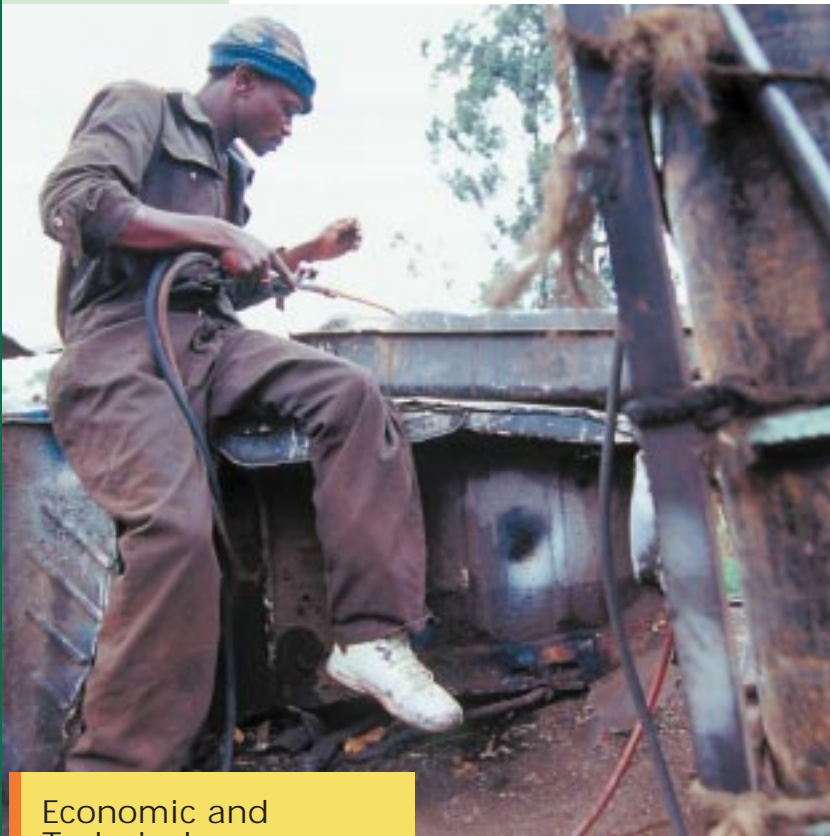


URBAN ECONOMY

LIVELIHOOD

Did you know that 37 of the employed urban population of developing countries works in the informal sector?



Economic and Technical Development Zones in Shanghai, China

In 1984, Shanghai established the Economic and Technical Development Zones (ETDZ) of Minhang, Hongqiao and Caohejing to attract foreign investment, introduce advanced technology and management skills, and develop international economic and technological cooperation. Minhang is the first of Shanghai's four industrial satellite towns. It has excellent linkages with Hongqiao International Airport and can fully utilize all the harbour facilities in the central city; an ETDZ with 230 ha designated for high-tech industrial purposes has been set up in close proximity to existing industrial sites. The urban land-use plan allocates space for factories, warehouses, administrative and service training, service facilities, roads, and green space. Foreign investors are provided with facilities such as a sewage system, water, gas, and electricity supply lines, and other infrastructure.

International trends in employment

Among the most significant features of the contemporary urban economy are under-employment and the informal sector. Under-employment is a fundamental cause of urban poverty, with the informal economy as the survival strategy for the urban poor. However, the informal sector often offers more opportunities for profiteering by higher income groups and formal industries. Four main features typify the labour situation in many developing world cities: unemployment, under-employment, 'mis-employment' (the full-time retention of non-productive employees), and the growing share of women in formal employment. Unemployment statistics in developing countries generally underestimate the problem. Without under-employment figures, however, the problem may actually be over-estimated. Current urban unemployment levels appear to be highest in Africa and lowest in the highly industrialized countries and the Asia-Pacific region.

New forms of exploitation

A clear urban trend in developing countries is the increase in women working in the formal sector, especially in the newly industrialized countries of East and Southeast Asia. The new international division of labour has been beneficial for women in this region, though their wages for comparable jobs are generally lower than those of men. Female employment in formal industry in Africa is still very low. It is of concern that child labour remains prevalent in several regions, while slave labour has also not been eradicated worldwide - and is increasing in some regions. Of major concern is the increase in the numbers of women and children forced into sexual slavery.

A common response to urban unemployment, underemployment and low incomes has evolved through the growth of the informal sector, which has long held the promise of propelling developing economies towards full-fledged industrialization through the development of indigenous entrepreneurship, along with the transformation of small-scale informal enterprises into modern, formal ones. 1998 estimates of the size of the urban informal sector varied from three percent of the total urban labour force in Pamplona, Spain, to 83 percent in Muscat, Oman. All cities surveyed in Africa had at least 19.4 percent of their total labour force engaged in the informal sector, while the minimum figure for the Arab cities was 23.5 percent.

The complexity of the informal economy

The earlier conceptualization of the informal sector as characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operation, labour intensive whilst employing skills acquired outside formal education and training, along with access to unregulated and competitive markets has been replaced by a deeper understanding of its complexity. This has significant implications for policy.

It is now clear that entry into the informal sector is often quite difficult, and that some enterprises are dependent upon imported technology. Many informal enterprises often employ non-family labour, and some activities (especially illegal ones) may be large scale. Others use capital-intensive technology, employing skills often acquired through formal education. It is also the case that that informal markets may well be controlled by monopolies, or mafia-type illegal organizations, which determine the conditions of entry into the sector whilst taking their share in income. Earnings vary a great deal and in some countries they are identical to, or even higher than

those in the formal sector. Indeed, upper-income people are increasingly entering the informal sector, either as a way of supplementing declining formal sector incomes or increasing profit margins. The latter underlies the linkages that always exist between informal and formal enterprises, with the former subsidizing the latter through very low-cost inputs produced by poorly paid workers.

The importance of infrastructure

Urban unemployment has hitherto been addressed principally through policies promoting industrial expansion, and in order to attract investment in a globalized world, urban centres are striving to provide and maintain adequate infrastructure. It is now recognized that there is a very close correlation between infrastructure capacity and economic output. The provision of a well-maintained - if at times minimal - infrastructure of transport, telecommunications, water and power is essential for urban economic growth and expansion of employment both in the formal and informal sector.

Enabling frameworks are clearly necessary, and within such frameworks infrastructure may be provided through: (a) public ownership and operation by commercial parastatal organizations or government departments; (b) public ownership with operations contracted out to the private sector; (c) private ownership and operation, usually with public regulation; and (d) community and user provision.

Other measures to encourage urban investment and employment include the establishment of 'export processing', free trade and 'special enterprise' zones with superior infrastructure, designed to increase the global competitiveness of selected cities and enhance export-led industrialization.

Some governments and local authorities have used the construction sector to create employment through programmes of low-cost housing and infrastructure. Experience has shown that this sector has a number of advantages, including: (a) relatively high multiplier effects; (b) availability of appropriate, labour-intensive, technologies for manufacturing building materials; (c) relatively few imported inputs; and (d) being less affected by fluctuating international markets.

While many authorities have supported, or at least tolerated, the activities of the informal sector, others subject it to continuing harassment. Some cities support the informal sector by amending restrictive regulation; adopting more realistic land-use standards; providing adequate land for enterprises and markets; and developing basic infrastructure for informal enterprises. The installation of electricity, for example, often spurs productivity to levels hitherto unattainable.

Other policies employed to encourage the development of the informal sector include improving access to credit through micro-financing mechanisms; improving access to appropriate technology; enhancement of technical and management skills through training programmes for informal operations; and improving access to markets. Unfortunately, many such policies lack sustained political commitment and are often disjointed or patchy. As a rule, national governments and local authorities should avoid employing universalistic policies and strategies. Instead, they should develop policies and strategies tailor-made for the many different kinds of enterprises to be found within the informal economy.



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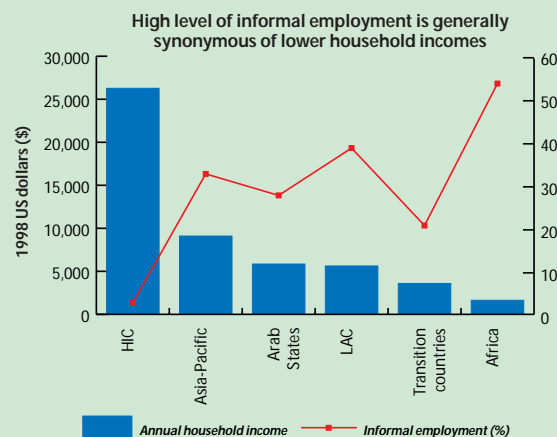
A solution to illegal occupation - Burkina Faso

Ten percent of Ouagadougou's population is engaged in the informal economy, often contributing to the unlawful use of public space, accidents, unhygienic conditions and insecurity. A plan to integrate the formal and informal sectors was undertaken, funded initially from the communal budget. As a result, 365 modern street shops were constructed with local materials, allowing the informal sector land security and stability. The shops provided the informal sector with a better opportunity for integration.

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In industrialized countries, unemployment rates are the best-known labour market measures and probably the most familiar indicators to express the health of the economy and the success of government economic policy. Unemployment is, however, a formal labour market concept and often a less clear measure in developing countries with their large informal sectors.



The informal sector generates substantial economic activity and constitutes a basis for the development of many urban economies. However, the figure shows that a high level of informal employment is generally synonymous of lower household incomes.