



# The urban informal economy, local inclusion and achieving a global green transformation



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## ABSTRACT

The green economy is widely promoted as a 21st century solution to sustainable development. The role of cities in pursuing this agenda is increasingly recognised. Yet, the informal economy, which so many urban dwellers and workers in low- and middle-income countries depend upon, is seldom considered. This paper examines the opportunities and barriers that the urban informal economy pose for making economies greener, and the risks that such attempts pose for vulnerable informal dwellers and workers. In contemplating how this group can be included in the transition to a greener economy, the different schools of thought on informality are reviewed, with a focus on recent thinking that relates urban informality to conflicting processes of inclusion and exclusion. The paper then considers a set of action areas aimed at leveraging the positive contributions that informal dwellers and workers can make in the transition to an economy that is not only greener, but also more inclusive. Leveraging these contributions will require recognising and supporting women's unpaid reproductive work (including community organising and strategizing around environmental improvements) and applying the principles of inclusive urban planning.

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## 1. Introduction

The green economy is promoted by international agencies as a solution to the world's triple crisis (OECD, 2012; UNEP, 2011b, 2015; World Bank, 2012). This crisis is held to combine the 2008 financial crisis and its legacy, the emerging crisis of climate change, and the persistent crisis of global poverty. The green economy is marketed as advantageous because it places the market economy at the centre of the solution, with green investments creating sustainable economic opportunities (Brand, 2012; Brockington, 2012).

International agencies are now promoting the role of cities in this transition based on their ability to innovate, create employment, generate wealth, enhance quality of life and accommodate people within smaller ecological footprints than other settlement patterns (Grobbelaar, 2012; Hammer, Kamal-Chaoui, Robert, & Plouin, 2011; Simon, 2013; UNEP, 2011a). However, these debates have largely ignored the informal economy, even though it accounts for the majority of non-agricultural employment in low-and

middle-income countries (ILO, 2013). They have tended to emphasise the dynamic ability of cities to create new green jobs and economic opportunities, while ignoring the barriers that prevent informal dwellers and workers from entering the formal economy.

This paper examines the opportunities and barriers that the urban informal economy presents for attempts to make low and middle-income economies greener. It assesses the risks and opportunities that such efforts pose for the poorest and most vulnerable dwellers and workers who depend on the urban informal economy. The paper builds on a larger literature review published by the International Institute for Environment and Development (IIED) (Brown, McGranahan, & Dodman, 2014).

The first section outlines key features of the urban informal economy relevant to social and economic inclusion on the one hand, and greening on the other. The second section examines the barriers and opportunities that the urban informal economy poses for the green economy, and vice versa. The third section reviews the different schools of thought on informality and contemplates how adherents of these schools might approach greening inclusively. The fourth section presents a set of action areas aimed at leveraging

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the positive contributions that informal dwellers and workers can make to greening, with an emphasis on women's unpaid reproductive work and pro-poor urban planning. The article concludes with some thoughts on what this implies for the green economy and related global environmental agendas.

## 2. Key features of the urban informal economy

The informal economy is generally understood to include economic activities that fall largely outside the purview of official regulation, whether because the regulations do not apply or through some combination of weak enforcement and evasion (Sinha & Kanbur, 2012). The urban informal economy includes a wide array of activities, from street vending to domestic service, from home-based enterprises to the informal employees of formal enterprises, and from waste picking to urban agriculture.<sup>1</sup> While those operating in the informal economy are often open to sanction for not conforming to official regulations, informal economic activities should not be confused with the illegal goods and services (ILO, 2002b: 12).

There are four features of the urban informal economy that make it particularly important for building economies that are greener and more inclusive. Firstly, the informal economy is not only large, especially in terms of employment, but is growing. No serious attempt to transform the global economy, socially and environmentally, can ignore it. Secondly, relations between local authorities and the informal sector are usually strained, and often dysfunctional. Improving these relations is critical if green economy agendas are to be pursued inclusively. Thirdly, the informal economy displays enormous variation in environmental performance. While there is potential for engaging it constructively, engagement must be discriminating. Fourthly, the informal sector is not only critically important to many of the poorest households, but is highly gendered, with important implications for the pursuit of both social and environmental agendas.

### 2.1. Persistent growth

Following its 'discovery' by Hart (1973) in a study of Accra, the informal 'sector' was commonly viewed as a marginal and transitory phenomenon that inevitably would be absorbed by the modernising urban industrial sector. Despite this view, however, the informal economy has grown persistently, and is still where the majority of the world's population lives and works (ILO, 2013; Vanek, Chen, Heintz, & Hussmanns, 2014).

Ongoing trends indicate that the non-agricultural informal economy is expanding in urban areas, especially in countries experiencing rapid urbanisation (Elgin & Oyvat, 2013; Mitlin & Satterthwaite, 2013; Potts, 2008; UN-Habitat, 2003). According to recent statistics, informal employment, which includes informal employees in formal enterprises, accounts for more than half of non-agricultural employment in most of the world's 'developing' regions, and considerably more in those regions amid their urban transitions: 82 per cent in South Asia, 66 per cent in Sub-Saharan Africa, 65 per cent in East and Southeast Asia (Vanek et al., 2014).

Statistics on the contribution of the informal economy to national and regional incomes are somewhat less impressive and more uncertain, but demonstrate that the informal economy is

important to overall incomes and to employment. Schneider and Enste (2013) estimate that in the 2000s, the "shadow economy" accounted for 19 percent of gross domestic product (GDP) in OECD countries, 30 percent in transition countries and 45 percent in developing countries. Such estimates are sometimes taken to represent the contribution of the informal sector (as in Benjamin, Beegle, Recanatini, & Santini, 2014: 6), despite their rather different definitions and foci. Charmes (2012: 119) used labour and national account statistics from the United Nations to estimate that the informal economy account for as much as 50–70 percent of non-agricultural employment at a regional level, and that the informal sector (which does not include informal employment by formal enterprises) contributes between 25 and 50 percent of non-agricultural GDP.

By the 1990s, the persistence of the informal economy shifted the debate towards looking to informal activities for opportunities for poverty reduction and economic growth (for example, Rakowski, 1994; Tokman, 1989). This shift has yet to occur in the green economy debate, however. As Benson (2014) points out, this raises questions about whether greening requires formalisation through new or existing regulations, and whether such regulations are even appropriate given their exclusionary tendencies. Building on Benson, this paper argues that the green economy agenda must engage constructively with the urban informal economy if it is to have any meaningful impact on the transition to an economy that is not only greener, but also inclusive of disadvantaged women and men.

### 2.2. Great diversity in environmental performance

The different segments of the urban informal economy vary enormously in their environmental performance. On the one hand, Benson (2014) examines the untapped potential of greening a number of informal activities that benefit the poor, including waste management (through efforts to prioritise the 3Rs of Reduce, Recycle and Reuse); agrifood markets (through the use of green technologies by smallholder farmers to increase their yields); artisanal mining (through incentivizing cleaner technologies and processes); energy delivery (through enabling biomass energy markets); and housing and infrastructure (through upgrading). Benson shows that many of these informal activities are not necessarily more harmful to the environment than formal activities, and that informal activities can be more sensitive to environmental degradation and the impacts of climate change, and hence more proactive in finding solutions.

On the other hand, there are numerous examples of informal activities that are neither green nor environmentally just. Informal but hazardous activities, such as battery reconditioning, place both workers and the surrounding public at risk, even as they conserve resources. Yet the drive for sustainability, and now green economies, continues to emphasise long-term environmental security without fully considering the pressing need to improve the unacceptable living and working conditions of the urban poor (Dodman, McGranahan, & Dalal-Clayton, 2014; McGranahan, Jacobi, Songsoe, Surjadi, & Kjellén, 2001). Moreover, the common misconception that the urban poor are responsible for most environmental degradation in cities may mean that local governments will either continue to neglect this need or adopt policies that are even more exclusionary (e.g. 'slum' clearance). In reality, however, there is strong evidence to suggest not only that the consumption patterns of higher-income groups (linked to high use of renewable and non-renewable resources, and high levels of biodegradable and non-biodegradable waste generation) are responsible for most environmental degradation as well as greenhouse gas emissions in cities, but also that environmental burdens (linked to physical

<sup>1</sup> Most statistics used to assess the urban informal economy exclude agriculture, as most agriculture is rural and the data are not disaggregated into rural and urban. Similarly, statistics on the non-agricultural part of the informal economy is often taken to reflect the urban informal economy, although many such activities are also prevalent in rural areas.

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