



innovative policies for the urban informal economy



UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME



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P.O. Box 30030

Nairobi 00100, Kenya

E-mail: unhabitat@unhabitat.org

Web site: www.unhabitat.org

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

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

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

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

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

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

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

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

Anna Kajumulo Tibaijuka
Under-Secretary General, UN
Executive Director, UN-HABITAT

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