable local actors to get ahead.

One recommendation of the Millennium Project's report "Investing in development: A practical plan to achieve the Millennium Development Goals" is to promote jobs, upgrade slums and develop alternatives to new slum formation (Millennium Project, New York, 2005, p. 28). The present paper began as a contribution to Task Force 8 of the UNDP's Millennium Development Project. It largely builds on previous and current work carried out by the Employment Sector of the ILO and related ILO programmes in Africa, Asia and Latin America. In its final form, the paper draws extensively on the work of other organizations and individuals, seeking and documenting evidence and suggestions on how to improve the lives of slum dwellers by focusing on their rights and capabilities to obtain decent work.

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Acronyms and abbreviations

AGETIP	Agence d'exécution de travaux d'intérêt public contre le sous-emploi
CBE	Community-based enterprise
CBO	Community-based organization
CLIFF	Community-led Infrastructure Finance Facility
DFID	Department for International Development
HBE	Home-based enterprise
IADB	Inter-American Development Bank
IMF	International Monetary Fund
MDF	Municipal Development Funds
MDG	Millennium Development Goal
MSE	Micro-and small enterprise development
NGO	Non-governmental organization
PRSP	Poverty Reduction Strategy Paper
SSE	Small-scale enterprises
SSWP	Small-scale water providers
UNCHS	United Nations Centre for Human Settlements (Habitat)
UN-ECOSOC	United Nations Economic and Social Council
UNIDO	United Nations Industrial Development Organization

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Introduction

Slums are a physical manifestation of urban poverty. Many of those living in slums are deprived of adequate shelter and lack access to most basic services. They often do not enjoy any security of tenure, nor can they effectively participate in municipal policy-making. At the root of urban poverty lies the shortage of jobs and of the opportunity to earn an income through decent work. If upgrading programmes and empowerment strategies address explicitly the need for jobs, they will be far more successful.

Policies to improve the life of slum dwellers and to provide adequate alternatives to new slum formation should therefore incorporate employment promotion. This paper documents the employment dimension of urban poverty reduction strategies in general and slum-upgrading in particular. It builds the argument that employment generation for the urban poor can be effectively promoted at the local level through the simultaneous application of key policy measures and tools, producing outputs which are far greater than the inputs required. Employment generation should not be left to “trickle down” as the outcome of policies and interventions in other areas. Pro-poor job creation can and should be actively promoted as a key step out of poverty and an important stride towards greater social integration.

This paper shows how improvements in infrastructures, shelter and services would be much more sustainable if supported by the simultaneous promotion of decent employment opportunities to reduce urban poverty. Employment provides households with the financial means necessary to ensure access to adequate housing, essential services and basic needs. A decent living requires decent work. The challenge is twofold: not only are many more jobs required to absorb the ever-growing urban labour force but, equally important, strategies are also needed to enhance the quality of urban work in terms of returns to labour (productivity, income) and working conditions.

Since the adoption of the Habitat Agenda, in Istanbul, 1996, much progress has been made to strengthen the link between equitable and sustainable human settlements and poverty reduction. In 2000, the United Nations system assigned UN-HABITAT the responsibility of assisting Member States to monitor and gradually attain Target 11 under Millennium Development Goal 7 of ensuring environmental sustainability, “to have achieved a significant improvement in the lives of at least 100 million slum dwellers by 2020”.¹ In April 2005, the Commission for Sustainable Development of the UN-ECOSOC, entrusted with the follow-up of the conclusions of the World Summit for Sustainable Development, adopted practical policy recommendations to promote employment and stimulate enterprise development as part of the sustainable development of human settlements. Earlier in 2005, the Commission for Social Development of UN ECOSOC adopted a Declaration to reaffirm Member States’ commitment, among others, “to eradicate poverty, promote full and productive employment and foster social integration to achieve stable, safe and just societies for all”.²

Section 1 of this paper deals with the issues of expanding slums and increasing poverty, and two of its outcomes – spiralling urban youth unemployment and the feminization of urban poverty. Section 2 emphasizes that national policies favouring employment-intensive growth are critical for urban economies and discusses budgetary policy and public investment, labour market policies and the scope and means for local municipalities and actors to attract economic partners, mobilize the local private sector

¹ <http://www.unhabitat.org/mdg/>, pdf files available in English, French and Spanish.

² <http://www.un.org/esa/sustdev/csd/csd13/csd13.htm>

and engage the poor meaningfully in economic development. Section 3 looks at the central importance of infrastructure as an end product to improve living conditions and the economic opportunities in low-income urban areas. Section 4 shows how local action can make urban development strategies explicitly pro-poor and pro-employment by optimizing the employment impact of physical upgrading strategies in infrastructure. Section 5 discusses public-private partnerships and how to procure work and services at the local level. Section 6 reports on how best to promote the creation of quality jobs in the local, small-scale private sector. Each of these avenues imply mobilizing and maintaining constructive partnerships with civil society and the private sector, and dialogue and ensuing partnerships between representative organizations and the authorities. Section 7 draws conclusions and offers explicit policy recommendations to alleviate the plight of the urban working poor under three interrelated dimensions: (i) employment opportunities, (ii) access to basic infrastructures and services and (iii) social inclusion.

1. Urban poverty, income and employment

“In facing the challenge of slums, urban development policies should more vigorously address the issue of livelihoods of slum dwellers and urban poverty in general, thus going beyond traditional approaches that have tended to concentrate on improvement of housing, infrastructure and physical environmental conditions.” (UNCHS, *The challenge of slums, Global Report on Human Settlements*, 2003, p. xxvii.)

This excerpt is one of the main messages of Habitat’s recent global assessment of slums. It puts the “cities without slums” challenge squarely in the global fight against poverty, and underscores that urban policies and programmes should not only address the physical aspects of slums, but focus much more explicitly on the fundamental problems of un- and underemployment, lack of income-generating activities, disempowerment and exclusion, as well as rising income inequalities.

1.1 Slums and urban poverty increase worldwide

The worldwide number of slum dwellers was 924 million in 2001. By 2030, this number is projected to increase to 2 billion. Slums will continue to expand, even in fast-growing developing economies. They are the physical manifestation of growing urban poverty, also known as the urbanization of poverty: an increasing number of the world’s poor are living and working in cities. Currently, close to 30 per cent of the urban population in developing countries lives below official poverty lines.³ It is estimated that by 2020 this proportion could reach 45 to 50 per cent of the total population living in cities – a 297 to 355 per cent rise in absolute numbers (from 128 million households in 2000 to between 381 and 455 million households in 2020).⁴ As Box 1.1 shows, the speed and magnitude of urbanization pose an urban management challenge, particularly in sustaining the provision of adequate jobs, infrastructure and basic social services, especially in developing countries.

Box 1.1: The increasing urbanization of poverty in Africa

- In the next 25 years, roughly 400 million people will be added to the African continent’s urban population, putting tremendous pressure on cities.
- Africa is likely to host an exceptionally large slum population in the years to come. From 1990 to 2001, African urban slum populations increased by about 65 million, at an average annual rate of 4.49 per cent, or about 2 per cent more than the total population growth (2.68 per cent).
- Based on these estimates, if no effective pro-poor policies are implemented, urban slum populations are likely to double, on average, every 15 years, while the total population doubles every 26 years.

Source: UN-Habitat, 2004(b).

³ Cities Alliance, www.citiesalliance.org

⁴ “Meeting the urban challenge”, in *Population Reports*, Johns Hopkins University, Vol. 30, No. 4, Fall 2002, cited in UN-Habitat, 2003a.

Urban management: The jobs challenge

How does accelerating urbanization affect employment and the labour market? Over the next ten years, the ILO⁵ estimates that 500 million people will join the world's job markets, most of them young people in developing countries with secondary level education and training. They will join the 180 million unemployed and the 550 million working poor, seeking to use their talents and abilities in a productive and gainful manner. About one billion jobs need to be provided by the end of this decade simply to employ new entrants to the labour market. This would require both faster economic growth and policies to promote the creation of decent and productive work opportunities. In view of global trends, pro-poor and pro-jobs policies and programmes are urgently needed in urban areas. So far, the inability of cities to absorb the influx productively and generate enough jobs of decent quality has led to increasing levels of urban informality, poverty and insecurity.

Urban poverty is a multidimensional phenomenon. Lack of access to employment and adequate income is the main determining factor of poverty, especially in urban areas. Urban dwellers are required to spend a larger part of their cash income on basic goods and services (food, fuel, water, shelter, sanitation) than rural dwellers. The poor also suffer other deprivations such as inadequate housing and job insecurity, disempowerment and lack of basic infrastructures and services, of social protection, of access to health, education and personal security.

The linkages between the income dimension of urban poverty, its causes and its impacts on other dimensions of urban poverty are summarized in Table 1.1.

Employment is the first step out of poverty and an important stride towards greater social integration. It is the key to creating wealth and the primary instrument for its equitable redistribution. Employment impacts directly and positively on the other dimensions of urban poverty.

“Nothing is more fundamental to poverty reduction than employment. To treat it as a residual outcome of macroeconomic and sectoral policy is wasteful and wrong.” (Global Employment Agenda, ILO, 2002).

Employment generation should be a top priority for urban planners, managers and decision-makers. Well-defined policies are necessary to promote employment for the urban poor. Efforts to improve the living conditions in low-income settlements can by themselves be a source of employment and wealth creation. Conversely, jobs are more easily destroyed than created, hence the importance of the municipal regulatory framework and planning that should facilitate and steer, rather than obstruct, the informal and small-enterprise sector.

⁵ ILO, 2004a.

Table 1.1: The income dimension of urban poverty

Visible causes or contributing factors	Policy-related causes	Impacts on other dimensions of poverty
Underemployment: Staunch competition for low-paid and low-productivity jobs.	Macroeconomic crises reduce real incomes.	Inability to afford housing and land, thus, underdeveloped physical capital assets.
High degree of income insecurity, of wage earners (casual work) and self-employed workers (informal sector).	Failure of public services such as education, health, infrastructure, transport to keep up with demand and to serve the urban poor (including issues such as resource allocation, accountability, pro-poor planning and implementation, civic participation, political rights).	Inability to afford adequate quality and quantity of essential public services, e.g., water supply and solid waste removal, thus unhygienic living conditions and health risks.
Lack of social protection and vulnerability: Illness, accident or death can take a whole family from mere poverty to extreme poverty. ^a		Poor human capital – bad health and educational outcomes due to stress, food insecurity, and inability to afford education and health services.
Unskilled wage labour/lack of qualifications to get well-paid jobs.	Regulatory constraints on small enterprises perpetuate “informality” of work available to the poor, discourage asset accumulation and access to credits, and increase vulnerability of workers.	Depreciated social capital, high inequalities and frustration (youth unemployment) lead to violence and crime, further impeding local economic development.
Inability to hold a job due to bad health.		Occurrence/persistence of child labour.
Lack of access to job opportunities (urban poor often have to trade off between distances to jobs and costs of housing).		

Note: A study of 12 slums in India confirmed and highlighted the critical importance of illness of an income earner as the most significant shock faced by low-income households, pushing families into poverty and debt (Amis, 2001).

Source: Adapted from www.worldbankorg/urban/poverty/defining.html

Informal employment is growing

Over the past few decades, the formal sector proved unable to generate enough job opportunities to meet the growth in urban jobseekers, and both the qualified unemployed and people with low employability were obliged to turn to informal self- or wage employment.⁶

Table 1.2 shows that in all developing regions, informal employment rose between the 1980s and the 1990s, providing a solution of sorts for an increasing number of urban workers.⁷

⁶ See Annex 1 for an explanation of the terms “informal sector enterprises” and “informal employment” as defined by the International Conference of Labour Statisticians, 1993 and 2003.

⁷ A trend confirmed by the *ILO Compendium of Official Statistics on Employment in the Informal Sector*, 2002: “In the case of all countries, for which (such) comparable time series are available, (except Thailand and Poland) the data show an increase in employment in the informal sector for both men and women.”

Table 1.2: Trends in informal employment – Major regions (1980-1999)

Region	% share of informal employment ⁽³⁾	
	1980-89	1990-99
Asia	53.0	63.0
Latin America ⁽²⁾	52.3 ⁽¹⁾	56.9 ⁽¹⁾
North Africa	38.8 ⁽¹⁾	43.4 ⁽¹⁾
Sub-Saharan Africa	68.1 ⁽¹⁾	74.8 ⁽¹⁾⁽⁴⁾

Notes: ⁽¹⁾ Non-weighted arithmetical means; ⁽²⁾ Informal employment estimates for 1990 and 1995; ⁽³⁾ As a share of total non-agricultural employment; ⁽⁴⁾ Excluding South Africa.

Source: Charmes, 2000, cited in ILO, 2002c.

As Table 1.3 shows, self-employment accounts for a larger share of non-agricultural informal employment than wage employment in all developing regions. In sub-Saharan Africa, the exclusion of South Africa in these figures would raise the share of the self-employed from 70 to 81 per cent of non-agricultural informal employment.

Table 1.3: The share of self-employment in non-agricultural informal employment, by sex, 1994-2000

Region	Self-employment as a percentage of non-agricultural informal employment		
	Total	Women	Men
Asia	59	63	55
Latin America	60	58	61
North Africa	62	72	60
Sub-Saharan Africa	70	71	70

Source: Data prepared by Jacques Charmes, cited in ILO, 2002c.

1.2 Urban youth: The quest for work

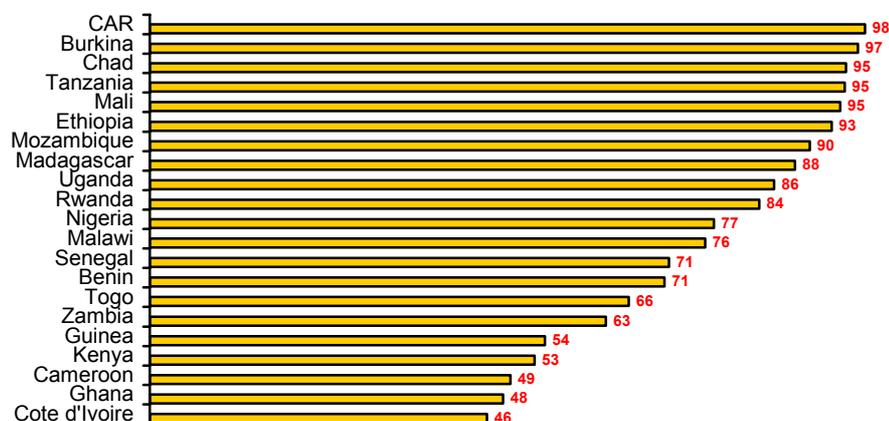
Youth⁸ unemployment is a particularly pressing problem in urban areas, and even more so in slums, which often comprise a relatively young population.⁹ Young people constitute a large proportion of the rural-urban migration while older people often return to their rural areas to “retire”. Youth are particularly affected by growing urban poverty, high levels of unemployment, changing family patterns, the HIV/AIDS pandemic and deteriorating environmental and health conditions over the past 20 years. At the same time, young people are partners of today and the promise of the future. Failure to invest in

⁸ Young people are defined by the United Nations as persons between the ages of 15 and 24 years (UN, 1992).

⁹ For example, a survey carried out by the Slum Department of the Municipal Corporation of Delhi found that nearly one-third of the slum population is below the age of ten, over 55 per cent is less than 20 years old and only 10 per cent are over 40 (*The Hindu*, 21 September, 2002).

youth imposes great constraints on the potential for future development.¹⁰ Data indicate that in Africa, 46 to 98 per cent of working youth in slums are engaged in informal economy activities (Figure 1.1).

Figure 1.1: Africa – Percentage of youth in slum areas working in the informal economy



Note: CAR = Central African Republic.

Source: Gora Mboup, Global Urban Observatory, UN-Habitat, June 2004.

Global Urban Observatory data further reveal that youth living in non-slum areas are twice as likely to still be attending school as youth in slums. Young slum dwellers drop out of school earlier, enter the job market earlier and are either working in the informal sector or seeking a job. They are more likely to have a child, to be married or to head a household than their counterparts in non-slum areas. As family responsibilities increase, the needs to earn an income also evolve. However, due to the adverse economic conditions in most African cities (and countries) and low levels of education, most young slum dwellers end up eking out a living from marginal and low-income (and sometimes illegal) activities in the informal sector. Trapped by a vicious circle of low earnings, insecure jobs, low education and early family responsibilities, in a highly competitive job market because of widespread un- and underemployment, these young women and men have very little opportunities to raise themselves and their families out of poverty. They have little opportunity to raise themselves and their families out of poverty. This situation has broader consequences: youth who have limited job prospects and are frustrated about their future are more at risk of falling into personally and socially destructive activities. In turn this deters investment and undermines efforts to start a process of local economic development.

The disastrous effects of urban youth unemployment are becoming particularly apparent in Latin American and Caribbean cities. Economic stagnation, poverty and extreme income differentials within these cities lead to a growing prevalence of crime and violence, especially among abandoned street children and unemployed young people. Inadequate skills and scarce employment opportunities make young people more

¹⁰ Tackling youth unemployment and the consequent vulnerabilities and feelings of exclusion would be a significant contribution to the global economy. According to the ILO's *Global Employment Trends for Youth*, 2004c, halving the world youth unemployment rate would add an estimated US\$ 2.2 to 3.5 trillion to global GDP, or around 4.4 to 7.0 per cent of the 2003 global GDP value.

susceptible to initiate and participate in rebellions and insurgencies and to resort to illegal means of income. High crime rates deter investment, thereby perpetuating poverty, feeding more crime and civil unrest. This vicious circle may ultimately threaten the stability and democratic values that were hard-gained over the past two decades, as well as the economic and political stability of the region.¹¹

1.3 The feminization of urban poverty

Poor living conditions in slums, the lack of water, sanitation and electricity, pollution and precarious housing, affect women more than men. Women also bear the burden of raising children under the most appalling conditions. In UN-Habitat's *The State of the World's Cities* (2004), all of the standard indicators – poverty rates, healthcare, education, participation in the labour force and participation in the political process – reveal the extent to which urban women are worse off now than they were a decade ago. The urbanization of poverty is accompanied by another phenomenon in many parts of the developing world – the feminization of poverty. In urban areas as in informal settlements, up to 50 per cent of households are headed by women, who typically rank among the poorer segments of the population. Often unable to inherit land and property,¹² women migrate in large numbers from the countryside to urban slums. Once there, they live and work under the constant threat of eviction, crime, violence, HIV/AIDS and the daily dangers of unhygienic public toilets.¹³ Current statistics show that between 58 and 60 per cent of people infected with HIV/AIDS in sub-Saharan Africa are women. Research conducted by the African Population and Health Research Centre shows that slum women are more vulnerable to HIV/AIDS infection than their non-slum counterparts. This is largely the result of the extreme deprivation that prevails in slums. High levels of unemployment, unstable sources of income and the predominance of low-paying jobs push many women and children into prostitution to supplement household incomes.¹⁴

Working women in all age groups depend on the informal economy more heavily than men,¹⁵ accounting for 90 per cent of women working outside of agriculture in India and Indonesia, nearly three-quarters of women in Zambia, four-fifths of those in Lima, Peru, and more than two-thirds in the Republic of Korea. However, the number of women and their economic contributions are likely to be underestimated because they engage in home-based work and street vending, activities which are the most difficult to document.¹⁶ Often, they choose income-earning options that are compatible with childcare and domestic responsibilities. Many women thus perform their economic role from inside or near the house, processing food, selling items, etc. Even within the informal economy, women tend to be concentrated in lower-return segments than men. This results in a significant gender gap in earnings and in the benefits and protection afforded by work.¹⁷ While there is no simple relationship between working in the

¹¹ <http://www.makingcitieswork.org> (USAID)

¹² By law, through culture or common practice.

¹³ World Urban Forum, 19 September 2004, "Dialogue on gender and culture in the urban environment", Barcelona, Spain.

¹⁴ UN-Habitat, 2004b.

¹⁵ According to Sethuraman (1998), women are over-represented in the informal sector in that their share here is higher than their share in the total labour force.

¹⁶ Women in Informal Employment Globalizing and Organizing, see <http://www.wiego.org>

¹⁷ Chen, 2004.

informal economy and being poor, the link, especially in the lowest-return activities, is stronger for women than for men. There is a significant correlation between gender, informality and poverty.¹⁸

Clearly, women slum dwellers must find better ways of generating incomes if they are to improve their own and their families' living conditions. Supporting women's work will lead to support for poor households and poor children. Therefore, as noted also by Chen (2004), a gendered approach to the informal economy is effectively a pro-poor approach.

¹⁸ Sethuraman, 1998.

2. The national context of urban economies

Urban economies are part of, and subject to, the state and the management of the economy at the national level. In spite of the problems caused by rapid urbanization, cities are rightly regarded as centres of productivity and engines of economic growth. They usually contribute a disproportionate share to the gross domestic product¹⁹ and urban environments provide more scope and opportunity for introducing new skills, ambitions, values and standards.²⁰ Yet local governments – urban or rural – have scant influence on national economic parameters such as the macroeconomic environment, the financial sector, or trade and investment policies that have an impact on economic growth and the type of growth that occurs. Nor do they influence active and/or passive labour market policies and public sector reform, notably decentralization and privatization. The national context also comprises the governance framework, in particular the existence (or not) of an enabling environment for social dialogue and public participation in matters of national and local interest, including social and economic policies that affect, *inter alia*, employment.

2.1 Macroeconomic policies and employment-intensive growth

Only a strong and stable economy can generate jobs at decent income levels. But while economic growth is a necessary condition for raising the incomes of the poor, it is not a sufficient condition. Persistent and growing poverty levels and income inequalities, even in countries experiencing fast growing economies, indicate that economic growth is not always spread evenly and does not translate automatically in the generation of gainful employment for the poor at a rate exceeding the growth of the active population, nor in poverty reduction at large. The so-called trickle-down effect does not occur or is too slow.

Macroeconomic policies have profound implications for social equity and employment outcomes, and they determine which groups get what out of the economic pie. Macroeconomic stability provides a predictable environment for investors, employers, the self-employed and the poor to make economic decisions. An unstable environment (e.g. high inflation) generates risks and uncertainty that dampens economic growth and severely limits new employment opportunities. In many cases, the costs associated with economic instability fall on the shoulders of low-income households. However, tight monetary policies that target low levels of inflation have a cost in terms of rising interest rates and lower availability of credit. Increasing interest rates have a negative impact on investment, consumer demand and economic growth. Urban informal activities depend largely on domestic demand and as a result are vulnerable to macroeconomic policies that make credit less accessible and slow down domestic spending. In many countries (e.g. Latin America) the pursuit of low inflation led to an appreciation in the real exchange rate, raising the price of exports and increasing import penetration into the domestic market. Trade policies that open up a country to imports before local firms establish certain levels of competitiveness and product quality are likely to displace domestic economic activity and employment.²¹ Thus, macroeconomic

¹⁹ For example, although Kenya is 23 per cent urban, Nigeria 35 per cent and India 27 per cent, the urban areas in all three countries account for 70 per cent of GDP.

²⁰ ILO press release, 1996.

²¹ Heintz, 2004.

policy frameworks should ideally address a broad range of objectives, beyond monetary ones. For example, they need to factor in the employment impacts of certain policy choices, if they are to contribute to a strategy of employment-intensive growth.

East Asia's success: Developing productive potential

Many studies cite the success of East Asia where “the poor have benefited from growth not because the gains have trickled down to them, but because the development of their productive potential is central to the growth process”.²² Watkins (1998) emphasizes that for successful poverty reduction – namely growth with equity – three interlocking policy elements must be in place at the same time: pro-poor social policies (notably health and education), redistributive rural development and labour-intensive manufacturing. What matters is not simple transfers but increasing the participation of the poor. “Greater equity in the distribution of opportunities can have positive benefits for both growth and human development. The common denominator of growth policies in East Asia was that they relied on enhancing the productivity of the poor, rather than relying on welfare transfers to raise incomes.”²³ This is in line with Sen’s argument²⁴ that increasing incomes in a country should be accompanied by other factors that define a high standard of living (such as political freedom, the availability of “social goods,” including education, health care for all citizens, and protection from hunger and premature death). If not, the country is only getting richer, it is not truly “developing.”

Amis (1999) emphasizes that national policies favouring employment-intensive growth are critical for urban economies. If economic growth is to improve living conditions it must be of a participatory nature which provides remunerative employment on a wide scale. For example, between 1986 and 1993 employment rose by 3 per cent a year in East Asia – a figure well in excess of the growth in the labour force. During this period rapid increases in labour-intensive manufacturing output were achieved, combined with rising real wages of between 3 and 6 per cent a year. The contrast with Latin America is revealing. Between 1991 and 1995 regional growth averaged around 3 per cent (more than the 1980s but less than the 1970s) while employment declined (“jobless growth”) and unemployment increased. This is largely explained by the capital-intensive nature of the growth in Latin America. Manufacturing growth in countries such as Brazil, India, Mexico, Pakistan and the Philippines produces less employment than in countries such as Indonesia or Malaysia, which follow a more labour-intensive growth pattern. This also explains the failure of Indian growth to reduce urban poverty over the past 50 years.²⁵

Inequalities hinder growth

Substantial evidence demonstrates that levels of inequality in a country affect economic growth and its poverty reduction impacts (Box 2.1). An unequal distribution of income is likely to hinder economic growth. High levels of inequality produce vicious

²² Watkins, 1998.

²³ Amis, 1999.

²⁴ Sen, 1999.

²⁵ Ravallion and Datt, 1996.

circles of exclusion, while low levels tend to produce virtuous circles based on inclusion (Amis, 1999).²⁶

Box 2.1: How levels of income inequality affect growth

The concept of “poverty elasticity of growth” can be used to illustrate the link between income inequality and growth. This is estimated at around 3 per cent in countries in South East Asia, meaning that for every per cent increase in economic growth the number of people below the poverty line declines by 3 per cent. For most of Africa the figure is below 2 per cent, while the severe inequality in Brazil produces a figure which is less than 1 per cent. Thus, the link between growth and poverty reduction is very weak in Latin America, poor in Africa and South Asia, but strong in South East Asia.

Source: Watkins, 1998.

2.2 Budgetary policy and public investment

The budget is an important tool for supporting employment-intensive growth. Despite the constraints imposed by limited resources for public expenditure,²⁷ national authorities *can* prioritize spending areas within the budget to reflect the needs of an employment-intensive development framework – for example, by access to credit, upgrading skills and training and providing public infrastructure. Investment in economic infrastructure such as roads and transportation, storage facilities and basic utilities (water, telecommunications and electricity) is widely recognized as the single most important budgetary intervention for employment creation. This point is looked into further in Sections 3 and 4.

While national authorities have the responsibility of devising macroeconomic policies capable of stimulating and supporting local initiatives for employment creation, the reverse is also true. Civil society and local authorities, through their associations, should have the right and the responsibility to participate in the formulation of these policies and related budgets as they affect the urban and rural economies, domestic demand, the informal sector, levels of funding available for investment and, ultimately, employment.

The three issues here are:

- (1) public participation in the design of budgets and macroeconomic policies at the national level;
- (2) intra-governmental consultations, in particular the participation of local government in decision-making on budget allocations and disbursement mechanisms; and
- (3) participatory budgeting at the local level.

²⁶ High levels of inequality are found in many developing-country cities. For example, in Sao Paulo (Brazil), the incidence of poverty varies from 1.7 per cent to 77.3 per cent across different neighbourhoods. (<http://www.worldbank.org/poverty/data>). And in Rio de Janeiro, unemployment rates for the low-income communities are in average roughly three times the rates for the city as a whole (Silva, Lima and Melo, 1999).

²⁷ Constraints that are to some degree eased by donor-supported capital investment projects, insofar as these are sustainable and well integrated into the national policy framework and part of public investment plans.

As Çağatay et al. (2000) note, macroeconomic policy-making often remains sheltered from broad public scrutiny and debate. This is due in part to the belief that macroeconomics is both a neutral subject, devoid of social content, and a technical subject best left to experts. However, the technical content of macroeconomic policies often disguises their social content. The design of macroeconomic frameworks and policies that take into account the voices and interests of poor people is critical in the fight against poverty. A large number of initiatives emerged around the world during the past 15 years to examine public budgets through a poverty lens. The Poverty Reduction Strategy Papers (PRSPs) are one example. They differ from previous initiatives in their participatory approach, first by attempting a poverty diagnostics that reflects the diversity of its root causes, and second by identifying the macroeconomic, structural and social measures that will most impact on poverty. While PRSPs are prepared by governments, the involvement of civil society aims to ensure that the content of budgets reflects a wide consensus on nationally agreed objectives related to poverty reduction and social equity.²⁸

Measuring poverty is the foundation on which analysis in the PRSPs rests. Reviewing 23 PRSPs, Mitlin (2004) found that, in many cases, a single income-based poverty line was used to measure both rural and urban poverty, without taking account of the higher monetary income often needed to avoid poverty in urban areas. As a result, urban poverty may be seriously underestimated. PRSPs that included basic-needs measures in their definition of poverty sometimes use indicators relating to people's proximity to services, without considering whether these people can actually use these services.

Another common criticism of PRSPs is that they are weak on local and urban development because participation is often limited to national groups.²⁹ This is symptomatic of a wider problem: planning and reform processes at the macro-level are often delinked from local government levels. The reasons underlying decentralization are that local institutions have the knowledge to understand local conditions, to identify underemployed local resources and bring them into the economy. Intra-governmental participation or participation within government at both local and national levels should therefore be a key component of participatory processes for poverty reduction. In many cases, most policy-level decisions, including budget allocation, are made by a core group of ministries, which exclude parliament, district and local governments, and sometimes even the line ministries. The increasing role of regional and local authorities in implementing national policies and ongoing processes of decentralization make it necessary to include regional and local governments in policy-making and monitoring. Intra-governmental participation helps to ensure that regional and local governments are committed to overall national goals of poverty reduction.³⁰

Participatory budgeting at the local level

While offering opportunities for redistribution and more direct accountability, decentralization *per se* does not necessarily induce changes towards pro-poor investment planning, spending decisions or taxation. In fact, decentralization of budgetary decisions without a process of mobilization of poor people and their participation in budgetary decisions may actually help reinforce the power of local elites (Çağatay et al., 2000).

²⁸ Tikare et al., 2001.

²⁹ UN-Habitat/UNDP/UCLG. Urban Millennium Partnership: Localizing MDGs. Meeting the challenge of MDGs in cities, 2004.

³⁰ Heimans, 2002.

Berke (2004)³¹ suggests that the introduction of participatory budgeting at the local level helps to embed local planning and budgeting in the national budgeting process. A well-known example of participatory budgeting at the local level is the Porto Alegre model in Box 2.2.

Box 2.2: Porto Alegre (Brazil) – Participatory budgeting

Initiated in 1989 in the municipality of Porto Alegre (population 1.3 million) by the newly elected Workers' Party, the participatory budgeting programme spread to almost 100 municipalities in Brazil and was scaled-up from municipal to State level in Rio Grande do Sul, with the direct participation of hundreds of thousands of inhabitants. It is widely viewed as a successful experiment in participatory democracy that has contributed to the goals of poverty reduction while increasing confidence in public institutions. Despite the precarious economic and financial situation of Porto Alegre, between 1989 and 1996 the number of households with access to water services rose from approximately 80 to around 98 per cent and the percentage of the population served by the municipal sewage system increased from 46 to approximately 85 per cent. In the poorer sections of the city, roughly 30 kilometers of roads were paved annually since 1989 and the number of children enrolled in public schools doubled. These changes are largely credited to the participatory budgeting process that democratically determined where existing resources should be applied and created the conditions for increased resource mobilization. In the Porto Alegre model, citizens and civil society organizations directly participate in making budget decisions through a year-long cycle of mass citizen forums, thematic assemblies addressing specific issues, and the election of citizen-delegates who form a Participatory Budgeting Council which reviews the final budget proposal. The process is used to allocate budget resources (conflicting demands on the budget are reconciled through a weighting system), set broad social and economic policy priorities and monitor public expenditure.

Source: Heimans, 2002; Çağatay et al. 2000.

2.3 Labour market policies³²

Labour market policies are used in all parts of the world to solve labour market problems related to national, regional or sectoral mismatches between labour offer and demand, though the content of these policies varies widely. Combinations of both passive³³ and active labour market policies are a permanent feature of most developed countries to achieve economic and social goals, while developing countries mainly concentrate on active policy measures.

Active labour market policies (ALMPs) address four broad objectives: employment growth, security in change, equity and poverty reduction. Labour market policies can only be effective if they are closely integrated with other policies affecting the economic and labour market environment, such as pro-employment macroeconomic policy, trade and investment, technological changes, wage policy and collective bargaining.

ALMPs support employment creation in two ways: directly by employment-generating measures (public and community works, enterprise creation and hiring subsidies), and indirectly by improving employability through training (Box 2.3), better labour market information and enhanced job-matching. Active policies usual target

³¹ Berke, C. *Fostering Integration: A Donor's Perspective*. KfW Africa Region. International Conference on Local Development. World Bank, 2004. Her presentation also included other suggestions: (i) Harmonize central and local government planning and budget cycles; (ii) ensure better timing of budget ceiling announcements and transfer disbursements; and (iii) training of local staff in budgeting techniques.

³² Based on: ILO, 2003a.

³³ Passive labour market policies concern social transfers, i.e. unemployment assistance and early retirement.

groups facing specific labour market integration difficulties – younger and older people, women and disabled persons.

Increasingly in developing countries, ALMPs are targeting the working poor in the informal sector, through measures enhancing productivity and their integration into the formal economy (e.g. training, credit access). Measures to promote employment-intensive technologies and employment generation are also part of ALMPs, with which Section 4 deals in detail.

Box 2.3: Incentives for hiring – South Africa's learnership programme

To improve employability, the Government of South Africa recently introduced a new set of labour market institutions, the Sector Education and Training Authorities (SETAs) to signal skill needs and then resource and facilitate their development. One of the key instruments for skills development in the hands of the SETAs is the new learnership programme. Principally a work-based training route, it aims to provide a parallel set of options for unemployed young people, particularly school leavers and young inexperienced graduates who are otherwise unable to find work. However, learnerships are also available to those already in work. These programmes combine theoretical learning and practical experience in the workplace. To succeed, the programme needs employers who agree to engage learners and workers who support the campaign to integrate young people on time-limited contracts into their workplaces. An additional requirement for taking learnerships to scale is the active involvement of the public provider community. Employers who enrol participants in the learnership programmes are entitled to tax incentives that enable them to offset the cost of enrolling learners.

Source: Accelerating the rate of growth and pace of development through partnership, prioritization and active participation. Government's position paper on the Growth and Development Summit, South Africa, 2003.

A salient function of labour market institutions is the collection and analysis of adequate information on employment, un- and underemployment, labour markets and the profile of the workforce. This allows the formulation of strategies targeting specific areas or groups. It is useful for urban authorities to establish relations with these institutions, to use data already available and to indicate the type of data needed (e.g. slum/non-slum data and urban youth unemployment) for a correctly targeted employment promotion agenda at the local level.

2.4 Rural-urban linkages

The economic context of cities also comprises the rural areas and rural-urban linkages. The urban and rural economies and their actors are interdependent. Prosperous commercial agricultural activities often impact positively on urban development by generating new employment opportunities for migrants from rural areas, for commuters and for the rural producers who provide goods and services for the expanding urban market.³⁴ Urban and rural households' livelihoods often include both rural and urban income sources. In the case of urban households, their survival strategies may involve the migration of one or several members over varying periods of time to work in rural areas, bringing back food for consumption and/or sale, or cultivating a plot of land in rural or peri-urban areas. In addition, many urban enterprises rely on demand from rural consumers, and access to urban markets and services is crucial for most agricultural producers.³⁵ Peri-urban agriculture is often cited as an important source of employment creation, because land use is intensified for the production of food crops (notably market

³⁴ However, there are also areas where commercial agriculture produces little or no stimulus to local urban development. See Satterthwaite and Tacoli, 2003 and <http://www.worldbank.org/urban/urbanruralseminar>.

³⁵ Tacoli, 1998.

gardening) for the urban market.³⁶ Furthermore, it is widely recognized that small and intermediate urban centres have a valid role in rural, sub-national and national development through the provision of services, a market for agricultural produce, and livelihood diversification of both rural and urban dwellers. As a migration destination, these smaller centres help prevent new slums in the bigger cities of developing countries.

2.5 Scope and means for local action

Although global and national contexts clearly influence a city's economic growth prospects, cities and city governments have responded to similar exogenous forces with varying degrees of success. Economic performance appears far from predetermined. Vidler (1999) posits that local actors have a significant impact, whether for good or ill, on a city's growth prospects. The response of local actors in mediating the relations between global and national processes and local circumstances is crucial to a city's performance.

City governments face differing challenges, opportunities and local circumstances. They possess different amounts of "space" or relative autonomy to act, according to the type and extent of decentralization in a given country. It is helpful to think in terms of a set of minimal requirements – based on the decentralization building-blocks of autonomy, resources, jurisdiction, and capacity – which city governments need to exploit existing opportunities and respond to new challenges. In the absence of these key requirements, their ability to promote economic growth will be severely curtailed (Vidler, 1999).

Given some amount of space to act, some cities might strive to achieve or maintain a competitive edge to attract inward investment (or foreign direct investment) through "city marketing", for example. Other, often more peripheral cities may attempt to stimulate growth "from the inside" by providing the right conditions for local firms to prosper. Vidler (1999) found that the way forward for each of these broad categories of cities overlapped. Improving infrastructure and reforming regulatory frameworks emerged as main considerations whatever the city's starting point. Both can be designed to have a direct beneficial impact on poverty reduction, by expanding access to basic services in informal settlements while releasing the productive potential of the informal sector.

Local accountability

Basic services (primary health care, education) and infrastructure are key sectors in achieving poverty alleviation. Depending on the degree of decentralization, the delivery of these is to a greater or lesser extent the responsibility of local government including municipal governments (even though financing may come from the centre). This leads to the critical issues of delivery mechanisms, local accountability and the quality of public spending to achieve poverty reduction. Hence, the local level is pivotal in creating the conditions necessary for poverty alleviation in a context of economic growth, (or for mitigating the consequences of poor economic performance), to achieve a "growth with equity" pattern of development. Important elements of municipal governance in this respect are the regulatory framework and accountability of public funding, pro-poor planning of access to basic services, infrastructure development and achieving the appropriate public-private mix, small enterprise promotion, employment promotion, ensuring security and overall planning and coordination. Good governance further implies a constructive relation between government and civil society, and openness to

³⁶ Though often with negative environmental consequences because of increased use of fertilizers and pesticides.

partnerships with other actors such as private enterprises in the formal and informal sectors as well as community-based organizations. Such partnerships greatly help to release a city's productive potential by harnessing human, material and financial resources for the provision of goods and services and local development.

Simplifying the regulatory environment

Tackling the regulatory environment is a key task for city governments aiming to increase economic growth. Simplifying regulatory procedures, eliminating bottlenecks and reducing costs on businesses may all be used to stimulate investment, from outside or from within. Properly implemented regulations covering law and order, traffic and pollution also help provide a conducive environment for investment and employment creation. Business advice and skills training further enhance the effectiveness of such measures. City authorities can also engage in local development approaches.³⁷ For example, gathering and disseminating information on the opportunities within the local economic base stimulates new initiatives in a way that develops the stronger and more competitive sectors, thus building up the city's economic growth prospects.

In sum, much can be done at the municipal level to pull in economic partners, mobilize the local private sector and engage the poor meaningfully in economic development. The ensuing sections of this publication elaborate three avenues for local action to make urban development strategies explicitly pro-poor and pro-employment:

- (1) optimizing the employment impact of physical upgrading strategies
- (2) public-private partnerships and pro-poor procurement; and
- (3) promoting the creation of quality jobs in the local, small-scale private sector.

All three imply mobilizing and maintaining constructive partnerships with civil society and the private sector. These strategies are discussed in Sections 3-6.

³⁷ "Local" may be defined as considered appropriate and useful in the local situation; it may, for example, include the surrounding rural areas.

3. Infrastructure-employment linkages

“Investment in city-wide infrastructure is a precondition for successful and affordable slum upgrading, as the lack of it is a strong mechanism by which the urban poor are excluded, and also by which improved slum housing remains unaffordable for them. [It is also a precondition] if efforts to support the informal enterprises run by slum dwellers are to be successful.” (UNCHS, *The challenge of slums. Global report on human settlements, 2003*, p. xxviii.)

Infrastructure is key to achieving the dual objective of improved living conditions and economic development. It is long recognized that investments in areas such as roads, footpaths, drainage, water supply, sanitation, electricity, and waste management have a major positive impact on quality of life and on the environment. Traditional slum improvement projects therefore focused strongly on infrastructure development (e.g. sites and services), sometimes to the detriment of other, equally important aspects of urban poverty. However, the economic aspects of infrastructure investments are perhaps not always paid sufficient attention. Lack of infrastructure provision is hindering private-sector development because it deters the establishment of new enterprises and hampers the productivity of existing ones, thus harming potential employment creation and the economic prospects of the urban poor.

Well-designed and well-targeted infrastructure programmes improve income and employment opportunities for urban residents in general and slum dwellers in particular, and facilitate the integration of disadvantaged communities into the wider city economy.

This section examines the often unintended but positive employment results of physical slum-upgrading interventions. Three valuable points should be borne in mind:

1. **Security of tenure.** It must be emphasized that security of tenure,³⁸ for both owner-occupied and rental accommodation, is a prerequisite for any housing and infrastructure development to take place. Security of tenure enables people to invest in house building, stimulates the local industry for building materials, opens possibilities for accessing credit and facilitates the development of small-business ventures and home-based enterprises. Most importantly, it is only when the urban poor feel that they are not threatened by eviction that meaningful popular participation can be achieved for improving the infrastructure conditions in slums. Furthermore, experience shows that the provision of basic infrastructures in a given settlement combined with security of tenure triggers private investment in housing and business development. For example, a higher frequency of home-based enterprises is often found in the older, more consolidated settlements.³⁹ In addition to locational factors, this may be due to a higher (perceived) tenure security in the older settlements.

2. **A city-wide perspective.** Not all the urban poor live in distinct slum settlements. Many live scattered through the city, in alleys and behind main streets in the city centre, along railway lines and canal banks, on the pavement, and in shacks in the richer areas of

³⁸ It is now recognized that security of tenure is more important for many of the urban poor than home ownership. Slum policies based on ownership and the large-scale granting of individual land titles have not always worked (UNCHS, 2003). See also UN-Habitat’s Global Campaign for Secure Tenure: <http://www.unchs.org/tenure>.

³⁹ See, for example, Gough and Kellet, 2001.

cities.⁴⁰ A narrow focus on improving slum settlements omits this large group of urban poor. Hence the importance of embracing a city-wide perspective in poverty reduction efforts and infrastructure investments.

3. Beyond the infrastructure. Infrastructure should still be seen in the overall context of urban poverty alleviation programmes, addressing wider aspects such as urban management, pro-poor regulatory frameworks (for small enterprises and building standards), developing partnerships and strengthening community organizations. On the other hand, experience also proves that well-designed infrastructure upgrading programmes provide a concrete opportunity and entry point for addressing many of these concerns, and a forum for partnerships between local government, utility companies, community organizations and local enterprises. This strengthens the organizational and negotiation capacities of local organizations and the accountability of local government.

3.1 Investing in shelter creates jobs

Improved infrastructure and security of tenure often provide the impetus necessary for the urban poor to improve their housing situation, a process that can be accelerated by appropriate support, credit lines and/or subsidies. Improving shelter is not only a means for improving living conditions but also a development tool.⁴¹ Investing in shelter creates jobs, improves productivity and raises incomes. Increased shelter development activities trigger additional investments in building materials production, transport and marketing. These in turn generate demand in other sectors. Any investment in housing has a multiplier effect that extends beyond the housing sector. Research shows that backward linkages in the construction sector are greater than in most other sectors. In Mexico, for example, the ratio of direct employment in the construction sector to indirect employment in other sectors is estimated at 10:7. Low-income housing developments in the formal sector tend to be more labour-intensive than high-income housing. In Kenya, the labour to materials ratio is 45:55 for low-income housing but 30:70 for high-income housing. Various studies suggest that around 30 per cent of the construction costs of formal low-cost housing are used to pay local wages in the construction process, and an additional 10 per cent goes to labour utilized indirectly in the production and distribution of construction materials. Furthermore, for each unit of expenditure in informal sector housing, 20 per cent more jobs can be created than in those produced formally, and up to six times more (lower standard) dwellings can be built. Evidence from a number of countries indicates that for every unit of currency spent directly on housing construction, an additional unit of currency is added to the national income.⁴²

Shelter policies benefit women in home-based enterprises

The employment effects of housing go well beyond the construction and maintenance of housing. Shelter provision can also improve the quality and quantity of

⁴⁰ For example, based on the 1991 census in India, the ratio of slum vs. non-slum urban poor was estimated at 3-2, or 60 and 40 per cent. (Slater, R. 1998, cited in Department for International Development, "Reducing urban poverty in India", <http://www.dfidindia.org/pub/pdfs/urban1.pdf>).

⁴¹ Shelter is an important economic sector. As indicated in the Global Report on Human Settlements 2001, "housing investments constitute between 2 and 8 per cent of GNP; between 10 and 30 per cent of gross capital formation; between 20 and 50 per cent of accumulated wealth and between 10 and 40 per cent household expenditure". UNCHS (Habitat), 2001.

⁴² ILO, 1998a and UNCHS/ILO, 1995.

employment, particularly for small home-based enterprises (HBEs). Women particularly benefit from shelter policies that take into account the existence and needs of home-based enterprises. Box 3.1 outlines a shelter and workplace concept that was successfully tested in India.

Several studies point to the importance of HBEs for low-income households and the benefits for women. Data collected among households operating in HBE and non-HBE households in four cities showed that “the increase in women’s participation in economic activity is very marked in New Delhi and Surabaya where Hindu and Islamic cultures limit some women’s activity outside the home. The male-female gap in participation in the labour force is reduced considerably in Cochabamba and the lowest mean for extra female workers, that in Pretoria, shows almost 0.4 more women per household in work – 72 per cent of women in the HBE households are working compared with 46 per cent in non-HBE households.” Overall, it was found that at least 50 per cent more women work in HBE-operating households than in those without an HBE.⁴³ (See also Section 3.2 on the links between infrastructure upgrading and the performance of informal sector enterprises, as well as Section 6.6 on the need to take into account HBE in the planning of new residential areas.).

Box 3.1: Shelter cum workplace – A successful project in Tamil Nadu, India

The concept of shelter cum workplace in India was tested through a demonstration project for a group of 115 basket weaver families in Coimbatore city in Tamil Nadu by the Tamil Nadu Slum Clearance Board (TNSCLB) in 1998-99. These families were shifted two decades ago from the Corporation land to a marshy area at the city edge. The space on which the weaver families were settled was small, only 0.27 hectare. Space available for shelter and other amenities was inadequate and did not allow scope for improving their income status. The households were not given tenure rights. At the pre-intervention stage, the shelter environment was precarious. All the shelters were temporary, built with bio-mass, which in India is known as ‘*Kutcha*’. The dwellers did not have a source of water supply in the vicinity and had to depend on public water fountains. The toilet provided by the Corporation was a community dry latrine which led to maintenance problems and an unhygienic environment. The TNSCLB planned and improved the shelter environment on a sustainable basis by combining better shelter facilities with income-generating facilities. The Board accomplished this mainly through changes in house design and building materials. For example, house design was made to accommodate the households within the same space with higher density and better hygienic facilities to increase productivity. These improvements provided open space in the centre of a cluster of houses that facilitated weaving activities and regulated marketing of products, as well as space for a daycare centre. A major housing finance institution financed the *in situ* development. The costs of tenements were reduced by 20 per cent by low-cost construction technology. The cost of finance was made affordable to the community by scheduling the loan servicing instalments according to income flow. The community is reported to be doing well according to the TNSCLB 1999 Official Records.

Source: Lall, 2002.

3.2 Sustaining job creation requires infrastructure

Based on an impact assessment study of 12 DFID-funded slum improvement projects in India, Amis (2001)⁴⁴ reports that the most overwhelming finding was the importance of basic infrastructure for poor households. The combined effect of the construction of roads and drains, street lighting and the provision of water was welcomed by respondents of the survey, particularly by women. Improved roads, lanes and storm water drains greatly improved access for people and workers entering or exiting slum areas. A second notable finding was that more than 80 per cent of respondents reported an

⁴³ Tipple, 2004.

⁴⁴ Amis, 2001.

improvement in the “image” of the slums, facilitating the integration of its dwellers into the city in general. A third impact was that the improved infrastructure effectively lengthened the day and increased the use of outside space for social and economic activity.

Research by the World Bank⁴⁵ shows the extra costs to manufacturing industry of inadequate infrastructure caused by input failures (e.g. power) but also by the necessity to have back-up facilities – generators – on the site. The poorer the public infrastructure, the more the private sector has to carry these costs. Thus, the provision and renewal of infrastructure is one of the – if not the most – important interventions on the part of municipalities to facilitate economic growth. Box 3.2 summarizes the results of a study on the impact of infrastructure provision on informal sector enterprises in the Philippines.

Box 3.2: Infrastructure and the informal sector in the Philippines

A survey of informal sector enterprises in upgraded and non-upgraded communities in the Philippines found that the economic activities in the upgraded settlements performed better than in non-upgraded areas:

- More said their business had grown (40 per cent vs. 25 per cent in non-upgraded) and fewer said their business had declined (24 per cent vs. 50 per cent in non-upgraded).
- More said they had no problems with their business (32 per cent vs. 0 per cent in non-upgraded).
- They had higher satisfaction rating on their business (4.3) than in the non-upgraded areas (3.3).
- Significantly fewer were troubled by intense competition, low sales, low profit (16 per cent vs. 36 per cent).

Furthermore, infrastructure-related problems figured as the second most cited business problem by the non-upgraded group, after lack of working capital. Many businesses in the upgraded settlements reported higher sales and production volume as a result of road construction (32 per cent reported average increases of 174 per cent). However, some established businesses suffered reduced sales and production because of stiffer competition in easy-entry activities such as trading. Interestingly, one of the cited benefits of road construction was that micro-enterprise owners could now operate from home instead of constantly seeking out customers outside or else rent shops in commercial areas. Other advantages mentioned were better access to raw materials and customers, lower transport costs, lower input costs, new product lines, longer days and improved security. Enterprises which benefited from the community upgrading did so regardless of the size of their activities. However, enterprises which catered to external clients benefited relatively more from the community upgrading, because of easier access and lower transport costs through road construction.

Source: Yu, 2002.

The most comprehensive study of linkages between poverty alleviation and infrastructure was prepared by the World Bank in 2002 (Brenneman and Kerf). It looks at the impact of four infrastructure sectors (energy, water and sanitation, information and communication technologies and transportation) in eight categories of poverty alleviation impact: (i) growth-enhancing impacts; (ii) increase of economic opportunities specifically targeted to the poor; (iii) direct savings; (iv) improved education; (v) improved governance framework; (vi) improved health; (vii) direct impact on well-being; (viii) fiscal impact (coupled with pro-poor policies). Some of the relevant findings and conclusions are highlighted here:

- By improving access to electricity or other modern energy sources, energy projects help improve the productivity of small businesses owned by or employing the poor. Better access to electricity signalled increases in income, employment and entrepreneurial opportunities and saves significant amounts of

⁴⁵ Brenneman, A. Kerf, M. *Infrastructure and poverty linkages. A literature review*. World Bank (18 December 2002). The document is a work in progress as not all sources have been exhausted and new evidence may become available.

money and time for the poor (and their businesses). It helps to improve education and health care, access to information and entertainment, and it increases safety.

- Improving access to information and communication services allows businesses to communicate more effectively with markets and other businesses, enabling them to reap substantial productivity and income gains, and save time (reduced travel).
- Improving transportation infrastructures and services in low-income areas significantly contributes to the growth of businesses that employ the poor. Improved roads facilitate the establishment of new enterprises and enhance the productivity of existing enterprises that benefit from improved access by consumers, suppliers and employees. Lower transportation costs and reduced transportation time combine to make transport more affordable,⁴⁶ also decreasing the costs of goods and services for the poor.
- Provision of clean water and adequate sanitation diminishes the occurrence of water-borne diseases and thus the costs of sickness and missed working days. Less time spent on hauling water means more time for other (productive) activities,⁴⁷ especially for women, and reduces the burden on children. Piped water and kiosks reduce the costs of water for urban households and businesses alike.⁴⁸

Some slum areas are prone to regular flooding in slums during the rainy season. This often causes great human suffering through damage to public and private goods, lost income and worsening (already bad) sanitary conditions. A good system of storm and secondary drains reduces the risk and gravity of flooding and thus also the human and economic costs of invading waters and unsanitary pools of stagnant water (with the risks of waterborne diseases and malaria-carrying mosquitoes).

3.3 The gender dimension

Although usually not an explicit goal of physical slum upgrading projects, the returns of a gender focus can be very high in terms of enhancing project performance and improving household well-being. For example, in the Caracas Slum-Upgrading Project (CAMEBA) funded by the World Bank, women participated significantly in design through community consultations and training, as well as in implementation of the works

⁴⁶ Provided that competition and appropriate regulation encourage transport providers to pass on the reduction in cost to transport users.

⁴⁷ In Africa, the cost of lost labour because of time spent gathering water has been estimated at US\$2 billion per year for 40 billion hours. (World Bank, 2003). In India, based on a survey of 550 households in 12 slums in Andhra and Madhya Pradesh, 68 per cent of residents reported saving time as a result of improvements in water supply, with 56 per cent reporting a decline in the burden of collection for women (Amis, 2001).

⁴⁸ It is well known that the poor pay more for water (and also energy). Water from water vendors has been found to be 5 to 100 times more expensive than water from the public utility. A study in Uganda found that a typical small firm that consumed four jerrycans of water a day and switched from water vendors to kiosks as their source of water, would see profits increase by 24 per cent as a result of cheaper water supplies (World Bank, 2003). A slum dweller in Nairobi, Kenya, forced to rely on private water vendors, pays five to seven times more for a litre of water than the average North American citizen (Ray, 2003).

as supervisors, construction workers and project staff. A case study⁴⁹ of this project found that women's participation enhanced project performance by: (i) improving the quality of the civil works; (ii) guaranteeing their maintenance; and (iii) making field staff work more efficient. The gender focus also contributed to improving the living conditions of slum residents because women's participation (i) helped build institutional capacity in the slums; (ii) contributed to securing families' livelihoods through employment generation for women, and (iii) improved household well-being through women's empowerment, more equal household decision-making, and changes in gender roles. This case study illustrates how women's involvement in upgrading projects represents a win-win situation for projects, for women, for their families and their communities. While reaping considerable benefits, investing in the participation of women adds no significant cost to that of investing in community participation.

Similarly, in a study of 12 slum improvement projects in India, Amis (2001) found that environmental improvements in slums have a marked gender dimension: improvements in water supply, cleanliness and a reduction in flooding clearly reduce the burden upon women. Women also benefit from the increased use of public space for social, household and income-earning activities, and from the added security of street lighting. It is recommended that women should be more explicitly targeted in infrastructure interventions in terms of design and implementation. Poor urban women in particular, whose shelter is also their place of work, tend to be highly responsive to local improvement projects which enable them to make significant gains on several fronts at the same time.

3.4 Economic and financial aspects of slum upgrading

All urban governments in the South are facing endemic problems to finance social services and urban infrastructure. They are caught in a dilemma between increasing demands for services and an inability to meet them. Three factors combine to aggravate the resource gap for infrastructure and service provision in cities. First, the fast population growth in urban areas, without proportional increases in municipal budgets, led to ever-decreasing per capita spending on infrastructure and services.⁵⁰ Paradoxically, decentralization may have worsened the resource situation in some cases, especially where increased municipal responsibilities for raising revenues is accompanied by reduced transfers from central government. Second, in periods of adjustment, social services and urban infrastructure have often been disproportionately cut, further aggravating resource constraints. Third, the demand for urban services is basically income-elastic – the demand for services increases disproportionately as incomes, population and expectations rise.⁵¹

Yet, as perceived by many experts, financial affordability is not the main constraint – institutional capacity and political will are. Historical experience points to affordable models of infrastructure provision and slum-upgrading in every region of the world and in its poorest countries and neighbourhoods. The key to financial sustainability

⁴⁹ Ruiz, 2002.

⁵⁰ For example, between 1978/79 and 1986/87, per capita allocations to infrastructure and services declined in both Nairobi and Dar es Salaam by 11 per cent a year. In Nairobi the capital expenditure per head on water and sanitation in real terms over the same period declined from US\$ 7.29 to US\$ 2.30. According to Amis (1999), this represents an average annual decline of 28 per cent, compounded, when both capital and maintenance are included.

⁵¹ Amis, 1999.

is to design these programmes so that they are affordably tailored to the income of the community, the city and country in which they are operating. Standards need to be flexible and designs need to conform to the affordable budget package. The poor in these communities currently pay higher prices for services such as water than if they received it through formal mechanisms. They are willing to pay for service access and land ownership. Back-of-the-envelope calculations based on actual project costs in countries in each region indicate that when spread over 20 years, programmes of upgrading that would provide services to all slum areas of developing countries could be implemented at a total cost of approximately 0.2 and 0.5 per cent of GDP. Including the costs of incremental bulk infrastructure investment, operation and maintenance, land acquisition and necessary institutional support could place annualized costs in the range of 1-2 per cent of GDP. In most countries, this could be financed in part by the residents and in part by a reallocation of expenditures at the local and national level.⁵²

There is ample evidence is ample that the continuation of inadequate policies which exclude the urban poor from development processes will result in severe social and economic costs. In contrast, resources spent on improving the lives of the urban poor are “investments” from which the world will receive both an economic and social return in terms of a socially equitable and more productive global urban future. This will come about in part through the higher productivity that will flow from an urban workforce living in healthier surroundings and in part from the decrease in social and public costs that are the product of a poor urban environment.⁵³

As experience shows, slum-upgrading projects are associated with high social and economic benefits. Recognizing title and security of tenure makes a positive contribution to both the economic prospects of the poor, as well as to the national economy. For example, in a recently upgraded area of El Mezquital, Guatemala, infant mortality rates fell by 90 per cent and crime by 43 per cent. Regularization of land tenure results in significant private investment in these communities – it is reported that US\$1 of public investment generates US\$7 of private investment,⁵⁴ boosting the local economy and employment. Slum upgrading should be perceived not only in the context of poverty reduction and environmental rehabilitation, but also (or rather) as an opportunity for economic progress and employment generation, as Box 3.3 illustrates.

⁵² Source: <http://www.mit.edu/urbanupgrading/upgrading/whatis/implementation.html>, Special Interest Group in Urban Settlement (SIGUS), School of Architecture and Planning, Massachusetts Institute of Technology and Cities Alliance.

⁵³ UN Millennium Project. *Report of Task Force 8 on improving the lives of slum dwellers*. Draft, December 2004.

⁵⁴ <http://web.mit.edu/urbanupgrading/upgrading>

Box 3.3: Dharavi (Mumbai, India) – A thriving slum economy

One of Mumbai's many slums, Dharavi, covers 538 acres of illegally built shops and tenements that have mushroomed into a *de facto* town, with electricity, water, medical centres, a lively property market, cottage industries and some one million inhabitants. The multitude of small businesses reveals the entrepreneurial spirit of its residents. Gross domestic product is estimated at Rs. 30 billion (approximately US\$680 million) a year from leather, ceramics, recycled plastics, savoury snacks and garments. The leather industry, comprising 125 shops and 3,000 single-room factories, is the largest employer.

The City of Mumbai is trying to attract foreign investors to Dharavi, as a typical case of the "bottom of the pyramid" – a phrase coined by management expert C.K. Prahalad to describe the commercial opportunities of responding to the needs of the lowest-income consumers. Mukesh Mehta, architect and developer, is leading this effort: "*Outsiders only see poverty and that's the big hurdle. I see an emerging class ripe for services and trade.*"

Security of tenure remains a problem that impairs business development. Narhari Kale, owner of a leather workshop, is one of Dharavi's new rich. He thinks regulation, as well as redevelopment, is necessary. He built his own shop on land that happened to be empty. He says: "*My business has grown but without titles I can't show assets and raise capital to expand.*"

Mehta's plan, supported by the Maharashtra government, is simple: sell land for low-cost housing and give licences to develop commercial property as an incentive. Common market areas for jewellery and leather are expected to enhance the cottage industries and attract big business with the promise of a large, working consumer body. This is to be supported by public-private partnerships in social services. Clearly, slums in India can unleash enormous potential. All it needs is a change of attitude.

Source: Article in *Business Standard* (Mumbai), "Making millions from Dharavi", published 6 November 2004; and India Brand Equity Foundation (IBEF), "India's latent slum economy: It's about aspirations and buying power", May 2004.

Facilitating municipal investment in infrastructure

The majority of municipalities in developing countries have great difficulty in mobilizing the capital financing required for infrastructure and shelter development programmes for the urban poor. Different instruments were developed over the years to facilitate municipal investment in infrastructure. Municipal Development Funds (MDFs) have been set up in many countries, often with World Bank support, as parastatal institutions that provide grants and (subsidized) loans to local authorities. Where local authorities have access to private credit markets, MDFs may compete with private sector lenders, or provide a bridge to the private sector credit market.⁵⁵

Recognizing the urban poor as agents of change

What is the scope for applying community-driven and local resource-based solutions to large-scale problems in infrastructure and housing deficits in developing world cities? The most powerful examples of slum upgrading are at the community level, where organizations of slum dwellers have built their own capacities to improve their homes and neighbourhoods. Recognition by policy-makers of the urban poor as agents of change is a crucial first step in empowering them to emerge from the vicious circle that traps them in slums and to forge partnerships with local authorities in implementing pro-poor, community-based programmes.⁵⁶

⁵⁵ <http://www.worldbank.org/urban/poverty/finance>

⁵⁶ Report of the Secretary General. UN/ECOSOC, Commission on Sustainable Development, Thirteenth Session, 11-22 April 2005, Item 4 (c) of the provisional agenda (E/CN.17/2005/1) *Human settlements: Policy options and possible actions to expedite implementation*, 9 December 2004. E/CN.17/2005/4(Advance unedited version). Available at <http://www.un.org/esa/sustdev/csd/csd/13/docs.htm> (visited 5 May 2005).

A recent and particularly interesting initiative in this regard is the Community-led Infrastructure Finance Facility (CLIFF). CLIFF aims to bring to scale community-led projects through a network of international finance, local government and organizations of slum dwellers. Research⁵⁷ shows that community-driven initiatives in infrastructure and housing have the potential for significant scaling-up. However, lack of access to capital financing restricts the ability of communities to undertake initiatives that benefit large numbers of the poor as well as cities as a whole. This gap cannot easily be met using micro-finance, as the housing and infrastructure solutions required usually necessitate a collective and not an individual response, with an emphasis on area upgrading rather than simply the improvement of individual units. While micro-finance services were expanded and successfully used to stimulate small enterprise and individual housing improvement through the provision of short-term loans, CLIFF addresses the chronic lack of medium-term credit available for major slum upgrading, resettlement and infrastructure investment by the poor.⁵⁸ Box 3.4 summarizes the project method and results so far.

Box 3.4: Scaling up community-driven initiatives – The Community-led Infrastructure Finance Facility (CLIFF)

The CLIFF project is funded by the Department for International Development and the Swedish International Development Corporation. Implemented under the Cities Alliance programme, this financing facility is designed to help organizations of the urban poor to carry out and scale up community-driven infrastructure, housing and urban services initiatives at city level, in conjunction with municipal authorities and the private sector (including banks and landowners). Piloted in India since June 2002, it provides loans, guarantees and grants to organizations of the urban poor undertaking urban infrastructure and housing initiatives. This enables the scaling-up of community initiatives through community contracting processes. It also fills the gap of the lack of medium-term finance for medium-scale urban upgrading activities. While CLIFF is essentially a financial mechanism, its expected benefits include strengthened capacities on the part of the urban poor to become active citizens within their cities and to directly influence urban development policies and procedures. Projects supported by CLIFF have already demonstrated communities' ability to take the lead in their own settlement development. Their active participation encompasses managing resettlement and temporary resettlement; designing, developing and managing different housing and infrastructure schemes; developing alternatives to threatened eviction and forced relocation; and mediating discussions around entitlements to upgrading within communities.

Source: Community-led Infrastructure Finance Facility, *Annual Report to August 2003*.

To improve access of the urban poor to decent housing and housing improvement, governments have a wide range of policy instruments:

- Tenure security provisions;
- Laws and regulations protecting property and inheritance rights, in particular for women;
- Targeted subsidy schemes;
- Mortgage lending institutions;
- Housing micro-finance;
- Pro-poor land development and house-building regulations;
- Pro-poor construction standards and building codes;
- Promoting the production and use of local construction technologies and building materials; and
- Creating a competitive environment in the housing construction sector.

⁵⁷ In the Bridging the Finance Gap in Housing and Infrastructure Project, coordinated by Homeless International and funded by the DFID.

⁵⁸ CLIFF Annual Report to August 2003.

It is generally acknowledged that the amount of financing available for housing micro-finance remains insufficient to meet the demands of an ever-growing urban poor population. Housing micro-finance institutions sometimes develop out of micro-credit initiatives for small enterprises. These institutions frequently observe that their clients borrow for income-generating purposes, yet channel the funds into housing improvements. Over time, and drawing on their experience in micro-credit, they broadened their lending portfolio to offer a range of housing finance products for new housing construction and home improvement projects. The strong connection between the home as both shelter and a place to house or support income-generating activities made this a logical evolution and eased the transition to new financial products, structures, and loan terms. The Mahila Housing SEWA Trust (MHT) and the Grameen Bank are well-known examples.⁵⁹

This section considered the central importance of infrastructure as an end product to improve living conditions and the economic opportunities in low-income urban areas. Section 4 focuses on the process of infrastructure provision, pinpointing what central, local and (particularly) municipal governments can do to enhance the socio-economic impact of infrastructure construction and maintenance activities including increased employment generation for the urban poor.

⁵⁹ The Centre for Urban Development Studies, Housing Microfinance Initiatives. Synthesis and Regional Summary: Asia, Latin America and Sub-Saharan Africa with Selected Case Studies. Harvard University Graduate School of Design, Development Alternatives Inc. (DAI), Maryland and USAID Micro Enterprise Best Practices, May 2000.

4. Creating infrastructure and creating jobs simultaneously

4.1 Employment generation in urban infrastructure provision

Amis (1999) stated that labour-intensive growth is critical for urban economies. But can municipalities achieve growth that is also labour-intensive? This section argues that the infrastructure and construction sector provides a strategic entry point and a cornerstone for achieving labour-intensive pro-poor growth in cities. The reasons are fourfold.

1. As Section 3 shows, infrastructure is crucial, if not a precondition, for investment and growth in other sectors such as manufacturing. Investments in infrastructure can also provide cities with the competitive edge required to attract new industries in the global market place.
2. Massive employment creation is necessary for any meaningful impact on urban poverty and un(der)employment. To succeed, interventions must be both large-scale and sustainable. They must target areas and sectors characterized by substantial capital inflows and where choices for employment can be made. The infrastructure/construction sector⁶⁰ meets these criteria. A large proportion of national public investment budgets in developing countries – sometimes up to 70 per cent – goes to this sector.
3. The range of technological options available for this sector is considerable. For example, the share of the cost of equipment in the total cost of unpaved road construction may vary from 30 to 80 per cent and that of labour from 10 to 60 per cent, according to the technological option chosen. As infrastructure investments are largely controlled by the State⁶¹ and planned and funded under Public Investment Programmes, they can and should be used as a tool of public policy to achieve pro-poor development and labour-intensive growth. Given the large amounts of money involved, even a minor shift towards more employment-intensive technology options in (urban and rural) infrastructure investment can have a major impact on aggregate employment creation.
4. Last but not least, well-designed infrastructure programmes provide a useful entry point and catalyst for addressing related urban development concerns, such as building regulations, municipal procurement, small-contractor development, skills development, community participation, and public-private partnerships – all consequential aspects of urban governance.

Box 4.1 outlines three strategies for job creation, one explicitly linking mainstream investment policy with a pro-poor approach.

Ongoing efforts towards decentralization create a favourable environment for a labour-intensive growth strategy through infrastructure investments at the municipal

⁶⁰ Other sectors with these characteristics are agriculture and manufacturing.

⁶¹ Assisted by International Financial Institutions and donor agencies.

level, because infrastructures are being controlled more and more at the level of local and municipal governments.

Box 4.1: Linking infrastructure investment to job creation

There are various strategies for job creation. One is to focus on economic growth and to expect that employment will be created as a result of such growth. A second strategy is to add a social component to economic policy in the form of social safety net programmes. These offer short-term relief and assistance to help the poor temporarily, but do little to improve their situation on a permanent basis. A third strategy links employment programmes explicitly to economic growth, particularly by introducing employment concerns into mainstream investment policy. Adoption of labour-based methods in infrastructure can provide this link, as investment in basic services (roads, water supply, irrigation, markets, housing and schools) can contribute to growth while creating jobs for the poor. Such an investment and growth strategy would thus be pro-poor. It would create poverty-reducing jobs as well as provide much-needed services. Public investment (in infrastructure) could play a leading role in this approach.

Source: Islam, 2004.

4.2 Technology that employs

In countries where labour is abundant, capital scarce and wages relatively low,⁶² labour-based technologies⁶³ are not only a viable option, but offer a number of decisive advantages discussed below.

The feeder roads sector is well documented and provides an eloquent example of the implications of technology choice. Over the years, comparative studies carried out by the ILO in countries as varied as Cambodia, Ghana, Laos, Lesotho, Madagascar, Mozambique, Rwanda, Thailand, Uganda and Zimbabwe show that – without compromising the quality of the infrastructure – labour-based approaches effectively:

- Create between two and five times as much employment for the same investment;
- Are between 10 and 30 per cent less costly in financial terms than more equipment-intensive techniques; and
- Reduce foreign exchange requirements by between 30 to 60 per cent.

Recent research in South Africa has indicated that, provided cost-effective technology alternatives are available, the overall increase in employment opportunities

⁶² Research by the ILO has shown that labour-based options should normally be retained where wages are below US\$ 4-6 per day, provided that the labour-based option is technically feasible. At those wage levels, labour-based technologies are normally cost-effective and competitive with equipment-based methods of construction. For wages up to US\$ 10 per day, labour-based alternatives should be seriously considered, and equipment-based methods retained only if they demonstrate clear financial and economic advantages (Majeres, 2003).

⁶³ The term “labour-based” refers to an approach whereby the labour content of infrastructure works is optimized to produce good quality and cost-effective outputs. An optimal mix of labour and equipment in the labour-based approach means that the (mostly unskilled) labour input is supported by appropriate, preferably light, equipment. It is the opposite in capital-intensive works: equipment is supported by (mostly skilled) labour to operate the machines.

for a given project over conventional equipment-based practices may reach a factor of 2 in urban infrastructure and 3 in rural road construction.⁶⁴

Advantages of the labour-based approach using available local resources

In the urban sector, labour-based techniques can be applied to a wide range of infrastructure works, including township roads, sidewalks, low-level bridges, drainage, on-site sanitation, water and sewerage reticulation, land development, electrification and building works, which cater directly to the needs of the poor. They can also be applied to certain operations of large-scale infrastructure works normally left to equipment-intensive companies, such as bush clearing and digging in dam and highway construction. Experience in many countries shows that explicit pro-employment and appropriate technology choices can be made, at equal cost and quality, with multiple payback: (i) higher direct and indirect employment creation; (ii) development of small-scale local contractors who buy and sell in the local economy; (iii) import substitution by using local resources; and (iv) maintenance is facilitated. Moreover, such methods are often the only feasible technologies in densely built slum areas.

The social advantages of employment-intensive approaches are first and foremost the wages distributed to a largely unskilled and poor workforce. These wages create a multiplier effect, stimulating consumption, investment and savings, thus boosting the local economy (over and above the benefit of the infrastructure itself). The indirect employment generated by labour-based methods is estimated at between 1.5 to 3 times the number of directly generated jobs.

These results are obtained because the term “labour-based” encompasses a wider approach which seeks to optimize the use not only of skilled and unskilled labour, but of all locally available resources and skills, including building materials, equipment and tools, small contractors, artisans and community-based organizations. A higher input of local resources means fewer imports and more developed backward-and-forward linkages in the domestic economy. This approach increases the overall direct and indirect impact on employment. Hence, the multiplier effect of labour-based infrastructure works is much higher than that of equipment-based programmes, as Box 4.2 also argues.

Box 4.2: Labour-based versus equipment-based programmes – Using local resources

All slum-upgrading programmes ultimately aim to improve the living conditions of the urban poor. However, employment outcomes differ according to the method used. For example, 500 houses built by 20 small local contractors using locally made bricks and 500 houses built by one large contractor using prefabricated materials have the same end-result in terms of providing shelter for 500 families. But the employment contents, poverty impact and multiplier effects are considerably larger in the first case. This type of information should reach municipalities so that they can take informed decisions on how best to implement shelter programmes and infrastructure works.

Source: ILO, various publications.

Labour-based works are often criticized for creating mainly short-term jobs. However, since the problem in many developing countries is underemployment rather than open unemployment, short-term jobs correspond well to needs. For many workers, it

⁶⁴ “Best practice guideline 1: An overview of labour-based technology and methods in employment-intensive works”, First edition of CIDB document 1022, Construction Industry Development Board (CIDB), April 2004. Available at <http://www.polity.org.za>.

is their first formal employment, giving them a chance to develop their skills and self-confidence. These programmes are also used successfully to target particular groups, such as unemployed youth, with an enhanced impact if the works are combined with on-the-job training. Rather than creating a small number of long-term jobs in the capital-intensive sector, labour-based options create a large number of jobs of shorter duration for poorer workers. If and when labour-based methods are well mainstreamed in regular infrastructure investments, substantial aggregate employment creation for unskilled workers will result.

4.3 Employment potential in the building sector and the building materials industry

The building sector (including housing) and building materials industry have immense potential to create more employment, through the use of local materials, local technologies and local small-scale enterprises.

Research in South Africa reveals some interesting statistics. For example, a masonry house may generate 3.5 times more person-hours of employment than an equivalent precast concrete house (at approximately the same cost). The choice of technology not only influences employment parameters, it also determines who will benefit from this employment. Choosing appropriate technologies and (traditional) local building materials provide important employment opportunities to unskilled or semi-skilled people⁶⁵ (see also Box 4.3). A similar argument was presented by a recent study on employment challenges in the construction sector in China,⁶⁶ where the urban construction sector historically employs more rural workers than any other industry.⁶⁷ These workers perform mainly manual and semi-skilled operations. They do not have the same benefits and advantages as their urban counterparts who mainly occupy technical and management functions. However, recent developments, including restructuring and greater mechanization and industrialization, have slowed down the job growth for rural labour.

In Nicaragua, a recent ILO project has assisted the municipalities of Ocotol and Mozonte to use labour-based methods and small contractors in infrastructure provision and house building. The project obtained very positive results in terms of the use of local resources in executing the works: 62.9 per cent of the total budget was spent on wage payments and on the purchase of local materials.⁶⁸

Small-scale, relatively labour-intensive building materials manufacturing technologies are generally associated with larger multiplier effects than large-scale, capital-intensive technologies because they tend to use locally manufactured tools and machinery and are marketed and transported by small-scale enterprises. The production in small units close to markets creates local employment while also reducing transport costs.

In numerous cases, imported materials can be replaced by a local equivalent which, in turn, can be produced in small-scale, labour-based plants. However, despite their ease

⁶⁵ Ibid.

⁶⁶ Xiaoying and Hui, 2004.

⁶⁷ In 2001, the China construction sector employed nearly 37 million workers, of which some 29.4 million originated in rural areas, compared with only 2.8 million in 1980. In contrast, the number of urban employees only marginally increased over the same period, from 7.1 million in 1980 to 7.3 million in 2001.

⁶⁸ Fajardo, 2003.

of production by small-scale enterprises, there are very few instances of their being used on any large scale. Not only are local equivalents constrained by market distortions in favour of imported “conventional” materials, they also suffer from inappropriate building regulations, consumer resistance to “old-fashioned” ideas, and problems balancing supply with demand.⁶⁹

Sharing quantitative information to optimize employment opportunities

To achieve the goal of optimizing employment opportunities, quantitative information needs to be made available to developers, architects, engineers and project planners on the technologies, construction methods and materials that have a relatively high labour content and are at the same time cost-effective while respecting (appropriate/acceptable) quality standards. This requires country-specific studies on the comparative advantages of different materials and technologies used in the building sector (such as those conducted by the National Housing Forum in South Africa).

Box 4.3: Employment in small-scale brick-making in Africa and Latin America

A study of brick-making techniques in Santafé de Bogotá (Colombia) shows that small-scale units use ten to 20 times more labour per unit of production than large-scale plants. Another study, also in Colombia, showed that for a fixed sum of capital, 100 times more jobs can be created in small-scale labour-intensive brick manufacturing than in large-scale mechanical plants. It also found that small-scale plants produce bricks at a cost two to three times lower than that of bricks produced in large, capital-intensive plants.

In Burkina Faso, the use of *banco* bricks as the basic building material in 100 “economy” dwellings made it possible to minimize the costs of construction, to provide small-scale *banco* brick-makers with substantial levels of income, and to ensure the survival of artisans skilled in brick-laying. Furthermore, the widespread use of this material helped in the short term to reduce the rate of urban unemployment: the only skill which the young people comprising the exodus usually possess is a good knowledge of the use of *banco* for building purposes.

Source: UNCHS/ILO, 1995.

Encouraging the use of local materials and local resources

Measures to encourage prospective house owners and landlords to use appropriate technologies and local building materials in upgrading schemes include:

- Setting up a building materials bank that could also provide assistance to residents on construction techniques, design and the choice and use of (local) building materials.⁷⁰
- Providing assistance to residents and their associations on hiring small contractors (for example, model contracts could be developed with the association);
- Assisting/training small construction contractors as well as engineering consultants. Integrating the use of labour-based technologies and local building materials in this training; and

⁶⁹ UNCHS/ILO, 1995.

⁷⁰ An example from Buenos Aires (Argentina) is provided by Plummer (2002). In addition to supporting housing improvement and providing advice on construction techniques, the building material bank served to disseminate information about the relationship between habitat and health, and it developed a credit system to allow the inhabitants to purchase materials on credit.

-
- Acting in collaboration with micro-finance programmes for housing development.

Setting the example in the public sector

Above all, it is important for the public sector to set the example, by making it an explicit policy to use local resources in general and local building materials in particular in its publicly funded construction and public works projects, whenever these options are cost-effective and technically feasible. Without such commitment, it is unlikely that private investment will change its ways, given the tendency to perceive imported materials and resources as more “prestigious”.

4.4 Special employment creation programmes

Employment-intensive works have long proved their effectiveness in bringing immediate jobs and incomes to the poorest, most vulnerable population groups, while making available productive and social assets to envisage the longer term.

Special public works programmes⁷¹ are often a prominent feature in countries in transition or recovering from armed conflict or natural disasters. The emphasis in these programmes tends to be on maximum employment creation with a view to the widest possible impact and coverage in terms of income distribution.

Social Action Programmes, or Social Funds, were set up in Africa and Latin America to cushion the most vulnerable (urban and rural) population groups from the adverse social effects of structural adjustment programmes and usually have a significant employment-intensive works component. The strength of Social Funds – their quick and efficient delivery of a large programme of infrastructure works of public and community interest combined with job creation – is also their weakness. Their success is largely attributed to their high level of financial and organizational autonomy, the use of simple and transparent contracting systems and procedures, and to the fact that they can hire competent staff at private-sector conditions. Minimal red tape and their capacity to make regular and timely payments for works executed are features particularly appreciated by small contractors and beneficiary communities. However, they are usually set up outside the normal government channels and building up government capacity is not a priority. This raises the obvious question of sustainability. Other weaknesses are that sub-projects approved for funding are often “stand-alone”, largely ignoring links between and within sectors, due to poor municipal planning capacities. Moreover, “efficient” delivery mechanisms at the expense of municipal and community participation lead to frequent maintenance problems. Hence, one challenge the Social Funds all face is the reconciliation of short-term and long-term goals, especially between the pressure to complete projects and the time needed to ensure ownership and sustainability. It is also observed that communities endowed with social capital and access to information are in a better position to take advantage of Social Funds than poorer, more isolated communities.

As Box 4.4 shows, the AGETIP model teaches some valuable lessons. First, while most assistance programmes have a supply-driven approach to small-enterprise development – that is, they provide technical assistance or credit to small firms – the AGETIP programmes proved the effectiveness of a demand-driven approach. The creation of a market has triggered the development of substantial capacity, in quantity and

⁷¹ Including Food for Work (FFW) programmes.

quality, of small and medium-sized construction firms. Moreover, the perspective of a contract with AGETIP has convinced many enterprise owners to take steps towards formalization of their business. Second, procurement regulations are key: dividing up works into many small contracts, simplified contracting procedures and providing prompt payments for works completed are essential in this respect. Third, on a slightly more sceptical note, AGETIP's results in terms of labour-intensity of sub-projects are mixed, with different results being achieved within and between sectors and from one agency to another. Requiring contractors to spend a percentage of total costs on labour wages does not necessarily encourage them to use labour and other local resources productively. They can try to meet the labour obligation by "hiring ten watchmen instead of two". In contrast, in South Africa, contractors and consulting engineers must undergo training in labour-intensive construction to become eligible for contracts under the Extended Public Works Programme.

Box 4.4: The AGETIP projects in Africa – A lesson in job creation, small-contractor development and infrastructure delivery

In order to address the social and political unrest of the late 1980s, the World Bank supported the Government of Senegal to set up a high-impact urban public works programme. As none of the existing public enterprises or government ministries was considered capable of implementation, a specific non-public entity was created in 1989: AGETIP (*Agence d'Exécution de Travaux d'Intérêt Public contre le sous-emploi* – Public Works Executing Agency to fight underemployment). AGETIP is a publicly funded (mostly by donors through government), but privately run non-profit agency (NGO status). It is based on the principle of "delegated contract management", i.e. government has delegated the entire process of project selection and implementation to AGETIP, while maintaining involvement in planning and budgeting. The Board of Directors comprises municipal associations, trade unions and employers' associations. Infrastructure projects proposed by local municipalities and retained for 90 per cent co-funding by AGETIP are subcontracted for implementation to the private sector, through standard procedures for contracting and supervision. Sub-projects must respect a minimum ratio of labour costs to total costs of 20 per cent. While AGETIP has scored considerable success in generating employment for the urban poor, its impact has been particularly strong in the small-contractor sector. Substantial capacity has been built in the construction industry. The Agency currently works with a roster of some 2,000 small contractors and 300 consulting engineers, most of whom did not exist, or operated in the informal sector, in 1988. AGETIP-Senegal also operates a training component for small contractors and gives technical support to micro-enterprises in the context of a micro-credit programme operated through commercial banks.

AGETIP has been replicated in 15 countries: Benin, Chad, Burkina Faso, Gambia, Madagascar, Mali, Mauritania, Niger, Togo, Burundi, Djibouti, Cape Verde, Guinea Bissau, Republic of Guinea, and Central African Republic.

Source: Based on <http://www.agetip.org> and www.worldbank.org

4.5 Mainstreaming employment-intensive approaches

If more employment is to be created on a large scale, it is essential that employment-intensive and local resource-based approaches become a standard feature of infrastructure (including roads, water harvesting and supply, irrigation, forestation, soil conservation) and housing investment schemes, whenever such approaches are technically feasible and cost-effective. Under pressure to create jobs, some governments have set up special programmes such as the AGETIPs (see above). In addition, or instead, some countries have decided to go the extra mile by progressively mainstreaming local resource-based approaches in their regular infrastructure investment policies and programmes. In this process towards mainstreaming local resource-based approaches, there are several levels and steps. Some countries may have made progress at one level or in one sector, but not at another level – it is unwise to generalize, even within the context of one "successful" country. Moreover, attempts to widen the application of labour-based approaches in large-scale infrastructure investment programmes may also encounter setbacks, as clear

interests are involved.⁷² At the level of policy statements, countries such as Indonesia (Inter-ministerial Committee), Madagascar (Annual Government Statements on their general policy) Namibia (Green and White Papers on labour-based approaches in all economic sectors, plus standing committee to monitor the application), Nicaragua (PRSP and National Development Plan), the Philippines (Presidential Decree), Tanzania (policy statement for labour-based maintenance of all rural roads), and South Africa (see below) are making serious efforts to mainstream labour-based approaches. However, policy statements and documents, including a manifestation in PRSPs and other national frameworks, are only one step in the right direction. The implementation of the intended change is a much more challenging one. In terms of “going to scale” with local resource-based approaches for infrastructure development, there have been substantive moves in Cambodia, Ghana, Madagascar, Mozambique, Tanzania and South Africa, where substantive changes to the operational systems and improvements to implementation capacity were made.

The policy decision to mainstream local resource-based approaches means operating a shift in infrastructure investment policies towards using more labour and local skills and materials. This increases the total volume of employment opportunities for the same amount of investment. Such a policy often encompasses simultaneous measures to enlarge access to public contracts by small and medium-sized contractors, to strengthen the implementation capacities of client organizations (e.g. local governments) and the private sector (contractors and consultants), to enhance organization and negotiation skills of communities, to modify and develop appropriate contracting systems, to provide skills to workers, and to build partnerships with civil society organizations as well as the incorporation of social measures (e.g. decent working conditions) that are required in a pro-poor growth model.⁷³

The South African shift in infrastructure investment policies

As a concrete example, South Africa over the past decade aimed for fully integrating social and employment objectives into its mainstream investment programmes through the development of comprehensive policies and strategies. The process through which the country arrived at such policies is particularly worth noting because it involved extensive consultations and cooperation between government, industry, trade unions, professional bodies, and civic organizations. The result is a wide social consensus on the necessity and feasibility of enhancing the employment and social outcomes of public investment in construction and infrastructure works (Box 4.5).

After nearly a decade of experiences with labour-intensive public works programmes, including major initiatives such as the Community-Based Public Works Programme (CBPWP), in 2004, the Government of South Africa launched its new flagship job-creation project, the Extended Public Works Programme (EPWP). Between R15 billion and R20 billion will be invested in labour-intensive public works in South Africa over the next five years.⁷⁴ This is achieved by operating a shift in normal

⁷² For example, in Madagascar, big local companies have recently succeeded in convincing the Government to repackage in their favour a major part of a US\$ 50 million road maintenance programme originally earmarked for labour-based SMEs.

⁷³ Majeres, 2003.

⁷⁴ Using labour-intensive methods to upgrade rural and municipal roads, municipal pipelines, storm-water drains and paving, as well as fencing of roads, community water supply and sanitation, maintenance of government buildings, housing, schools and clinics, rail and port

investment streams towards labour-based technologies: of the R45 billion in infrastructure grants to provinces and municipalities for the next five years, an estimated R20 billion is earmarked for EPWP projects. As part of this initiative, the national government will place additional conditionalities on the Provincial Infrastructure Grant and the Municipal Infrastructure Grant, requiring provinces and municipalities to implement certain types of infrastructure projects labour-intensively, in accordance with a Framework⁷⁵ provided by the Department of Public Works. This Framework provides provinces and municipalities with the necessary tools to tender these projects successfully as labour-intensive, as well as guidelines on the hiring, working conditions and training of unskilled and semi-skilled workers. Simultaneously, the National Department of Public Works is working with the Construction Education and Training Authority (CETA) to develop the capacity of the construction industry to design and manage labour-intensive infrastructure projects successfully. In this respect, the conditionalities mentioned above also include an eligibility requirement for the appointment of contractors and consulting engineers, i.e. their key staff involved in the project must undergo special NQF-accredited⁷⁶ training programmes in labour-intensive construction.

Box 4.5: Summary of policy measures in South Africa to mainstream employment creation in rural and urban infrastructure works

- A Framework Agreement for Public Works Projects Using Labour-Intensive Construction Systems was developed on a tripartite basis between industry, labour, professional associations and civil society. Signed in 1993, this framework agreement provided the first guidelines for the preparation of contract documentation, training systems and task-based payment systems and conditions of employment as well as criteria for the selection of persons for employment in labour-based public works projects.
- The White Paper on Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry (2000) expresses, *inter alia*, a vision for public-sector delivery which aims to maximize employment opportunities through labour-intensive construction. It calls for an enabling policy that advocates the use of locally based technologies and encourages labour-based construction and materials production.
- The Construction Industry Development Board (CIDB),¹ established in 2000, has as one of its objectives to determine and establish best practice that promotes national social and economic objectives, including job creation in the construction industry.
- The Green Paper on Public Sector Procurement Reform in South Africa (1997) proposed that procurement should facilitate the generation of jobs in South Africa by: (i) ensuring that the foreign content in contracts involving goods, services and works is minimized; (ii) encouraging the substitution of labour for capital; (iii) supporting the use of "labour-friendly" technologies which utilize a higher degree of labour input than do conventional technologies, or are well suited to implementation by small-scale enterprises; and (iv) encouraging and developing small-scale enterprises to implement employment intensive-practices and "labour-friendly" technologies.
- The development of Preferential Procurement Regulations, also known as targeted procurement, incorporates social objectives – notably job creation – in the public procurement of infrastructure works (see section 5.2 for further details).
- The Code of Good Practice for Employment and Conditions of Work for Special Public Works Programmes (1997), developed with ILO assistance, spells out employment and working conditions of locally employed temporary workers on all labour-intensive infrastructure projects.¹

Source: Based on various GoSA and ILO documents and websites see, for example http://www.ilo.org/public/english/employment/recon/eeip/countries/africa/south_africa.

infrastructure, electrification infrastructure, particularly in 21 urban and rural areas identified as needing urgent development.

⁷⁵ Department of Public Works (South Africa). Framework for the Implementation of Labour Intensive Projects under the Expanded Public Works Programme (EPWP), 15 January 2004.

⁷⁶ National Qualifications Framework.

5. Public-private partnerships and pro-poor procurement

There is a large untapped potential for involving firms, community organizations and associations of small enterprises in public procurement for the delivery of basic services and infrastructures. Overall experiences with this type of public-private partnership show that it is possible to create win-win situations: jobs are created at the local level, community organizations gain capacities, negotiation skills and empowerment, enterprises gain access to a business opportunity, services improve and the costs of these services or works are often reduced, with additional benefits to the wider community – cleaner environment, cheaper and more reliable water supply, better maintained roads and drains, etc.

Successful public-private partnerships require a change in the role of the parties involved. Local government must move from delivering services and works to managing private sector delivery. The (often newly emerged or formalized) local providers must learn to deliver in an efficient manner and work in partnership with local government and their clients. Residents must learn to organize and participate, and to receive and pay for services from the private sector which in the past were delivered, and often subsidized, by local government. The range of different interests and changing roles means that it is important that rights and responsibilities are negotiated and formally agreed to avoid conflict. This facilitates the development of constructive partnerships with a clear, goal-oriented division of tasks between partners.

5.1 Procuring works: Developing small contractors

“If infrastructure works are to foster local development, and if more employment is to be generated, the bias towards large companies and large single contracts needs to be overcome. There is no encouragement for small-scale enterprises (SSEs) quite as effective as involving them in the implementation of contracts for central or local governments. It surpasses all the tinkering with details which may be suggested by well-meaning policy-makers and, for their part, confronts the SSEs with the need to put their operations onto an efficient footing.”(UNCHS/ILO, 1995)

Important synergies and more development can be generated if infrastructure works are conceived as simultaneous opportunities to create jobs and develop the small-scale private sector, while also improving infrastructure provision in low-income areas.

A number of reorientations in development policies converge to open up new opportunities for the small-contractor sector. First, decentralization of government functions in infrastructure development means that smaller works, close to the people and suitable for small contractors, have a better chance of being put on the local development agenda. Second, the push towards privatization, including private-sector execution of infrastructure works, means the opening of a new market for the private sector. Third, the importance given to small enterprises as actors in employment creation policies also applies to small contractors in the construction industry – an industry among the most efficient in generating employment for a given capital inflow.

The small contractor: Strengths and weaknesses

Small contractors have a number of strengths:⁷⁷

- They tend to use labour-intensive methods, giving employment to local skilled, unskilled and unemployed labour;
- They use fewer imports and less hard currency than their large-scale, more equipment-based, counterparts;
- They have knowledge of, and can adapt to, local conditions in neighbourhoods, and can offer a service based on customers' special requirements (whereby "the customer" can be local/central government, a municipal council, an NGO, residents' and community organizations, or private clients);
- They can use a variety of local materials and tools;
- Not constrained by equipment to be amortized, they have little difficulty adopting new methods and labour-based technologies (in fact, small contractors often embrace such technologies as a lifetime opportunity for their business).

Weaknesses of the small-contractor sector are their lack of experience, finance, and tendering skills, as well as weak management capacities. Many of the small enterprises in the construction sector may be unsustainable and short-lived. However, procurement procedures that incorporate a selection process through training, guidance and test contracts can overcome these constraints. ILO programmes in different parts of the world have proven the feasibility and positive impact of infrastructure procurement through small contractors. The AGETIP experience (see Box 4.4) also shows that, given the opportunity, this sector can develop rapidly.

Paradoxically, private-sector execution of public works does not mean less work for (local) government. The change of role from direct to private-sector execution requires establishing contract management capacities, which is often a difficult process. In particular, the simultaneous introduction of small-contractor participation in public works and labour-based technologies entails sufficient capacities at two levels:

- (i) The capacity of (local, municipal) government to ably implement its new function of contract authority ("client") and supervisor, and to adopt and implement appropriate procedures related to the administration of a large number of contracts with small enterprises. This implies setting up a well-functioning and transparent (decentralized, municipal) system of tendering and bidding procedures, decision-making for contract award, efficient payment systems, and the training of staff responsible for contract management.
- (ii) The availability of sufficient capacity in the small-enterprise sector (small contractors and also consulting engineers). Training is often required in business administration, tendering, labour management and technical skills, as well as assistance to access credit, for the small enterprises to become more productive and reliable partners in infrastructure works. Training programmes for small contractors developed by the ILO combine the development of management skills with labour-based technologies, also introducing the contractors to the need to respect decent working conditions. After all, if labour is the main production factor, its productivity will largely depend on the working conditions offered.

⁷⁷ UNCHS/ILO, 1995.

In many countries, public tendering regulations and practices virtually exclude the participation of small, local enterprises and the application of techniques that make optimal use of locally available skills, human and material resources. The stringent requirements for enterprises eligible to participate in the bidding, the practice of putting works out to tender in contracts that exceed the capacity of small entrepreneurs, vested interests within the government agencies awarding the contracts and the sometimes unfair competition from big established contractors make the involvement of small, labour-based enterprises a difficult, but not impossible, challenge.

Creating an enabling environment for the small contractor

In addition to the capacity issue mentioned above, an enabling environment for labour-based small-contractor development includes:

- Appropriate contracting procedures and contract packaging, i.e. there should be no biases against small contractors and/or labour-based technologies;
- Streamlined disbursement and administrative procedures;
- Access to credit facilities and equipment by contractors; and
- A regular flow of funding for work to ensure a reasonably steady workload.

A reasonably steady workload is necessary to enable contractors to invest in (appropriate) equipment and to sustain a core of (trained) staff. Regular payments to contractors by the contracting agency are crucial for labour-based programmes. Because of the large number of temporary workers on their payroll, labour-based contractors are particularly vulnerable to payment delays.⁷⁸

A promising approach to infrastructure maintenance is the so-called performance contract. To improve road maintenance, several Latin American countries have started to look for new ways of contracting out these works to small/cooperative enterprises. Over the past few years, Brazil, Colombia, Guatemala, Peru and Uruguay initiated Performance Specified Road Maintenance Contracts covering rural and urban routine maintenance and, in some cases, periodic maintenance and road rehabilitation as well. The traditional way of contracting road maintenance is based on a schedule of unit prices and estimates of quantities. The works to be performed are specified in the contract and payments are based on executed measured works. By contrast, a Performance Specified Road Maintenance Contract defines the minimum conditions of road, bridge, and traffic assets that are to be met by the contractor. Payments are based on how well the contractor manages to comply with the performance standards defined in the contract, and not on the amount of works executed. This type of contract allocates responsibility for work selection, design and delivery solely to the contractor. Hence, the choice and application of technology and the pursuit of innovation in materials, processes and management are all up to the contractor. This allocates higher risk to the contractor compared with the traditional contract arrangement but, on the other hand, may increase the contractor's margin where improved efficiency and effectiveness of technology, process, design or management reduces the cost of achieving the specified standards. Today, more than 40,000 kilometres of roads in Latin America are being maintained under performance contracts. The duration of these contracts varies from 1 year to 5 years (renewable).⁷⁹

⁷⁸ ILO, 1999.

⁷⁹ Zietlow, 2004.

Box 5.1 illustrates how a woman learner-contractor benefited from a programme in the South African municipal infrastructure sector.

Box 5.1: Emerging small-contractor development in South Africa

Several years ago, the Limpopo provincial government took the initiative to implement a labour-intensive provincial roads programme called Gundo Lashu. Under the Extended Public Works Programme, the provincial government is now teamed up with all the municipalities in the province to expand the programme to the municipal infrastructure sector. The **Gundo Lashu** programme has involved the training of 24 local emerging contractors in labour-intensive road and bridge construction and maintenance. These contractors in turn hire local labour to carry out infrastructure improvement projects. Supporting bodies for the Gundo Lashu project were the British Department for International Development and the International Labour Organization.

A woman learner contractor who benefited from the Gundo Lashu programme wrote:

“My name is Mokgadi Raganya, I am a Managing Director of Rola Consultants, one of the 24 emerging contracting companies afforded the opportunity to be trained on Gundo Lashu programme in Labour Intensive Road Construction. I had no experience in road construction before undergoing training. However, due to the effectiveness of the training received, my company successfully completed its trial contract of a 4.4 km gravelled road and construction of a 24 metre long low-level bridge at a cost of R1.523 million, with some guidance and mentoring from the Gundo Lashu Project Team. The company employed daily an average of 120 labourers for the contract duration. My company has now been awarded an annual Contract of R 7.5 million by Roads Agency Limpopo (RAL) through a tender process to rehabilitate and seal a 14.1 km road using labour-intensive methods, including the construction of six bridges and works have been ongoing since November 2003.”

Source: <http://www.cidb.or.z>; www.ilo/public/english/employment/recon

5.2 Procuring works: An instrument of social policy

The procurement process is critical for achieving objectives such as the development of the domestic construction industry, employment creation and use of local resources and skills. Experience shows that the tendering process can foster more development if:⁸⁰

- Works are let out to tender through smaller contracts than previously, possibly based, at least initially, on fixed rates;
- Designs and specifications do not stipulate equipment-intensive methodologies exclusively, but are (at least) “technology neutral”;
- Simplified but legally tested tender documents are used;
- Procurement has social objectives, rewarding contractors for using locally available resources, training of workers, subcontractors and community organizations, etc.; and
- Full competitive bidding is suspended until contractors acquire the capacity to compete.

The Targeted Procurement model in South Africa

The “Targeted Procurement” model developed in South Africa enables procurement to be readily used as an instrument of social policy by public bodies both on a large scale and in a focused manner, without compromising the requirements for a cost-effective and practical procurement system. On small

⁸⁰ ILO, *Capacity building for contracting in employment intensive infrastructure programmes. Quick overviews from the guide, (Employment-intensive Infrastructure Programmes: Capacity Building for Contracting in the Construction Sector)*, undated.

See also <http://www.ilo.org/employment/eiip>

contracts with a value below a defined financial threshold,⁸¹ direct preferences are accorded to targeted enterprises to tip the scales in their favour. On contracts above that threshold, bidders are required to compete on the basis of both what is to be constructed or maintained (the product) and the social benefits which target groups may derive in the execution of the contract (social deliverables). “Development objective” points are awarded to tenderers for incorporating certain (quantifiable and measurable) socio-economic deliverables, as specified in the tender, such as (a combination of):

- job creation;
- poverty alleviation;
- use of local resources (including local artisans, local materials);
- targeted groups of workers (e.g. unemployed, youth, women);
- certain categories of small enterprises;
- capacity-building;
- community-based development; and
- local economic development.

Contracts are then awarded to the most advantageous offer, based on a balance between the tendered price and the tendered social deliverables. Sanctions are applied to contractors who, in the performance of their contracts, fail to deliver their contracted social deliverables. Making the social benefits just one of the criteria relevant to the contract award, which must be balanced against other criteria (such as price and quality), ensures that social benefits are obtained with the minimum possible costs to government.⁸²

5.3 Procuring works: Community contracting

Low-income communities and their organizations should be recognized as fully fledged partners in local improvement projects. A tool used successfully in community-driven approaches is the community contract. Here, a community group enters into a contractual agreement with local government in order to undertake works that lead to an improvement in local living conditions. Both parties may be assisted in this process by a development project or a NGO.

Various actors play a role in urban upgrading, such as the community and its organization(s), governmental and municipal departments, utility companies, NGOs and private-sector enterprises. The use of one or more contractual agreements facilitates the process towards a clear goal-oriented division of tasks and therefore assists in developing constructive partnerships.⁸³

⁸¹ The *Preferential Procurement Regulations, 2001*, as published by the Ministry of Finance, pertaining to the Preferential Procurement Policy Framework Act No. 5 of 2000, puts the threshold at R500, 000 (approximately US\$ 80,000).

⁸² A 90/10 formulation for the development objective price mechanism is usually employed: 90 points being for price and 10 points for development objectives. In South Africa, this formulation has been found to achieve very satisfying socio-economic results, the average cost premium paid on engineering and construction works contracts being less than 1 per cent (Watermeyer, 2000).

⁸³ Snoer, 1995.

Advantages of community-driven approaches

In particular, the combination of community contracts with labour-based approaches presents many advantages in terms of community empowerment, job creation and income generation, as well as capacity-building and partnership development (see Box 5.2).⁸⁴ Given the choice, poor communities suffering from high un- and underemployment will gladly adopt labour-based methods that generate temporary employment and provide residents with an opportunity to earn an income and gain new skills.

Box 5.2: Community contracting to upgrade an unplanned urban settlement – Hanna Nassif, Dar es Salaam

The community of Hanna Nassif had long suffered from severe flooding. During the rainy season, drainage water mixed with waste entered the houses and seriously limited access. This led to chronic health problems and a negative effect on the social, economic and physical environment. Deciding to address the situation, the community expressed their wish to the Dar es Salaam City Council, who approached the ILO and UNDP for support. Many organizations supported the Hanna Nassif community initiative, but the most crucial partnership developed between the community and the local authorities.

In 1992 the community started organizing itself and in 1994 it was registered as a community-based organization. With some ILO support, it undertook the prioritization and planning of the envisaged works. The City Council agreed to the proposed upgrading works in the unplanned settlement and seconded staff for technical support. The UNCHS-supported Sustainable Dar es Salaam Programme assisted the Council in creating a conducive environment and a framework for replication. In 1994 the drainage works started. The construction work was split up into community contracts, which were signed by the City Council and the community representatives. On this basis, the Council transferred the contract funds to the community bank account. Community residents then implemented the works according to contract under the supervision of a technical team. In the second phase other contract partners also played a role.

In 2000 all drainage and drinking water supply works were implemented and the settlement had improved living and working conditions. In addition, the community (with support from the Ford Foundation) started to operate drinking water kiosks (for which they entered into an agreement with the water company), to manage solid waste (for which they contracted with the Council) and to operate a credit scheme for small loans to local community groups.

The Hanna Nassif experience is now being replicated on a wider scale within the framework of a World Bank supported project entitled “Local Government Support Project”. This project comprises a community-based infrastructure upgrading component targeted at unplanned areas in Dar es Salaam.

Source: ILO, *Cities at Work*, 2004.

Two aspects distinguish the contract approach from “conventional” community-based activities, providing an important “added value” to such activities. These are: (i) a process of negotiations to arrive at a mutually beneficial agreement or contract; and (ii) the formalization of the partnership through a contract defining responsibilities and obligations of all partners, usually requiring the formalization (registration) of the community organization. These added-value aspects substantiate and apply the notion of empowerment in a relevant and effective manner.

Negotiations with the target community are part and parcel of the contract approach and a critical stage of the process, as the community group/organization has to negotiate its best interest. For the community to engage meaningfully in negotiations, it must have the requisite information to take informed decisions (e.g. on technical options, type and amount of community contribution, levels of wages, use of contractors, implementation modalities, supervision, maintenance). The introduction of a negotiation process in formerly unorganized and disadvantaged communities provides them with an opportunity to engage in discussions related not only to their economic and social interests, but also to their individual and collective rights and duties. These negotiations between public administrations on the one hand and community groups on the other provide the basis for

⁸⁴ Tournée and van Esch, 2001.

a more democratic and equal form of partnership. When well designed, community-contracting approaches will strengthen the collective capacities of the poor to act as partners in development, and enhance accountability of public administrations.

For community contracting to be applied on a large scale, the legal standing of the community organizations must be appropriate, enabling it to interact effectively with external parties. Official registration of the organization is usually (but not always) necessary for it to be able to receive public funds and thus to enter into a contract with public authorities.

Conditions under which community groups can receive public funds vary widely. In some cases only minimal conditions apply. For example, in the Mexico Municipal Funds programme, government regulations permit groups to register as “solidarity committees” with the municipality, thereby giving them the right to receive public funds.⁸⁵ In the Ethiopia social fund, meeting minutes that report the formation of a user committee are a sufficient basis for gaining legal status, opening a bank account in the name of the committee, and eligibility to receive public funds for community projects.⁸⁶ Box 5.3 summarizes eligibility requirements in Sri Lanka.

Box 5.3: Sri Lanka: Eligibility of community-based organizations in urban upgrading contracts

In order to undertake a community contract, a community-based organization (CBO) has to have a number of specific qualifications. It should: (1) Have democratically-elected representatives; (2) Carry out its functions based on a constitution; (3) Have documentary proof that it has been active in socio-economic development work for the community for at least one year; and (4) Maintain a joint bank account in the name of the CBO.

Source: K.A. Jayaratne, 2003.

In most cases, community-based organizations need to obtain full legal status⁸⁷ to qualify for contracts with public authorities. Some local administrations may sign a contract with an informal organization for a one-off job (such as drain-clearing by a group of youth), but this approach (even if permitted) is not sustainable, as it does not allow for scaling-up. Inevitably, questions relating to accountability, advance payments and legal recourse in case of problems (covering all parties in the contract) will need to be addressed if the approach is to be applied on a wider scale.

From the point of view of the community groups, the many advantages to being “formal” include: improved access to financial services, assistance from government departments, contracts with private and public entities, greater credibility in voicing concerns and needs, which result in a higher degree of empowerment. Above all, community groups themselves need to understand the advantages of registration.

Disadvantages mainly relate to the time and costs involved in obtaining formal registration as a community-based organization. Examples of red tape are numerous, similarly to those often observed for the registration of small businesses. In many

⁸⁵ World Bank, 1996.

⁸⁶ De Silva, 2000.

⁸⁷ For example, allowing them to receive public funds; enter into contracts with local government, private suppliers and others; collect money from service users (e.g. waste collection, drinking water) and impose sanctions – when applicable; obtain (risk) insurance; operate bank accounts; borrow money; and seek compensation in case of default on contractual agreements.

countries, community organizations may not be able to achieve registration without some external assistance.

Opting for community contracts in the implementation of infrastructure works is not likely to increase the total volume of direct employment during the works, provided similar technologies and materials are used. However, there is sufficient proof to claim that community contracting indirectly affects employment prospects through the creation of partnership capacities for local development:

- Community contracting builds the self-esteem and capacities of the community (and individuals) to manage resources and plan development initiatives. It also builds negotiating capacities of community organizations and the requisite self-confidence to interact with third parties (government, utilities, businesses, other CBOs);
- A feeling of ownership for the assets is created, impacting positively on sustainability and maintenance;
- Formal contracts usually require the formal registration of the community organizations, improving their scope for playing a sustained role in local development. This can lead to further local initiatives (e.g. cleanliness, fight against crime, lobbying for support) and for follow-up joint action with the municipality or local ward (e.g. operation and maintenance contracts);
- Community contracts help to retain funds, tools and equipment in the hands of the community, which can then be used for maintenance or other activities. For example, a maintenance fund can be created from the “profit margin” in the contract; and
- Community contracting approaches enhance the accountability of public administrations as co-signatory to the contracts.

Comparative studies show that community contracting is cost-effective and that using local resource-based methods can further tip the balance of this favourable cost comparison.⁸⁸ Box 5.4 shows the benefits of contracting locally in Malawi.

Where community contracts have become an institutionalized procedure within the government procurement system (such as urban upgrading in Sri Lanka),⁸⁹ they have often been limited to works which are in low-income settlements, have a low-profit level, a low maximum contract sum⁹⁰ and are technically within the capacities of the community. Intended to reduce risks, these types of provision also reduce direct competition with, and resistance from, established enterprises.

⁸⁸ Tournée and van Esch, 2001.

⁸⁹ Jayaratne, 2003.

⁹⁰ In Sri Lanka, government agencies are allowed to offer community contracts of a maximum value of US\$ 25,000 to a qualified CBO.

Box 5.4: Communities contracting small enterprises

In works of community interest, especially if there is an expectation of maintenance and operation (ownership) by the community, it makes good sense to opt for the most participatory procedures possible, putting the community in the driver's seat of its own project. Private-sector involvement should then be at the terms of the community, giving preference to businesses from the area, and the recruitment of temporary labourers from within the community.

Private enterprises may be contracted directly by the community organization for works requiring particular technical skills. All information points to the importance of involving local "community" contractors in community-based works. In her paper on community contracting in World Bank projects (mostly Social Funds), Samantha de Silva (2000) writes: "Experience shows that communities have a much better working relationship with contractors who were hired locally. Local contractors were also much cheaper, more flexible, and more aware of the community's problems." In the Malawi Social Fund for instance, "local shopping" is used to hire skilled labour such as supervisors, carpenters, bricklayers, painters, electricians and plumbers. Communities hang advertisements on trees and nearby buildings to attract bids from skilled contractors. They seek three quotations and hire a contractor only after interviewing all potential candidates. Interviews are conducted by the project committee together with the village leaders and the technical supervisor employed by the Social Fund. Communities can also request references of previous work from contractors. Local shopping also gives communities greater choice and bargaining power to get the best deal.

Source: de Silva, 2000.

In the final analysis, community-driven development in urban upgrading, including community-contracting approaches, is a gradual process. Communities and other stakeholders should be given the necessary time to learn to participate and collaborate in development projects. Scaling-up and replication of urban upgrading interventions which adopt community-driven development approaches are more likely to succeed if the rules of the game for effective collaboration are defined within an enabling institutional framework. This may include strengthening of governance structures at central, state/provincial and city government level.⁹¹

5.4 Procuring services: Involving small-scale providers

Providing sustainable and affordable services to the urban poor is one of the major hurdles in achieving MDG targets. The service cost is often high if it is provided by governments or their appointed contractors. However, there are examples of services which are provided by the poor to the poor that are both affordable and appropriate. These activities should not be ignored when modernization programmes are introduced. Street sweepers in Karachi, for example, provide an affordable service to various income groups including slum dwellers. The poor get double benefits: as service recipients and as service providers.

Local authorities are increasingly turning to the private sector to provide essential services to their ever-growing populations. However, the private sector may be unwilling to supply low-cost services to low-income areas of the city. Informal operators already often provide services in these areas. One example is small-scale providers of solid waste collection. These operators are often in a better position to deliver appropriate services to the poor; they also provide a significant employment opportunity for the very poor.

Another example is drinking water supply. Municipal distribution networks do not extend to the informal settlements of the poor, whose inhabitants rely on small water-providing enterprises for their water. Evidence from Khartoum, Sudan, shows that water customers pay a considerable portion of their income to such enterprises, but the rates charged are reasonable considering the costs involved and seem to be competitive.

⁹¹ World Bank, 2004.

The key here is to identify frameworks and strategies that enable local service providers to deliver a more acceptable service to poor urban consumers by building partnerships between enterprises and municipalities, based on mutual benefits.

5.5 Procuring services: Solid waste collection through small-scale and community enterprises

In terms of access and equipment, small local service providers are often better placed to deliver appropriate services. For example in high-density, low-income areas, lack of basic infrastructure prevents large trucks from entering while community waste collection groups can use intermediate transport vehicles like handcarts.

Small providers vary greatly in terms of capital and labour intensity, legal status and purpose. They often provide entry points in the labour market for unskilled women and youth. Local service providers often operate informally, and not as part of a city-wide system. Lack of a formal system can result in problems of coordination, for example with primary waste collection and secondary transport and disposal activities, and with respect to monitoring service levels and job quality. However, formalization may result in added burdens to local service providers, including increased costs from licence fees and higher service requirements, and even displacement of informal providers by formal. It is therefore important that the system of formalization is pro-poor.

To enable contracts with small operators for waste collection in Dar es Salaam, (Box 5.5), a specific by-law was adopted to authorize the franchise system under existing local government legislation. It specifies fee levels to protect both the franchisees (to cover operating costs and make a profit) and the customers (to have access to affordable service delivery). The fees were originally determined based on research and discussions with franchisees and local community leaders. Different areas have different fees based on income and service level:

- Low-income areas: Tsh 500 (US\$ 0.50) per household per month;
- Middle-income areas: Tsh 1,000 (US\$ 1) per household per month;
- High income: Tsh 2,000 (US\$ 2) per household per month.

Within wards, the by-laws specify different fees for different types of businesses as a form of cross-subsidization (e.g. petrol stations Tsh 30,000, guest houses 10,000, mosques 2,000). In reality, fees are negotiated at local level, based on affordability and volume of waste. The franchisees are free to develop their own fee collection systems, with some having daily payments, other collecting weekly or monthly.

Box 5.5 : Dar es Salaam (Tanzania): Small enterprises solve environmental problems and create jobs

In Dar es Salaam, local authorities established a system of formal partnerships with local service providers to carry out solid waste collection from households and business premises. In 1998, jointly with local partners, a franchise system was put in place covering more than half the city's 120 wards, (around 75 per cent of Dar es Salaam's population). The three municipalities that constitute the city each tendered contracts to local enterprises and community groups. For this to occur, groups had to register and change operating procedures to meet contract requirements. In return, they are supported through by-laws and given franchise contracts to operate as a monopoly in the area for the duration of their contract. In addition, they are authorized to collect fees directly from clients. Since the system was introduced at the end of 1998, the proportion of the waste collected in Dar es Salaam has risen from 5 to 50 per cent (1,200 tonnes per day), removing many of the waste heaps that once disfigured the city. Much of the remainder is still buried, burnt, or dumped in unauthorized sites.

These services are also being delivered to previously unserved areas, including unplanned settlements of urban poor. In 2004, 50 small local enterprises operating under formal franchise agreements created direct employment for about 2,000 people. The municipalities also included street sweeping in the franchise agreements, for which the franchisees receive payments directly from the authorities.

Source: *Success Africa*, ILO, 2004d.

In the system's five years of operation, many of the original providers were able to stay in business. Management training for all franchisees (*Start Your Waste Collection Business*) and sensitization campaigns by the municipalities to encourage citizens' cooperation have contributed to their viability. But a good number of the providers have failed to continue, primarily due to insufficient cost recovery through fee collection. Others, particularly the community-based enterprises, operate at very low levels of profitability.

Since the franchise system is effective, many parts of the city have a formal waste collection service for the first time. This is particularly the case in unplanned settlements where solid waste collection is often the only formal service in operation. Improved cleanliness and new recycling clusters in these areas are visible expressions of the improved effectiveness of the integrated waste management system.

Problems remain, however, in the sustainability of franchisees in low-income areas. Low fee levels, low-value waste and poor cost-recovery rates have made it impossible to develop a lasting business in these parts of the city. Support from the municipalities, for example in the form of complementary secondary transport of waste to the dumpsite, was suggested to strengthen smaller franchisees. In addition, franchise contracts are being considered that combine, for one provider, both a high-income and a low-income area. Similar ways of cross-subsidization need to be further developed to maintain and expand the system on a city-wide basis.

A matter of concern is whether the poorer households in the wards receive a continued service. It appears that most franchisees have developed their own solutions to include poorer clients, either by having waste brought to the collection carts by the customers, by lowering their fees and adjusting their fee collection methods, or simply by exempting the poorest households from paying. The role of the ward councillors and the ward environmental committees is crucial in stimulating neighbourhood solidarity to ensure that the services also benefit the poor.

In terms of employment gains, most franchisees engage unemployed job seekers, many of them youth. All Community-Based Enterprises (CBEs) employ women from the

communities in which they operate the service. A survey among 120 workers in 30 enterprises⁹² revealed the following poverty profile:

- 75 per cent have only, or only partial, primary education;
- 70 per cent have dependents, and women have more dependents than men;
- 50 per cent of women are divorced, separated and/or widowed;
- for 68 per cent of women, waste collection is the first paid job (men: 30 per cent)
- for 92 per cent of all, this was the “only job they could find”;
- average monthly income for men: US\$ 38; for women: US\$ 30 (Note: this also reflects collection as part-time activity); and
- 98 per cent assessed themselves as belonging to the poor.

This survey clearly establishes that waste collection constitutes a job opportunity for poor men and women, and that women remain more vulnerable than men. Yet the new employment opportunities are changing gender relations. Women do most of the revenue collection, as they are perceived to be more honest and effective. In some enterprises men are now doing traditionally female jobs such as street sweeping, while women contribute to traditionally male jobs such as loading.

The experience in Dar es Salaam shows that formalization of partnerships for service delivery can include small, local service providers and expand services to the poor. Formalization of these partnerships to benefit the poor requires transparent, accountable procurement procedures and formal contracts to define and establish rights and obligations, while ensuring access of target groups to opportunities and benefits – poor communities to services, and local service providers to business opportunities.

5.6 Procuring services: Small-scale water providers

Small-scale water providers (SSWP) are already playing a prominent role in informal urban settlements, particularly for customers who receive inadequate or no water services at all from conventional water utilities. Given the growth of slums, their role is unlikely to diminish in the short or medium term, and the question is how to involve these entrepreneurs in water supply solutions to meet current and future needs. Many water enterprises operate outside the law. Acceptance of SSWPs is the first step towards development of mutually beneficial partnerships between utilities and SSWPs, recognizing their shared incentives for improving access to water.

Several recent studies confirm that SSWPs often provide useful services valued by poor consumers.⁹³ In the eyes of the customer, water-service quality combines characteristics such as water-quantity, water-quality, reliability, frequency, payment system, convenience and price. Apart from extending water services to settlements that have little prospect of being supplied by the main utility through conventional distribution systems, SSWPs may even be more convenient for poor households – for example, in terms of reliability or ability to make daily cash payments – than conventional metered and billed connections.

The prices that SSWPs charge are not necessarily excessive for the service provided – as evidenced by healthy competition between enterprises. Operating costs may be naturally high in a business that is highly laborious and time-consuming, but SSWPs

⁹² Tool and van der Ree, 2004.

⁹³ Wegelin-Schuringa, 1999; Njiru and Smith, 2002.

also frequently face constraints that reduce their operating efficiencies and thus raise their costs. The SSWPs should therefore not be automatically dismissed as exploitative, as is often the case. They frequently face constraints that stem from the hostile regulatory environment in which they are forced to operate, including:

- Lack of provision, restrictions or bans on SSWPs access to well-managed, good quality water sources (from the water utility or elsewhere);
- Business regulations that hinder SSWPs operation and investment, e.g. difficulties in obtaining licences to operate;
- Harassment by local power brokers (cartels) and/or officials from water authorities;
- Unfair competition through sale of low-quality water, or through vandalism of installations by competitors;
- Weak technical skills and capacity related to transportation;
- Credit constraints, stemming from lack of recognition of SSWPs as legitimate businesses; and
- Social discrimination against vendors who are often among the poorest members of the community.

Box 5.6 shows how water vendors in Khartoum make a critical and valuable contribution to water services. Many of their operating constraints can be overcome by acceptance of these enterprises as legitimate contributors to the provision of water services.

Box 5.6: Water services in Khartoum (Sudan) – Possible interventions to improve operation

Most of the city's population – with no foreseeable prospect of access to the piped network – mainly rely on water-yards. Ground-water is extracted by diesel pumps from individual boreholes or artesian wells and stored in large elevated communal tanks (50-70 cubic metres). There are around 940 such water-yards in the city, each serving roughly a square kilometre of settlement. Water-yards sell water on to small-scale water providers (SSWPs) – overwhelmingly donkey-cart operators – who transport it in converted oil-drums directly to households in the vicinity. Here water is in turn decanted into jerrycans and domestic water-butts. Research indicates that 67 per cent of households in the peripheral settlements acquire water in this way. The remaining poorest households resort to carrying water themselves from the water-yards, extracting it from hand-pumps where these exist, or other sources of dubious water quality, such as irrigation ditches.

It is estimated that some 50,000 individuals are employed as water-cart operators. SSWP-related activities – including manufacture and repair of carts, water-drums and jerrycans, husbandry of donkeys, cultivation and distribution of animal feed, etc. – provide earnings for many more.

Water-cart operators are mainly young men, aged 15 years upwards, who usually rent their water-cart and donkey from more affluent individuals. After covering the substantial costs of donkey feed, their net income is similar to other forms of manual labour, for example in construction. Water-cart operators face several constraints which directly add to the cost of delivering water to domestic consumers. These are some of the possible interventions that may improve SSWP operations in Khartoum, reduce the costs of water to consumers and provide better water service:

- Make finance available for private investment in new water-yards/refurbishment of defunct water-yards to reduce average transport distances;
- Upgrade the existing water-yard filling points to speed up turn-around times and reduce queuing for cart operators;
- Improve drainage and sanitation facilities around water-yards to improve hygiene and convenience;
- Rationalize the licensing obligations facing water-cart operators, to reduce the scope for harassment and rent-seeking by officials; and
- Make leasing arrangements available for water-cart/donkey ownership.

Source: Njiru and Albu, 2004.

Complementarity between formal and informal enterprises for affordable water

Numerous cities in the developing world have entered contracts with transnational companies to provide water and sewerage services. Especially the older, but also many of the more recent public-private partnership water and sanitation contracts with large international companies do not have a consistent poverty-focus.⁹⁴ While the development of city-wide systems of water provision can often be accelerated with private foreign inputs (capital and expertise), the urban poor are too often left out – either because their areas are not served or because they cannot afford the fees charged. Pro-poor PPP arrangements in water provision at city-level will therefore often have to seek the best possible complementarity between big and small service providers, between formal and informal enterprises. This complementarity seems to be the key issue, in combination with community participation to achieve the widest possible and affordable water provision for the urban poor.

5.7 Procuring services: Guiding principles

Today there is an expanding market for service provision with new services being offered to residents able to pay for them. The task of local authorities is to make these services also accessible for poorer clients and ensure that workers have decent jobs. Solid waste collection, sanitation, fresh-water distribution and routine road maintenance are all examples of business venues in which the local private sector can make a fair profit and concerned communities can participate meaningfully. An enabling contracting system with adequate monitoring mechanisms is critical to develop and sustain such partnerships.

For policy-makers and planners, the following are some guiding principles that can help improving services and job creation simultaneously:

- Understand the informal service market, quantify and cost its contribution to service delivery, and look at ways of legitimizing and regulating entrepreneurial activities.
- Where businesses will be disrupted and displaced, resist making assumptions about what those affected need (e.g. provide access to credit and/or training). At all stages ask communities and entrepreneurs what they think, what they need and how they think they will be affected.
- Acknowledge that urban infrastructure and services development will always impact on the informal sector, and that both decision-makers and entrepreneurs will often have to accept middle ground.

⁹⁴ An example is El Alto, Bolivia, where initial efforts to include the poor in water provision failed. The Government contract with a transnational corporation was cancelled (January 2005) due to massive popular pressure. The reason that led to the demand that Aguas de Illimani (controlled by the French transnational Suez) leave Bolivia was the refusal by the multinational company to invest in broadening potable water service to the 200,000 poor people of the city of El Alto and its imposition of a price increase for connection to the water and sewage system to US\$445.00 – a sum completely out of the reach of the 70,000 people who were not connected inside the area “served” by the company. A general strike was launched in El Alto on 10 January 2005, joined in solidarity by other Bolivian villages and cities, demanding the right to water for all the population. Three days later, the government cancelled the contract with Suez-Aguas del Illimani. For the time being, the former municipal company will be in charge of providing the service until a new social enterprise with the participation of neighbours and under the social control of FEJUVE (Federación de Juntas Vecinales) is incorporated. (<http://www.choike.org>)

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- Advocate at all levels the rights and needs of informal-sector service providers, and shed light on the problems they face in urban development.
 - Pricing and cross-subsidization affect the access of poor clients to the service and ability of small providers to operate in a financially sustainable way. Fees are collected either directly by the franchisee, or through the local authority taxation system. Different approaches are more or less acceptable to clients, franchisees and authorities, depending on levels of trust and capacity.

5.8 Local economic development approaches

In the wake of decentralization efforts, a more comprehensive approach was developed in recent years towards area-based, local economic promotion. Originally applied in rural areas, in provinces or regions in transition, or in post-crisis situations, more and more municipalities are beginning to undertake Local Economic Development (LED) planning processes in urban areas.⁹⁵

In comparison to planning methodologies such as City Development Strategies, Environmental Management Planning, or Investment Promotion, the LED approach differs in that:

- it takes a territorial defined area with its resources as the starting point;
- it aims primarily at economic outcomes for citizens; and
- it fosters a developmental process which maximizes local participation and ownership.

A typical LED process is based on the recognition that sustainable local development is a goal that transcends the capacity of governments. Thus, it always starts with a forum for consultation involving (local) government, business, and civil society. Subsequently, relevant stakeholders need to be sensitized and mobilized to participate in the planning process. For the economic development of slums, this means an emphasis on representative community organizations, cooperatives and business associations. In addition, traditional leaders, religious organizations and NGOs active in the area are involved. The municipality itself also needs to be mobilized – often there is no specifically designated unit or official entrusted with local economic development. At best, the community development department is implicitly given the mandate to promote economic initiatives in and for slums.

LED is increasingly focused on enabling local business growth by reducing red-tape and ensuring that local infrastructure needs are met. It seeks to build inclusive strategies and programmes to overcome poverty and economic exclusion. Better strategic and spatial planning brings people and jobs together, reducing travel time and costs. Local strategic planning fosters effective governance and partnership working.⁹⁶

From the start, it is essential to gain high-level support for a comprehensive LED approach in municipalities. Ultimately, the implementation of economic development strategies will require an enabling regulatory, legal and financial environment. LED is

⁹⁵ A Local Economic Development Training Series has been developed by UN-Habitat with ILO inputs. See: UN-Habitat and ECOPLAN International, Inc. *Strategic Planning for Local Economic Development. Volume I: Concepts and Processes* (September 2004) *Volume II: Support Tools* (June 2004); *Volume III: Ideas & Case Studies*, August 2004 (draft).

⁹⁶ Networking Event on Local Economic Development, Background note, World Urban Forum, Barcelona, 16 September 2004.

about sustainable development in the long term. It aims to change local conditions, build capacity, organize participatory processes and empower stakeholders, especially the marginalized and poor.

LED's territorial diagnosis shows potential and constraints

A key step in the LED process is the territorial diagnosis of the potential for and constraints of economic progress and poverty reduction. By involving local stakeholders rather than having an external agent undertaking the diagnosis, the outcome is closer to the real needs and capacities of citizens. In addition, a sense of ownership is created. However, this often takes more time and evokes conflicting views and opposing interests. A process of negotiations between various interest groups is part and parcel of the LED approach. Capacity building in process-oriented planning processes and consensus building-techniques are often required.

A LED process can also be used to address a specific problem. For example, in Palpalá (Argentina) the municipal authorities initiated a comprehensive effort to address the tremendous social shock generated by the privatization of the state-owned steel mill. This experience illustrates how an entire local economy was restructured, from one marked by mass unemployment and little opportunity for growth to one of thriving economic activity. It also shows how the private sector can play an integral role in the development process as well as in poverty reduction (Box 5.7).

Box 5.7: Palpalá (Argentina) – A partnership approach to local economic restructuring

Palpalá is a municipality of about 45,000 inhabitants in the northern Argentine province of Jujuy. Since the mid-1940s, it has been home to *Altos Hornos Zapla*, a government-owned steel mill that employed 5,500 people, or 35 per cent of the local labour force. The enterprise was run on highly paternalistic lines, offered health, housing, and other services to its employees, and had a massive impact on the generation of local income. With the privatization of the mill in 1992, over 4,000 people lost their jobs. The problem was exacerbated by subsequent job reductions in other local companies. Palpalá faced an extremely severe economic crisis, with little prospect of resolution in the context of existing institutions.

The municipal government acted as catalyst behind the set of initiatives that turned this crisis into economic opportunities. The first step was to pool resources from the severance payments from *Zapla*, estimated at US\$1 million, into the creation of cooperative micro-enterprises. Subsequent initiatives included: (i) promoting and brokering the creation of the new enterprises among local investors; (ii) training potential micro-entrepreneurs and municipal staff; (iii) raising and channelling additional funds from sources external to the municipality; and (iv) facilitating the operation of the new enterprises through a more efficacious government sector. The municipality also embarked on a process to expand the participation of civil society in the decision-making process in public issues. These initiatives resulted in the building of a network of local partnerships involving the municipal government, new and old enterprises operating in the area, neighbourhood associations and other community organizations, an NGO, and several programmes funded by the national government.

This partnership approach has yielded tangible economic and social benefits. The collaborative effort of public, private, and community actors succeeded in creating permanent jobs, dozens of small and medium-sized businesses, and an efficient and wide-reaching health clinic. Moreover, the benefits of the partnership reach beyond economics. Strong ties among cooperatives, the local school, and the municipal administration create an atmosphere of trust and unity in which individuals are empowered through an increased voice in the government decision-making process. These alliances have also led to a positive spillover effect, in which new partnerships are now emerging, not only through the intervention of the mayor, but also through NGOs and private sector organizations. Its success is also owed, in part, to the close social networks already in place in the city, built around the union organizations of the former steelworkers.

Source: Fiszbein and Lowden, 1999.

Enabling local actors to change their economic situation collectively

The outcome of the diagnosis and planning process is a plan of action for economic promotion, with designated roles for all partners. An important aspect is the distinction between overriding, extra-territorial factors and those elements that can be addressed within the municipality itself. LED is not a recipe for self-managed community development. It is a planning process supported by a set of tools to enable local actors to change their economic situation in a collective manner. The added value of LED lies in its power to engage community members, municipal staff and supporting organizations in a single economic development plan. It also increases recognition and lends specific value to human, technical, natural and financial resources available in the area. In many cases, this results in the emergence of highly innovative plans.

Some examples of successful LED process were instigated and driven by CBOs, some by the local authorities, others by local business people. There is no blueprint for the most effective approach. More important is the sustainability of the process. In a number of cases, the LED forum was institutionalized in a LED agency, with an independent status. These agencies play a useful role, provided they retain the trust and support of the gamut of local actors. In the long-term, however, certain LED-agencies ran into sustainability problems. Embedding LED processes in existing institutional municipal frameworks may prove a more promising strategy.

5.9 Pro-poor procurement: Main contracting issues

Experiences in many countries in different infrastructure and service sectors prove that there are many opportunities for constructive partnerships. Pro-poor tendering processes and contracts can be developed whereby the result is equal or even biased access for small local enterprises. Eight salient points to address here are:

Specifications. If specifications are too high for small local service providers/contractors, they will be excluded from the procurement process. Examples include requiring large service areas or works to be covered under one contract, excessively high equipment requirements or tender fees, or papers and forms to be submitted.

Duration. In the case of services and also infrastructure maintenance contracts (e.g. performance contracts), the duration of formal agreements is critical. They must be long enough to encourage investment (in both human and financial capital) by the franchisee, but not so long that they lower competition. In some cities contracts of different lengths are awarded to different types of franchisees. Established companies with experience are given longer contracts to encourage capital investment, while small local service providers are given shorter contracts, as their ability to perform is not yet confirmed. This penalizes local service providers that need time to learn and grow, as well as security to invest in development of their businesses. In the case of infrastructure works, developing a pool of capable and reliable small contractors ideally implies a regular flow of funding that ensures a reasonably steady workload, to enable contractors to invest in equipment and sustain a core of (trained) staff. Hence the importance of “mainstreaming” procurement procedures that are open to small contractors in the widest possible range of infrastructure works.

Negotiation. The process of negotiation is important in all aspects of contract development if the rights and obligations of each party are to be included. In Dar es Salaam (waste collection), specifications identifying service schedule, tools and

equipment to be used are negotiated between the franchisee and local leaders before inclusion in the contract. In community contracting, negotiations prior to the works are crucial, because pivotal decisions will have to be made regarding the community contribution, technologies used, work organization and maintenance.

Simplicity. The authorities and local enterprises may both have little or no experience in working with contracts. Agreements should be written as simply as possible, taking into account local language and levels of education, to ensure that all parties understand what they are agreeing to. In Dar es Salaam invitations for tenders are published in local, Swahili language newspapers and contracts are available in Swahili. In Aretha, Tanzania, the by-laws are also translated into Swahili to support dissemination and understanding. The success of the AGETIP agencies in working with small contractors is largely due to their simplified, but legally tested, contract and payment procedures (see Section 4.4).

Procurement regulations. In addition to improving the access of local enterprises to contracts, it is also possible to determine the access of certain groups beforehand through adapted procurement regulations. For example, a certain proportion of contract agreements could be allocated to a certain category of local enterprises (set-aside system). In Madagascar and Ghana, for example, a (temporary) “set-aside” system was used successfully to develop small-scale labour-based contractors in infrastructure works, allowing them to gain skills and tendering experience before full competitive bidding is established.⁹⁷ A step-in mechanism grants certain enterprises the opportunity to step in once the cheapest bid is established, provided that they match its terms and conditions. A system of targeted procurement is in use in South Africa, whereby “development objective” points are awarded to tenderers for incorporating certain (quantifiable and measurable) socio-economic deliverables such as job creation, training and poverty alleviation.

Rights and obligations. Different partners have different reasons for becoming involved in public-private partnerships. City and municipal authorities want improved services and infrastructures, companies want a profitable business, CBEs seek income generation and improved services, and residents want an improved living and working environment at affordable rates. By considering the motivations of all partners, conflicts of interest can be identified and avoided. This requires that rights as well as obligations be clearly specified in the contract.

Incorporating social concerns. Most specifications focus on technical issues such as tools and equipment. Local enterprises may have little capital and equipment but have other strengths. For example, residents may prefer a contractor from within the area who is known to people, is easy to monitor and keeps employment opportunities within the local area. In this case, having employment creation as a specific objective may lead to improved service delivery. Contracting authorities can also make a policy decision to have employment as a goal in itself. This recognizes the role of service and infrastructure delivery within a broader poverty eradication framework.

Labour standards. Although labour standards should be the same for all employees (whether working for a large company, a small contractor or a local service provider), how standards can be achieved differs. For example, many small enterprises are usually aware of the importance of health and safety equipment but cannot afford to provide it to their members or workers. And workers themselves may be unwilling to adhere to safety

⁹⁷ For more information on the set-aside system in these and other countries, see <http://www.ilo.org/employment/eiip>

standards if safety clothing is uncomfortable in hot weather or if safety procedures increase the time or effort of work. To address this, labour clauses in contracts should be complemented with awareness creation and improved access to necessary and appropriate equipment and clothing. In the case of infrastructure works, contracts combining employment-intensive technologies with decent labour clauses are a means of widening the scope of application of labour standards to the working poor.

Table 5.1: Potential for the meaningful involvement of small enterprises and communities in the procurement of works and services

Activity	Potential	Explanation	Observations
House construction	+++	Great opportunities for SSEs and CBOs but the scale of the problem may also call for large-scale developers who construct using SSE labour-intensive methods using local materials. Proved in Sri Lanka. Enormous cost savings possible.	In sites and services schemes the expectation is that residents will build their houses themselves, using their own labour. However, this has an opportunity cost and experience proves that many embrace local contractors to build (part of) their houses. Residents could be assisted in this process through advice on contracts, building materials and credit.
Sites-and-services schemes	+++	Road, drainage and sanitation works suitable for splitting into small contracts to be undertaken by CBOs and/or SSEs.	May benefit from very hierarchical layouts to separate intra-city infrastructure from that only serving local needs.
Upgrading of existing settlements	+++	Generally very suitable as infrastructure can be developed gradually and sites are often cramped and scattered. Important cost savings can be made.	Labour-based methods are very appropriate and often the only feasible technologies in densely built-up slum areas.
Building-materials production	+++	SSEs generally produce cheaper and create far more employment than large-scale plants. More developed back and forward linkages if local materials are used.	May encounter some social resistance to local materials.
Urban road construction and maintenance	++	Good prospects, in particular for secondary roads, as long as the right level of technology is used for the task. For example, street paving is very employment-intensive and cost-competitive.	Very heavily trafficked roads may require the quickest completion possible with very high technology.
Sidewalks, low-level bridges, green spaces	++	Can very well be undertaken by SSEs or through community contracting, using labour-based technologies.	
Drainage	++	Generally very suitable for SSEs, community contracting and labour-based technologies, especially for secondary drains as well as digging, lining, maintenance and clearing operations.	Labour-based methods can also be used for trunk drains, through the hiring of large labour forces. This requires good management capacities on the part of the contracted enterprises.
Water supply	++	Small systems are very suitable for construction and management by SSEs and/or CBOs. In large systems, labouring work in digging and backfilling can be subcontracted to SSEs and/or CBOs.	Small-scale providers should be recognized and involved in long term water supply solutions. Less prospects for CBO/SSE involvement in tube wells and other high-technology systems.

Activity	Potential	Explanation	Observations
Sanitation	+++	On-site sanitation suitable for construction by SSEs and CBOs. Also possible with centralized water-borne systems, as well as more local systems with septic tanks, or using on-site composting with later removal.	Systems which involve the handling of raw faeces are very dangerous for the health of workers.
Electricity infrastructure works	+	Part of the works can be subcontracted to SSEs/CBOs using labour-based technologies (e.g. digging, bush clearing).	Works requiring high-voltage, intra-city connections and sophisticated knowledge and technologies should be left to specialized agencies.
Solid-waste collection	+++	Very promising experiences worldwide with small-scale providers.	Fee collection is often a problem. Requires protection from hazardous waste (industrial and clinical).

Note: CBO = Community-based organization; SSE = small-scale enterprise.
Source: Adapted from UNCHS/ILO, 1995.

6. Promoting enterprise development and job creation for the poor

6.1 The informal economy

Most of the urban working poor are part of the informal economy⁹⁸ occupying low-paid, low-productivity and low-security jobs. This is often an expression of weak or inappropriate governance as well as the result of market forces. Harsh competition for income-earning opportunities has created a “race to the bottom” with increased pressure on wages, working conditions and workers’ rights. Operators in the informal economy lack security, access to markets, to financial services and other types of business support. To break this cycle of informality and poverty, local authorities can (i) adjust their laws and regulations to lower the costs and increase the benefits for people to formalize their enterprises; and (ii) provide assistance to small enterprises to upgrade skills and increase their access to productive resources and market opportunities.

6.2 Regulations that promote formalization

There is ample evidence that the costs of formalization and the local tax burden inhibit many starting entrepreneurs. For existing entrepreneurs wishing to expand their venture and hire more workers, “red tape” bureaucracy and unaffordable labour regulations often frustrate their efforts. In reaction, many decide to remain in the “grey zone” between the formal and informal economy, at best registering only part of their workforce, paying a licence but not taxes, etc. For example, a study of 150 micro-enterprises in the United Republic of Tanzania in 1992 concluded that “the main reason for entrepreneurs not respecting the requirements of national labour laws and international labour standards is the so-called cost of legality... These enterprises are already only just breaking even.” In other words, the costs and complexity of compliance was found to constitute the key motivation for non-compliance – and not the exploitation of workers for profit.

To promote compliance with labour regulations, a progressive approach is likely to achieve the best results. The first step is to identify and prevent the most abusive conditions such as debt bondage, discrimination, exploitation based on dependency and child labour. Furthermore, national governments, in consultation with the social partners, should conduct a review to determine i) how rights provided for in existing labour legislation can be practically and effectively applied to the informal economy; and ii) where it may be necessary and possible to extend the existing legal scope of rights to cover informal workers. This review of how labour legislation can be more effectively applied to informal workers should also consider whether legal requirements might be simplified – to make it easier for employers and third parties, including intermediaries, to comply with and for workers to understand their rights.⁹⁹ Note that drafting and enforcing labour regulations are usually done at the national level, in consultation with the social partners. Local governments have little influence over matters such as the minimum

⁹⁸ See Annex 1.

⁹⁹ ILO, 2002b.

wage¹⁰⁰ and other labour laws (hiring and firing, social security contributions and working conditions).

Complexity and costs of registration are deterrents

There are various ways to assess the extent and costs of registration and compliance. For example, business climate surveys were used in Viet Nam, where key stakeholders and entrepreneurs were asked their opinion on the difficulties faced by local businesses. The results of these “polls” were collated into a consultative forum on ‘Micro Enterprise Day’. This earmarked the beginning of a lengthy reform process to make the regulatory environment more favourable.

Extensive and detailed “road-map” studies in a number of countries provide a detailed picture of what it takes the poor to access the local government offices and pay the bribes, on top of registration and licence fees. In Tanzania, a joint UNDP/UNIDO/ILO study found that many entrepreneurs make regular, genuine efforts to license their business and register their ownership. But the time wasted and money spent often deters them from taking further steps. Regulations are multiple and complex, some are outdated, or inappropriate to the size and operations of the small-scale ventures of the poor.

Many well-intentioned citizens give up their efforts to formalize their businesses. They are condemned to pay the fines and bribes to enforcement agents who control the streets and markets. The accumulated “costs of remaining informal” are usually overlooked or underestimated in economic reviews and private sector analyses. It is often held that enterprises choose to remain informal in order to avoid regulatory costs and taxes. But if offered a return for the payment of charges and taxes, many entrepreneurs will formalize their business.

Compliance – a tool for developing the small-enterprise sector

Recent ILO research¹⁰¹ affirms that small enterprises which comply with registration requirements create more employment over time than those that do not comply. Legal provisions can be carefully drafted to reduce the costs of compliance for small enterprises. Problems arise from overlapping responsibilities among government departments and from the build-up of an outdated “web” of policies over time; some serve no obvious purpose and may even contradict others. Box 6.1 shows how compliance offers practical benefits to small-enterprise owners and workers by increasing their access to the support and services available within the formal economy. Thus, an enabling national policy framework uses compliance with well-crafted laws and regulations as a tool for developing the small enterprise sector.

¹⁰⁰ In some countries (e.g. China), minimum wages are set by local government (regional level).

¹⁰¹ Reinecke and White, 2004.

Box 6.1: Lima (Peru) – Lowering the regulatory barriers and increasing the benefits of formalization

Enterprise registration more than tripled from 1,100 to 4,000 between 1998 and 2000 after a municipality within the city of Lima simplified procedures. About 45 bureaucratic steps were cut to 12, reducing processing time from 70 days to just one. In addition, the municipality established a business advisory office that assists an average of 2,500 clients a month. More recently, several local governments established labour rights offices to advise operators in the informal economy about labour rights and assistance programmes.

Rethinking tax thresholds for small-scale enterprises

Another step forward is tax reform. In early 2004, the Tanzanian Government decided to exempt enterprises with an annual turnover of less than US\$ 20,000 from paying income tax. Although designed to ease the burden of the poor as entrepreneurs, it may create a threshold for growth-oriented enterprises. To remain eligible for exemption, they would prefer starting additional small ventures. In such cases, gradual scales of fees and taxation may be better ways to draw enterprises and employees into a single, integrated economy.

Incentives to formalize

Other than simplified registration procedures and lower fees, municipalities can offer incentives for formalization. One example is to add business information and support services to the registration unit or desk. Apart from a fundamental shift in perception by the entrepreneurs, this welcoming approach also helps people to find their way to existing credit schemes, new market venues, or management consultants. In Bolivia, the Government went a step further and introduced the “Enterprise Card”, a registration certificate that made the registered enterprises eligible to participate in procurement schemes.

6.3 Entrepreneurship promotion by municipalities

The key to creating more job and income opportunities for the urban poor is a more pro-active, entrepreneurial municipal government. Reducing the costs of registration and increasing the benefits is only one dimension. A growing number of local authorities are taking up a much wider mandate, promoting their city as a good place to invest.

Municipal marketing

To make small enterprises in slums more visible and accessible, municipalities can set up directories and “yellow pages” information systems. For example, in one municipality in Lima (Peru), the mayor embarked on an enumeration and listing of economic units in low-income areas. Subsequently, he was able to guide foreign buyers (of garments) to those enterprises with a potential to deliver quality goods in time. Supported by technical and management training and an innovative leasing scheme for sewing machines, several hundreds of essentially home-based enterprises have benefited from this new market outlet, largely brokered by the municipality.

Some cities develop an overall vision about the potential of the local economy. In Bolivia and Brazil, for example, municipalities set up promotional campaigns to make the advantages and benefits of their locality better known to outsiders (“municipal marketing”). In South Africa, the city of Durban has adopted a comprehensive policy specifically addressing poverty in the informal economy (Box 6.2).

Another venue for obvious promotional efforts is tourism. Municipalities help attract tourists by signposting them to local bed-and-breakfast facilities and local markets. Beautifying green zones, improving security, upgrading and maintaining historic sites and other attractions all contribute to drawing tourists.

Box 6.2: Durban's informal economy policy – Comprehensive and inclusive

Recognizing the need for a comprehensive, inclusive policy on the informal economy, the city of Durban in South Africa embarked on a consultative process backed by solid research. The vision adopted was one of Durban as a city with many employment opportunities, safe and attractive to investors, where people lived in a healthy and well-managed environment. This vision necessarily included informal economy actors. The outcome of this consultative process is a policy with the following components:

- Promotion of diverse economic opportunities along the spectrum from informality to formality;
- Area-based management combined with sector-based support to small enterprises;
- Integration of the functions of management, support for enterprise development and regulation;
- Simple registration procedures;
- An integrated approach to environmental health, public health and occupational health;
- Building the capacity of organizations of informal workers;
- Promotion of safety and security through local action;
- Securing the participation of formal businesses;
- Integrated and inclusive institutional structures;
- Monitoring and evaluation mechanisms; and
- Pilot projects.

Adopted in 2000, this policy is based on the recognition that the challenge of governing the city must include enterprise development. It also acknowledges that management and support of the informal economy is a task that can be undertaken through consultation with stakeholders and the provision of incentives.

The Durban initiative has sparked similar consultations in other South African cities, notably Johannesburg. With the support of StreetNet and the ILO, capacity building in organization and representation will accompany the process of collective bargaining that has already started.

Source: <http://www.streetnet.org>, www.ilo.org/seed/associations

6.4 Municipalities facilitating business development support, skill training and micro-finance

As promoters of economic development and job creation, municipalities can opt to develop support programmes specifically targeting the poor as entrepreneurs. Box 6.3 gives a successful example in Benin.

Box 6.3: Cotonou (Benin) – Supporting groups of women micro-entrepreneurs

Despite the important contribution of women micro-entrepreneurs, municipal authorities seldom take their concerns into account. Usually, women micro-entrepreneurs must count on their own efforts and ingenuity in developing their activities, with the assistance of their own families and relatives.

Development organizations have provided support to micro- and small enterprise development as a means to reduce poverty. In Cotonou, Benin, the ILO has pursued an integrated approach that combines financial and non-financial assistance. Based on existing savings and credit systems, a mutual guarantee fund was established to boost loan facilities for groups of women entrepreneurs. Capacity-building for association building and collective initiatives underpinned the approach. A self-managed common facility centre was established with the support of the municipality. Over 2,000 women benefited directly from this support. These groups now have well-functioning relationships with local banks and the municipal authorities. Their success and visibility has led to the replication of the approach in two other cities in Benin.

Source: Various ILO publications, for example, see www.ilo.org/seed

A second example in Amhara, Ethiopia, strengthened women micro-entrepreneurs' associations through ILO-supported training. After analyzing their needs and prioritizing their actions, a pilot trade fair was held to exhibit their products in a central location in town. The commercial success – sales of the day represented more than normal monthly turnover – sparked a rapidly growing interest in adhesion and membership contributions. In consultation with the city authorities, one of the central road junctions is now designated for holding three-monthly trade fairs.

In both examples, micro-finance and access to markets are crucial ingredients in successful enterprise development and income generation. The underlying organizational strength of the women entrepreneurs to negotiate and maintain a physical space – either to obtain business support or exhibit their goods – was decisive in sustaining and scaling-up these initiatives.

Micro-finance programmes illustrate the need for support for enterprise development. A specific, recently developed financial instrument for small enterprises in construction and infrastructure is micro-leasing. Access to investment funds is a main constraint for local contractors to win bids for infrastructure upgrading. Even when essentially labour-based, the costs of acquiring small vehicles or equipment are often insurmountable. With the contract used as collateral, micro-finance institutions are starting to offer equipment to lease. This is now happening in Ethiopia and Ghana, for example, after considerable capacity building in tools and financial management. The Government's role is to recognize and promote such initiatives and ensure that local, labour-based contractors (without the required capital assets but supported through leasing schemes) are included in tendering procedures.

Similarly, local governments can set up or facilitate business service information centres. In El Alto, Bolivia, a slum-city of about 500,000 inhabitants at the outskirts of La Paz, a business support programme backed by the IADB and the municipality installed referral centres for entrepreneurs in search of appropriate management training, technology support, market opportunities, financial services and association support. Rather than providing the business development services itself, the programme took a mediating role in an effort to link better demand and supply of services. In other cities, this function is sometimes provided in collaboration with business associations and NGOs.

6.5 Supporting street trading

Many of the urban poor obtain an income from street trading and many of the poor buy from street traders – a phenomenon that performs an essential role both in terms of economic development and distribution of income. Women and youth are often over-represented in street-trading activities. The space for and contribution of street vendors is much disputed and the subject of numerous confrontations, sometimes violent, between city authorities and street traders. There are also reports of increased crime after governmental action against street vendors. For example, in Kenya, local authorities reported significant crime increases following the destruction of kiosks throughout Mombasa. The demolition of the illegal businesses left hundreds of residents without sufficient incomes. Authorities fear that incidences of violence and armed robberies may continue until alternative means of revenue can be provided.¹⁰² At times, various municipalities tried to settle the situation but this frequently led to *ad hoc* solutions based on donor funding, with the provision of new market facilities at inappropriate locations, for unaffordable rents.

In a few cases, however, municipalities have made genuine attempts to include representatives of street traders in the analysis and planning for improved street trading arrangements. In Durban (South Africa), the city recognized that lasting management of the conflict over scarce city spaces will only occur when local government has strong organizations of informal workers with which to negotiate – and that local government itself has a concrete role to play in enabling the development of such partners. Local government can also do much to educate its own personnel about why informal workers and their organizations are relevant contributors to the health and strength of the local economy. City-level statistics on the informal economy (numbers of workers, their employment status, enterprise size, the sectors in which they work, and traders' economic contribution to the city and the region) are a useful statistical tool. One example is SEWA, the Self-Employed Women's Association (India) and its negotiating for better conditions of work for women street vendors and home workers.¹⁰³

In a second example (Box 6.4), street vendors in the Philippines became organized and negotiated with the local authorities in Cebu. This testifies to how municipalities should recognize, understand and internalize the role of street trading in terms of economic development and poverty reduction. It is not a phenomenon that will disappear with accelerated growth. As long as poverty and informality persist, people will take up petty trading. New symbiotic forms of shop- and street trading are nowadays found in the shopping malls of Bangkok and Jakarta. Certain zones around and within the spacious buildings are designated to organized street traders.

¹⁰² See <http://www.wiego.org> (Women in Informal Employment Globalizing and Organizing).

¹⁰³ Lund, 2003.

Box 6.4: Cebu (Philippines) – Organization of street vendors

The informal sector is important to the poor in Cebu because a large proportion of the labour force earn their income in this way. One significant area of activity is informal trading, generally on the streets. During the early to mid 1980s, the situation of street vendors in Cebu was very difficult. Local authorities were hostile to their activities and stalls were regularly demolished.

Gradually, the street vendors became more organized. Over the years, conflicts and negotiations with the municipal administration made vendors more representative and politically stronger. Street vending became more acceptable over the past ten years and traders are able to earn money in the city without harassment. However, the situation remains far from easy. Demolitions continue, creating immense difficulties for groups of the urban poor who have few alternative sources of income. While the Squatter Prevention Encroachment Elimination Division of the municipality provides some support to keep areas tidy and acceptable to other users, vendors dread the operations of the division. On the whole, the relationship between the vendors and the municipality is satisfactory, although in some cases vendors complain of the lack of due process. As a result of continuing difficulties, and trade association lobbying (supported by an NGO in recent years), the authorities agreed in 2000 to establish a technical working committee to recommend new practices.

Within the vendors' organizations themselves, development in organizing capacity is mixed. Leadership struggles mean that groups come together, in some cases affiliating to the city-wide federation, only to break up and/or leave some years later. While successful organization and subsequent negotiations have offered greater security to groups such as the Tobacco Vendors Association and the Lahug Vendors Association, problems remain. In the case of the CTDA, a trade association for trisikad drivers operating at the port, leaders are vulnerable to pressure from local politicians, making agreements that provoke divisions within their membership and so weaken their unity and capacity. Despite this, the association had some success in resisting repressive enforcement and in winning certain concessions from the Port Authority.

Source: Adapted from Devas, 2001.

Women street vendors

City planners are often oblivious of the obstacles women street traders face. Gender-responsive transportation, security, childcare services and access to sanitation would ease female street-vendors' burden in their struggle for economic survival. Equally important is stopping harassment, confiscation and arrest by security forces, of which many women vendors are victim for lack of legal status and recognition.¹⁰⁴

6.6 Designating space, allocating land and building basic infrastructure

Street trading should be given its appropriate and negotiated place in a city's space although urban planning pays little attention to such small-scale economic ventures. One exception is Bangalore, where access to land is facilitated for the poor, to enhance their incomes (Box 6.5).

Numerous cities concentrate small businesses, often referred to as clusters, which constitute an important potential for wider urban economic development. A growing number of local governments and development agencies are beginning to provide support to clusters, with a view to upgrading them through more beneficial links with external partners (including abroad). The UNIDO and ILO are pioneering this approach and developing practical tools to analyze the dynamics of clusters in local and global value chains. One particular challenge is to bring local authorities on board in a way that facilitates and expands the economic development of clusters. Another is to make the

¹⁰⁴ World Urban Forum 2004, "Dialogue on gender and culture in the urban environment", Barcelona, Spain.

outcomes also benefit poor people, especially when these may be engaged in exploitative subcontracting links or as underpaid workers in sweatshops.

Box 6.5: Bangalore (India) – Access to land and small-business development enhance income for the poor

Bangalore, capital of the southern State of Karnataka, has become known as India's Silicon Valley with the development of its software and hi-tech industries. The city also illustrates the processes of settlement planning and the relationship of these processes with the growth of small and medium enterprises. Land is a critical resource in urban development, one which can be used either to enable the poor to enhance their livelihood opportunities, or to increase their vulnerability.

In large parts of south Bangalore, the master planning approach, with its "top-down" emphasis on public land acquisition, is dominant. In contrast, in Mysore Road in the west and Yashwantur in the north-west there are highly diversified employment nodes for local economic activities with, for example, mechanical repair and fabrication, plastic and recycling, weaving, and auto repair and electroplating units. These areas have important local political interests associated with the land market that have been able to resist master planning. Successful local economic business development, both informal and formal, is facilitated by a land tenure system that is flexible, diverse and allows for mixed uses. Sites can be developed incrementally as and when a business expands. In many cases, subcontractors and suppliers live and work close together. Such land settings allow poor groups to establish themselves on central sites. This gives them access to employment opportunities and creates a diverse economic structure with a variety of income groups. Moreover, it allows for a form of politics which is firmly based on local land ownership but which cuts across party lines and to a certain extent class and ethnic lines, and which is based on complex reciprocal relationships. In this situation, small enterprises are integrated into the local politics and so have some protection from developments that might force them out.

Source: Devas, 2001.

This also points to the importance of recognizing home-based economic activities in cities.¹⁰⁵ Programmes for improvement of housing, infrastructure and services should not only address but be explicitly targeted at neighbourhoods with a high share of home-based enterprises. This will have the double gain of improving living conditions and the business environment. Moreover, cost recovery and finance for maintenance may be expected to be more favourable through the direct positive gains in terms of increased business turnover and profits.

Box 6.6 outlines the results of a study on home-based enterprises in four cities.¹⁰⁶ Interestingly, one conclusion is that the planning of new residential areas in developing cities should reflect the needs of these residents as small-scale entrepreneurs. Access roads, electricity grids, water supply, waste collection and sewerage facilities should be commensurate with those of light industrial areas.

¹⁰⁵ A survey among informal sector operators in three low-income urban communities in the Philippines found that one-third conducted their business from their home (Yu, 2002). Similar results were obtained by surveys in three communities in Dar es Salaam: 38 per cent of informal sector operators conduct business in the same compound in which they live (Muteta, 1998.)

¹⁰⁶ Tipple, 2001.

Box 6.6: Working at home – Integrating small enterprises into residential planning

Home-based enterprises (HBEs) are unpopular with many policy-makers and development theorists. HBEs are statistically invisible for they are often illegal and their operators fear they will be closed down or harassed to pay bribes to keep their enterprises running. Their numbers, however, continue to grow. Structural adjustment and declining formal sector employment drive many people to set up an enterprise in the only space they can use without further cost – their home. Across the developing world, planning laws are often incongruent with the practices and attitudes of the millions of people who earn income in home-based activities.

HBEs take a range of entrepreneurial forms. The most common is a small outlet selling daily household necessities for people who do not have a refrigerator or much storage space. Production HBEs are often concerned with clothing manufacture. Other enterprises in the samples of 150 households in each case study range from TV tuner assembly to breeding of crickets (essential to sustain ornamental fish and songbirds which are much prized in East Asia). The evidence is that HBEs:

- greatly increase employment opportunities for low-income households, particularly women;
- generate 50-75 per cent of all household income for participating households;
- occasionally pose threats to health and safety, but that operators are for the most part well aware of risks and take action to minimize dangers;
- do not, as is often claimed, bring extra traffic into residential areas; and
- generate better living conditions – HBE operators usually have more indoor space than their non-HBE neighbours.

Planners need to come to grips with the fact that urban areas are vigorous, changing, challenging and productive environments. Commercial, retail and light industrial uses should be encouraged in all low-income residential areas. Policy-makers should:

- allow locally managed regulation of HBEs – if representative local committees vote to allow them in their neighbourhoods, then bureaucrats should not intervene to close them down;
- provide mains electricity with HBEs in mind. Industrial levels of electrical voltages should be available if required;
- ensure that rubbish collection services are geared up to expect higher levels of waste generation as a result of HBEs; and
- allow space for HBEs when allocating plots in newly zoned residential areas.

Source: Tipple, Coulson and Kellett, 2001.

6.7 Supporting representative organizations of all businesses

The success of local development strategies is often linked to the degree and strength of representative organizations of entrepreneurs and workers. These range from self-help groups for income generation (often registered as NGOs or CBOs), cooperatives, small-business associations, to chambers of commerce, sector-based employers' organizations and trade unions. These organizations are different from community or citizens organizations, which are mostly area-based. Entrepreneurs' and workers' organizations tend to be member-based and organized around a given economic activity.

Although the origins and motivation of economic member organizations differ widely and are certainly not always aligned, it is essential to strengthen their voice and participation in economic planning processes and their role in servicing their members.

Street traders' organizations, as Section 6.5 shows, can become important partners and co-regulators if local governments are willing to work with them. Similarly, small-business associations can perform delegated functions in tax collection among members, such as in Ghana (Box 6.7). A growing number of studies highlight the potential role that associations, cooperatives and enterprise-networks can play in supporting and

complementing markets to achieve positive outcomes for the poor and for the municipality.

Box 6.7: Tax collection through small-business associations: Example of a formalization strategy

The Industrial and Commercial Workers' Union (ICU) of Ghana facilitated a delegated role for small-business associations to collect revenue tax. In return, associations retain a commission of 5 per cent of the annual amount transferred. Training and advice is provided by the ICU to strengthen the associations in their negotiations with the national revenue authority (IRS) about the level of tax collection among members. To guide this process and ensure accountability, the following principles were agreed:

- i) each association identifies tax collectors within its membership to collect taxes from members working in the same trade;
- ii) sector associations register their members with the IRS, with names and addresses;
- iii) associations' tax collectors are formally acknowledged by the IRS and given identity cards as IRS representatives;
- iv) estimates for the whole country must be made available for all the associations prior to collection, so that members are able to identify their level of taxation from clear parameters;
- v) the IRS compensates associations for transport and collection costs and pays a commission of 5 per cent at the end of each fiscal year; and
- vi) sector associations themselves compensate their tax collectors.

Source: Crisciolo, ILO (forthcoming).

In parallel to unlocked or hidden individual assets of the poor, local organizations of the working poor help mobilize and foster social capital. New and dynamic entrepreneurship cannot be fully realized without building on the – often informal – networks of people and collectives. Recognizing, trusting and empowering these structures is the fundamental basis on which sustainable economies are built. However, truly representative organizations with accountable and transparent management structures are rare. Instead, patronage, clientelism and rent-seeking behaviour characterize many of the traditional interest-based associations. The challenge is to identify those organizations with true developmental potential and then strengthen their abilities to engage members, make their voice heard in policy platforms and offer valued services to their members.

Sustainable development and integration into the city economy of informal sector workers is possible when local government has strong organizations of informal workers with which to consult and negotiate – and local government itself has a concrete role to play in enabling the development of such partners. Considerable sensitization and training is required among local governments to improve their understanding and recognition of the potential of representative economic member organizations, particularly those operating in the informal economy, and induce willingness to build on them. This would facilitate dialogue and ensuing partnerships between representative organizations and the authorities. These could address a range of issues related to the enabling environment for a more productive development and gradual integration of informal economy actors.

Box 6.8 summarizes the situation of women market traders in Ghana.

Box 6.8: Kumasi (Ghana) – Women traders fight poverty despite local government inaction

Market trading forms the main occupation for over 70 per cent of urban women in Ghana, and the Kumasi central market (KCM) is the largest in the country. The KCM plays a major development role in Kumasi. It accommodates trade, creates employment and generates revenue. It also provides the main source of revenue for the Kumasi Metropolitan Assembly (KMA). Yet local government marginalizes market traders, especially women, and the leading role of women traders in the local economy is largely ignored.

Most women traders are not among the city's poorest but their income from market trade is instrumental in keeping them and their households out of poverty. Market income also plays a central role in underpinning urban women's financial autonomy, in a context where non-pooling of household resources and gender-specific budgeting responsibilities are customary. In the absence of any official trade-related information, market women rely on social networks to sustain their trade. These social networks are also important in the longer-term social and economic security of trading households. Formal market associations in the KCM have tended to collapse due to the inability of their leaders to resolve problems among the large and heterogeneous membership. A lack of accountability and communication on the part of the KMA also undermines formal associations. Moreover, busy women traders have scant time to engage in formal collective action. Thus, the role of women traders as family breadwinners in tackling poverty at the local level remains invisible.

There are clear linkages between household well-being and market trading. Investment in KCM should be an important poverty reduction stratagem for KMA, but both national and local policy makers treat market trade residually. For things to be different, a change in attitude towards women's economic and social contribution is required, and a breaking of the political hegemony that fails to support the social and economic contribution of market trade. In the meantime, the women traders of Kumasi are fighting poverty by themselves.

Source: Devas, 2001.

6.8 Strengthening representation in the informal economy: Role of the social partners¹⁰⁷

Even where they have the right to organize, informal operators and workers are rarely organized. They seldom have their own membership-based organizations to represent their interests. Where they have mobilized and organized themselves, it has been at grass-roots or community level, in self-help groups or in trade-based associations. Micro-entrepreneurs and the truly self-employed are more likely to organize than dependent workers in the informal economy. Even where they exist, organizations in the informal economy are normally characterized by fragility, structural constraints and limited effectiveness. Seldom officially registered or recognized, they have limited access to and influence over relationships with institutions and enterprises in the formal economy or with public authorities. Only in a small (albeit growing) number of cases are they affiliated to formally structured national or international organizations of employers, chambers of commerce, trade unions or cooperatives.

Closing the representational gap is crucial for all concerned. For those working in the informal economy, the representational gap is an important reason for their inadequate legal and social protection and their lack of access to productive assets, capital and product markets, training systems, public services and amenities. Without effective freedom of association, they are not able to exercise countervailing power to make their work recognized, protected, formal and decent.

Established trade unions and employers' organizations have a concrete role to play in the organization of informal economy operators and workers. There are a growing

¹⁰⁷ This section draws extensively on *Decent work and the informal economy*. International Labour Conference, Report VI, 90th Session, 2002.

number of initiatives on both sides to reach out to those working in the informal economy. Given the increasing importance of the informal economy in terms of job creation and economic contribution, within a context of flexible labour markets and global production systems, both sides have come to realize that it will be increasingly impossible for either trade unions or employers' organizations to maintain or improve conditions in the formal economy without at the same time addressing the informal economy. The lack of voice and representation in the informal economy could affect their own future in terms of membership, representativeness and social and political influence.

How trade unions help informal workers

Trade unions have great difficulties reaching informal workers, who are generally "invisible" – scattered, difficult to contact and often with low levels of education. Even when they identify and contact them, trade unions face the challenge of making workers aware of their rights and of the benefits of unionization. Trade unions often prefer to help informal workers set up their own organizations and establish alliances with them rather than to organize them as members. Established unions can provide guidance, training and other support to enhance the capacity of informal workers and their associations to develop organizational structures and management that would help them to become effective and democratic institutions. They can also train organizations of informal workers on ways to promote social dialogue and engage in other democratic union-type activities in pursuit of members' interests. Other types of assistance include institutional support, such as acting as an intermediary with public authorities or financial institutions, and setting up programmes and schemes, including cooperatives, that are useful to informal workers. An especially important role for established unions is to lobby on behalf of these informal organizations and help them to achieve recognition, bargaining power and legal protection.

Enlarging the scope of action of employers' organizations

In their representative role, employers' organizations cover mainly the larger formal economy enterprises. Most employers' organizations do not represent the owners of activities in the informal economy. But employers' organizations increasingly recognize that they cannot effectively promote and protect the interests of the formal economy without enlarging their scope of action to cover informal entrepreneurs and potential entrepreneurs. The sound rationale for employers' organizations to be involved is that informal economy operators are potential members – if they can be helped to develop in an environment which does not constrain their growth. They would cease to be unfair competitors if they can be assisted to enter the formal economy. Many of the barriers that constrain informal enterprises also adversely affect employers in the formal economy. As in the case of trade unions, some employers' organizations have encouraged informal economy operators to form their own associations, which could become members later on. Employers' organizations can assist these associations of informal entrepreneurs in a number of ways: developing a lobbying agenda specially geared to the needs of micro- and small enterprises; providing business support (developing business plans, project formulation, access to credit) and other relevant services (personnel management, productivity improvement, basic management skills, accounting and entrepreneurship training programmes); helping to link micro-enterprises with the formal economy; providing a range of information which micro- and small enterprises may find difficult to obtain, for example on laws and regulations, market opportunities and facilitating access to markets. In a number of African countries, such as Kenya, Nigeria and Uganda, employers' associations have helped informal operators to start up and develop businesses. In Benin, some 1,600 micro-enterprises in a range of trades and employing some 6,500 people have organized into about 60 mutual savings and loan associations.

These associations have combined traditional solidarity-based saving and credit practices with economic effectiveness. They not only succeeded in increasing capital formation but also improved their bargaining position vis-à-vis local authorities.

Tripartite systems of consultation and negotiation

Finally, it is important to bear in mind what the tripartite partners – governments, workers’ and employers’ organizations – can accomplish together through social dialogue. It is also useful to remember that in addition to collective bargaining, other forms of social dialogue can be significant. “Voice regulation” through tripartite systems of consultation and negotiation at national or sectoral level is increasingly recognized as a dynamic and effective means of promoting efficiency and addressing equity and distributional issues in both the formal and informal economies in the context of globalization. It is also important to recognize the diversity of civil society groups, movements and NGOs which give visibility to and provide advocacy on informal economy issues but do not represent those in the informal economy, as they are often not membership-based or do not have democratic structures. Some of these groups and organizations are very active and vocal at national and international levels, and their experience in organizing and their network structures can be tapped by the social partners. Examples of cooperation and alliances between some of these organizations and trade unions and employers’ organizations are increasing.

7. Conclusions and recommendations

7.1 Conclusions

The urbanization process will continue to pour millions of generally poor and low-skilled people into towns and cities – all looking for work opportunities to improve their lot and that of their families. This influx is creating two acute crises: a job cum poverty crisis, as evidenced by the growth of the informal economy and increasing poverty levels in cities, as well as an infrastructure and service crisis, as evidenced by lack of the most basic facilities, especially in the poorer neighbourhoods, and the upsurge of slum areas where most of the poor live.

Despite its irreversibility, many governments have long been in denial of the urbanization process, seeing it as a nuisance rather than an opportunity. This has led to weak planning and policies and a general reluctance to develop the informal economy, to regularize informal patterns of settlement, to provide basic infrastructure and services, and to facilitate the integration of the urban poor into the city economy. The lack of genuine decentralization, policy and institutional failures, as well as weak governance and lack of accountability to the local population, at all levels, contribute directly to the worsening of urban poverty and the exponential growth of a political and social underclass – as manifested by the growth of slums.

In addition to suffering low and erratic incomes, the urban poor are thus exposed to the ever-present threat of forced eviction as well as health hazards due to bad drainage, waste accumulation and lack of sanitary facilities. They bear most of the social and economic costs of high crime levels and insecurity in their neighbourhoods. Finally, they are excluded from many of the attributes of urban life that are critical to full citizenship, and endure a stigma unknown to the rural poor – the very fact that they live in a slum.¹⁰⁸

“Whether cities actually provide a ladder for escaping poverty or dig a deeper hole for those at the bottom depends on two main factors: first, whether a city’s potential to create jobs is liberated or is hamstrung by institutions and policy conditions; and second, whether city residents have effective access to land and housing, education, health care, and security, even if they have erratic incomes, few powerful connections, and unrecognized status in the city.”(Cities Alliance, 2004 Annual Report).

This paper examined the plight of the urban working poor under three inter-related dimensions: (i) employment opportunities (jobs); (ii) access to basic infrastructures and services; and (iii) social inclusion. It shows that policy measures and strategies exist which allow cities to make considerable progress on all three dimensions, contributing to a more balanced urban development, in both economic and social terms. Most of these measures impose no extra financial burden on cities. They require political will, capturing underutilized resources, developing partnerships and recognizing the urban working poor as a resource, not a burden. The five main ingredients of a pro-poor and pro-employment urban development strategy are listed below.

✓ **As a first step, employment generation should be made a top priority for urban planners, managers and decision-makers, in the form of deliberate policies to promote employment for the urban poor.**

¹⁰⁸ UN Millennium Project, 2004.

This implies the recognition of the urban poor as full citizens with a “right to the city” and the recognition of the informal economy, where most of them are active, as an important sector for production, consumption and job creation.

✓ **Second, employment promotion objectives should be incorporated in all relevant government and city-level policies and programmes, and in particular in infrastructure provision.**

The Millennium Project calls for massive investments in infrastructure to meet the Millennium Development Goals, echoing similar calls by the IMF and World Bank. Such investments are also a great opportunity for massive employment creation. The point made in the present paper and consistently over the years by the ILO is that the process through which infrastructure is provided should be accorded the same importance as the end product. In countries where labour is abundant, capital scarce and wages relatively low, for many infrastructure works it is technically possible, socially desirable and economically justified to optimize the use of a resource that is underutilized and readily available – unskilled or low-skilled labour. Infrastructure investments can serve as an entry point to start an employment-intensive growth process “from the inside”. It is within the reach of (city) governments (and international donors) to promote the necessary reforms to that effect.

“It is indeed a paradox that there should be such underemployment and wastage of talent where there are needs of incredible magnitude representing hundreds of millions of work-days and so many people available to do the work.” (ILO, *Cities at Work*, 2004).

✓ **Third, partnership approaches are to be developed between municipal governments, community-based organizations and (associations of) small-scale enterprises.**

Such partnerships can concern the planning, provision and maintenance of basic infrastructure and services (waste collection and water supply), the regulation of economic activity (markets, street trading, home-based industries, etc.), tax/fee collection and ensuring security. A wide variety of innovative and proven partnership modalities combine all or some of the following advantages: (i) job creation for the urban poor; (ii) improved services/infrastructures; (iii) small enterprise development; (iv) stronger community-based organizations; (v) skills development; (vi) creation of a sense of ownership and civic pride; (vii) improved transparency in the use of municipal resources; (viii) improved working conditions and, very often, such partnership approaches provide (ix) cost-effective solutions to urban service and infrastructure problems.

✓ **Fourth, municipal governments can and should create a more conducive environment for small enterprises operated by the urban poor, or those which employ the urban poor.**

Specifically, local authorities can (i) adjust their laws and regulations to lower the costs and increase the benefits for people to formalize their enterprises, and (ii) provide assistance to small enterprises to upgrade skills, and increase their access to productive resources and market opportunities. Business security, market opportunities, economies of scale, linkages between formal and informal enterprises, organization and representation, as well as access to financial services can be significantly enhanced by a more positive, enabling attitude by local authorities.

✓ **Fifth, underlying these pro-employment policies is the fundamental principle of empowering organizations of economic actors and community groups to participate meaningfully in planning, budgeting and implementation of urban poverty reduction strategies, and to negotiate their best interest.**

Residents' organizations (especially slum dwellers), cooperatives, small-business associations, chambers of commerce, local trade unions – these are the institutional partners needed for a representative urban dialogue.

“For those of us working on the ground, there is no substitute to creating mass organizational capacity among the poor to engage these local and global institutions to bring change that works for the poor.” (Sheela Patel, during Habitat Debate, June 2004).

7.2 Recommendations for coordinated policies and action at the national, municipal and community levels

NATIONAL POLICIES

- Mainstream the employment dimension in macroeconomic policies, PRSPs and decentralization policies;
- Mainstream employment-intensive approaches in infrastructure investment policies and programmes (including appropriate tendering procedures and small-contractor development);
- Creation of a regulatory and fiscal framework conducive to private sector development; and
- Enable and finance capacity building for local economic planning.

MUNICIPAL POLICIES

- Recognize the importance of infrastructure for employment promotion and incorporate the needs of small-scale local economic actors, including home-based enterprises, in infrastructure planning;
- Target the employment needs of particularly disadvantaged groups such as youth and women;
- Establish a pro-poor procurement system that facilitates community contracting and small enterprise participation in public tenders;
- Systematically consider and adopt labour and local resource-based methods in infrastructure investment;
- Lower the costs and increase the benefits of formalization for informal sector operators;
- Facilitate the access of small-scale (formal/informal) enterprises to finance and business development support;
- Develop constructive partnerships with other stakeholders, including community-based organizations, small-business associations and local trade unions, to identify local economic development opportunities and to translate these into action.

COMMUNITY LEVEL

- Mobilize, empower and build the capacity to engage in community contracting, including the formal recognition of community-based organizations (in letter and in spirit);
- Ensure the participation of women as major stakeholders in all aspects of project identification, design and implementation;
- Develop synergies to enhance the employment outcome of slum-upgrading: the combination of labour-based approaches, community contracting, small enterprise development and infrastructure improvement can provide a major boost to the local “community” economy;
- Optimize the mobilization and use of local resources: labour, small contractors, artisans, building materials, tools, light equipment, finance, skills, organizational capacities and local creativity; and
- Promote local economic development in and for slums.

Ultimately, what is needed is the vision and the commitment to bring all actors together and to do the sensible things that are the tasks of any well-governed city – putting employment on the local agenda, providing economic opportunity, enabling empowerment, improving basic services and infrastructures, planning for future needs, expanding local sources of revenue, promoting and attracting investment – in active cooperation and dialogue with all citizens, especially the urban poor, both women and men.

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Annex 1: Defining the informal economy

The Fifteenth International Conference of Labour Statisticians (ICLS, 1993) defined *informal sector enterprises* on the basis of the following criteria:

- Private unincorporated enterprises, i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete sets of accounts are available. [Private unincorporated enterprises include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and cooperatives formed by members of different households, if they lack complete sets of accounts].
- Their size in terms of employment is below a certain threshold to be determined according to national circumstances, and/or they are not registered under specific forms of national legislation (such as factories' or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws or regulations established by national legislative bodies as distinct from local regulations for issuing trade licenses or business permits), and/or their employees (if any) are not registered.
- All or at least some of the goods or services produced are meant for sale or barter, with the possible inclusion in the informal sector of households producing domestic or personal services in employing paid domestic employees.
- They are engaged in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector.

The term “enterprise” is to be understood in a broad sense, referring to any unit engaged in the production of goods or services for sale or barter. It covers not only production units, which employ hired labour, but also production units that are owned and operated by single individuals working on their own account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner’s home, and they may be carried out in identifiable premises, unidentifiable premises or without fixed location.

Because an enterprise-based definition of the informal sector is unable to capture all aspects of an increasing “informalization” of employment, the 17th ICLS (2003)¹⁰⁹ adopted a complementary job-based definition of *informal employment*. According to this definition, informal employment comprises the following types of job:

- own-account workers and employers employed in their own informal sector enterprises;
- contributing family workers working in formal or informal sector enterprises;
- members of informal producers' cooperatives;
- persons engaged in own-account production exclusively for own final use by their household;
- employees holding informal jobs in formal sector enterprises, informal sector enterprises or employed as paid domestic workers by households. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to standard legislation, income taxation, social protection or entitlement to certain employment benefits

¹⁰⁹ For further information, see ILO, Bureau of Statistics:
<http://www.ilo.org/public/english/bureau/stat>

(e.g. advance notice of dismissal, severance pay, paid annual or sick leave) for reasons such as: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs for which labour regulations are not applied, not enforced, or not complied with for any other reasons.

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