Absorbing informal-sector entrepreneurs into improved urban services

Jonathan Rouse

Small Enterprise Development

An international journal of micro finance and business development.

Volume 15, Number 2, June 2004.

Abstract

This paper focuses on the effect of urban development on informal-sector enterprises in the transport and energy sectors. It is based on fieldwork undertaken as part of a research project looking at how the livelihoods of the poor can be accounted for in the vital process of urban infrastructure and services development.

The paper is based on case-studies developed from fieldwork in three countries. The first two illustrate the challenges faced by informal-sector entrepreneurs resulting from developments in the transport sector in Bangladesh, and the energy sector in Ethiopia. In both cases, the informal-sector entrepreneurs are characterised by low incomes, vulnerability, informal (often illegal) status and high competition for limited markets. Research suggests that much of conventional urban development results in them facing increased vulnerability and greater difficulties securing livelihood assets. The third case-study is intended to show how the needs of informal-sector entrepreneurs can be accounted for in development processes. In it, waste-recycling entrepreneurs are employed by an organised waste collection service.

The author considers what could have been done to avoid some of the adverse impacts, and asks what is now needed to address the hardship and vulnerability faced by displaced service providers. Recommendations for future projects aimed at practitioners and policy-makers conclude the paper.

1. Introduction

Infrastructure and services improvement are essential elements of urban development, and can result in more equitable access, more efficient and widespread coverage and improved environment and health. This paper looks at development in the energy, transport and solid waste sectors. Informal sector entrepreneurs make a significant contribution to the delivery of services in the sectors (UN-Habitat 2003) and this paper examines how they are affected by the development process.

The paper is organised around three case-studies in Ethiopia, Bangladesh and India. The case studies were developed as part of a DFID-funded research project intended to deepen understanding of how the livelihoods of the urban poor can be accounted for in urban development. Overseas collaborators undertook the research fieldwork and it is on their reports that this paper is based (see 'Acknowledgements' at the end of this paper). As such, except where direct quotes are used, data from overseas collaborators is not explicitly referenced in the paper.

Much of the research involved direct contact with service providers through individual interviews and small focus groups. Fieldwork data tended to be predominantly qualitative in nature, and the use of quotes in this paper reflects its focus on entrepreneurs and their opinions, knowledge and insight. The Sustainable Livelihoods Approach was used as a framework for research. It enabled the researchers to disaggregate the activities and context of informal-sector entrepreneurs into assets (including financial, physical, natural, social and human), livelihood strategies and interaction with rules, laws, culture and official bodies (e.g. police and government) (DFID 1999).

The urban poor are frequently characterised by low incomes, vulnerability to a diverse range of shocks (e.g. health, economic, meteorological) informal (often illegal) status and high competition for limited markets. Informal sector entrepreneurs may be described as an 'economically active' group of poor and often have (albeit limited) access to cash, shelter and food etc. (Meikle 2002). In many developing world cities the informal sector is one of the main employers of poor people and the primary means by which goods and services are delivered to the poor. The informal sector usually operates outside the established legal, administrative and economic structures of a country (DPU 2001).

The last section constitutes a more general discussion, and draws together issues from each of the case studies. Recommendations aimed at urban infrastructure and services development practitioners and policy-makers conclude the paper.

2. Transport system development in Dhaka

Recognising the need for a substantial increase in investment in Dhaka's transport sector, the Government of Bangladesh and the World Bank (WB) developed the Dhaka Urban Transport Project (DUTP). The project is intended to relieve the chronic congestion and provide an efficient, affordable and sustainable transport system in the metropolitan area of Dhaka. It has various components covering policy, physical infrastructure development, community participation, cost recovery and private sector involvement.

A number of components are now being implemented including the banning of cycle-rickshaws along 'VIP corridors' and construction of a flyover over one of Dhaka's busiest junctions. The impacts of these have been significant, most notably on road users (including drivers and passengers of cycle rickshaws, taxis, buses and private cars), hawkers and shopkeepers. Some have benefited, others have not. A Social

Impact Assessment (SIA) was reportedly undertaken to gauge the impact of this project on various stakeholders but this revealed few negative impacts. An anonymous source reported that the SIA had little impact on project design.

For this research project, three researchers observed, interviewed and facilitated focus group discussions with over 200 stakeholders over a period of 2 months in Dhaka. Stakeholders included rickshaw drivers, hawkers and road users. The extensive and detailed qualitative data collected suggest that, while the DUTP has certainly improved traffic flow in certain areas of the city, it has marginalised a number of poor informal-sector entrepreneurs.

Rickshaw Drivers and Cart Pullers

> *'Because of the rickshaw ban on Mirpur Road, we can't get long trips on the main road now. Small trips in the complicated tiny roads take more time but we can't earn any more from them'. Ashraful Islam: Rickshaw driver.*
>
> *'After the rickshaw ban, it has become very hard to make as much money as before. Before the ban I could earn Tk20-50 (US$0.40 – 1.00) per day. Now I cannot afford to rest and have to work longer days to earn money'. Abul: Rickshaw driver.* (Khandoker 2003).

Some estimates suggest that as many as 500,000 rickshaws ply the streets of Dhaka which, working at least two shifts per day, provide employment to over one million people. As a result of the rickshaw ban on a number of main roads in Dhaka, rickshaw drivers have been forced on to side roads. Thus:

- rickshaw drivers have to go further for the same fare because they can no longer use the main roads which were the most direct routes;
- crossing the main roads is difficult as crossing points are infrequent and using them can add long distances to journeys. Crossing elsewhere can incur a police fine.
- rickshaws suffer increased wear and tear because smaller roads are pot-holed and crowded. This results in greater expense to the drivers for repairs;
- competition has significantly increased for an already-flooded market.

Cycle cart pullers have also been affected because they are also banned from the roads, and this has impacted many of the smaller-scale enterprises who received their supplies using this low-cost transport.

Hawkers

Stationery vehicles and rickshaw drivers awaiting fares along the side of the main road provided a strong customer-base for hawkers before the restrictions were put in place. Now, traffic is moving much more readily and the rickshaw drivers are concentrated on side streets. It is difficult for hawkers to relocate because of the informal-rights individuals have to certain areas, often based on payoffs to police or *'Mastifs'*.

> *'Now I can sell only about seven pieces of chicken, but before the rickshaw ban I used to sell 100 pieces every day'. Farid: hawker (Khandoker 2003).*

Other hawkers face eviction:

> *'Since the construction of the flyover began, my business has fallen because of traffic jams so no one stops at the market. I think I will have to find another place to work because when the flyover is completed the police are likely to evict us from this place'. Motaleb: Garments hawker (Khandoker 2003).*

What can be done?

There is certainly no easy or clear solution to the problem of enterprise-displacement

in Dhaka resulting from transport system development which in itself has many clear benefits. Entrepreneurs themselves want to be, at the very least, acknowledged and preferably compensated for their losses, either financially or in training for alternative livelihood activities. However, they recognise some of the constraints. Only around 80,000 of the 500,000 rickshaw drivers have legal registered status, and none of the hawkers are officially registered. Even where entrepreneurs may be officially recognised, insufficient enterprise alternatives exist in Dhaka, a city where competition for work is a constant threat and new rural migrants seeking work arrive daily.

One of the components of the DUTP is entitled 'Land acquisition and resettlement' and includes developing 'Implementation mechanisms for assisting affected people with compensation, relocation and livelihood assistance'. Presumably, this would be informed by the SIA. Given that the SIA reported no negative impacts of the DUTP on stakeholders, it seems appropriate to question its accuracy and effectiveness in the light of research findings reported in this paper. It may also explain the lack of compensation and livelihood assistance offered to many of the affected individuals. Clearly even when the legal structures are put in place they may be inappropriate (e.g. is compensation, relocation and livelihood assistance only for those people *physically* displaced?) and still marginalise the informal sector.

One of the barriers to the urban poor securing new work is access to training for new skills. This can be constrained by money or opportunity-cost of time (Rouse and Ali 2002). Access to credit can also be particularly limited for the highly-mobile urban poor population which lack collateral (DPU 2001), making investment in new business activities difficult.

Providing credit and access to training does not, however, tackle the reason for the lack of alternatives and pressure of employment in cities, namely the lack of opportunity in *rural areas* responsible for driving people to the cities. Perhaps it is in rural regeneration that the answer to these problems lies.

Most importantly of all, these large groups of entrepreneurs need to be understood and acknowledged in project development and planning. It is only by understanding these groups that measures to compensate and provide alternatives can be considered and developed.

3. Traditional fuel in Addis Ababa

In response to serious deforestation around Addis Ababa, the last ten years has seen the development of energy and environment strategies for Ethiopia. A number of policies have been implemented to encourage household energy consumers to switch from using wood fuel to using 'modern fuels' such as kerosene, electricity and liquefied petroleum gas (LPG). In 1980 wood fuel provided 70% of total energy used in Addis Ababa, but this dropped to around 13% by 2000. A number of measures precipitated this significant drop in demand:

- imposing strict controls on fuel wood trafficking into Addis Ababa;
- subsidising electricity and kerosene;
- lifting import barriers on kerosene stoves; and,
- developing fuel-efficient wood stoves for those still using wood fuel.

These measures have helped to arrest deforestation and improve the environment in Addis Ababa, but have also resulted in widespread unemployment among the many traditional fuel suppliers, transporters and retailers in the capital. A study was undertaken in Addis Ababa to understand the effect of this 'fuel switching' on these informal-sector entrepreneurs.

Who is affected?

There are many different actors in traditional fuel supply and sale in Addis Ababa including:

- fuel collectors;
  - small-scale from common land,
  - large-scale from plantations (some of these may be 'formal').
- transporters (including motorised, non motorised, animal and human);
  - to the city,
  - within the city.
- vendors;
  - retail from kiosks and markets,
  - wholesale from warehouses.

Both men and women are involved in the provision of traditional fuels: women tend to retail wood from small kiosks while men are more involved in transportation and larger wholesale trading.

What are the effects of fuel switching?

The energy and environment strategies have emphasised the importance of environmental protection and long-term sustainability. However, neither policies have considered the thousands of traditional fuel suppliers, and as such little provision has been made for those entrepreneurs who have lost business as a result of policy implementation. Decreased demand for traditional fuels has forced traditional fuel entrepreneurs at all stages in the supply chain out of business.

Those remaining in business have faced other difficulties. City authorities have recently begun implementing a programme of reforming and regulating informal businesses in Addis Ababa. Thousands of informal traders (hawkers, shoeshine boys, traditional fuel vendors etc.) have been labeled as illegal and displaced under this programme. Alongside this reform the authorities have designed a set of mitigation measures intended to reduce adverse impacts on the urban poor. These include:

- Designating space for weekend markets on streets with low traffic;
- Constructing hundreds of kiosks in various corners of the city for renting out to displaced persons;
- registering and licensing vendors to protect their rights and interests; and,
- providing alternative open spaces for entrepreneurs displaced from the street, roadsides and markets.

A number of traditional fuel entrepreneurs, displaced as a result of the reforms, have been provided with alternative space for their businesses. However the loss of their familiar customers due to relocation has had serious detrimental effects on their business, and they have complained bitterly. The effectiveness of these mitigation measures is not fully understood.

What can been done for traditional fuel entrepreneurs?

While some traditional fuel entrepreneurs have sought alternative forms of employment themselves, a number of programmes have been organised specifically to help them. In one instance the Ministry of Labour and Social Affairs, with the International Labour Organisation (ILO) facilitated the formation of the Former Women Fuelwood Carrier Association, and provided them with alternative employment opportunities in food processing and weaving. Other organisations have also shown awareness of their needs. The Finfinne Forestry Development and

Marketing Enterprise (FFDME) owns a large plantation near Addis Ababa, from which 6000-7000 traditional fuel collectors gather dead wood every day. These activities are causing a degree of damage to the forest stock, but FFDME recognised the impact that outlawing wood collection would have on the collectors and their families. As such, they are developing their own mitigation measures, including:

- allowing minimal access to suppliers to collect fuel free of charge;
- creating employment opportunities for members of the surrounding communities as forest guards and wage labourers during production and harvesting;
- provision of seedlings to neighbouring communities to help them grow their own trees; and,
- provision of social services such as building primary schools and potable water supply centres to the community.

These measures are designed to provide for entrepreneurs in the short and long-terms. The interests of entrepreneurs can be maintained whilst protecting environmental resources: the two agendas need not be contradictory.

Traditional fuel entrepreneurs are seen by some environmental groups in Ethiopia as 'perpetrators of environmental degradation' because they are associated with the depletion of forest resources. Like many others working in the urban informal sector, their work is not acknowledged as a service, but perceived as a nuisance. Traditional fuel entrepreneurs wish to be recognised and legitimised to enable them to continue to work without harassment and within a legal framework. At present they are not recognised, and without recognition they will never be legitimised. According to research in Ethiopia, NGOs were not consulted in the formulation of the energy and environment strategies, and few are even aware of the plight of traditional fuel entrepreneurs. Others still are lobbying for 'pure environmental' agendas, and thus may actually be working against the interests of the entrepreneurs.

The traditional fuel sector is highly-informal even in the context of the Addis Ababa informal sector. In contrast, the 'modern fuel' sector is highly-informal, well-organised and politically powerful. Few jobs in the modern fuel sector are appropriate for displaced traditional fuel entrepreneurs. This is partly because it is less labour-intensive, and because relatively few unskilled roles exist. Kerosene retailing is usually undertaken through existing petrol stations so has generated few new jobs, and it was not possible to establish the scale of employment generated by LPG use, but its limited role in household energy make estimates low. One potential area for re-employment is in small businesses manufacturing electric, kerosene and improved-biomass stoves. The latter now employs nearly 2000 people.

4. Solid waste management in Hyderabad

This case study provides an example of a development and improvement process which has succeeded in taking account of informal-sector enterprises and entrepreneurs.

In Hyderabad, India, it is the responsibility of householders to deposit their household waste in communal bins, from where it is taken by the local authorities to a disposal site. In Jubilee Hills, a wealthy neighbourhood in Hyderabad, because of inconvenient placement of communal bins and lack of concern/awareness among those taking waste to communal bins, considerable waste was being left on the streets or dumped in empty housing plots. Waste was further scattered by waste pickers who sorted through it in search of valuable recyclable materials such as plastics, metals, glass and paper for selling. Such waste recycling enterprises employee many millions of, mostly poor people, across South Asia.

In response to the unhygienic neighbourhood conditions and the trend towards 'Resident Welfare Association' involvement in solid waste management in India, the Jubilee Hills Exnora (JHE) Residents' Association initiated a door to door household waste collection system. In 1998 the association had purchased 16 cycle carts for neighbourhood waste collection, employed 17 young men and successfully collected waste from around 850 households and 12 commercial properties.

Employing waste pickers

It is the employees which make this simple waste collection system of interest. Instead of recruiting waste collectors 'off the street', JHE offered jobs to the local waste pickers. The rationale was that because an effective waste collection system could negatively impact the waste pickers by restricting their access to waste, they needed to be offered alternative employment. By employing them in the organised door-to-door collection system they could be assured of a regular income as well as retain access to the waste for recycling. The streets would also be free of their scattered waste because the employees could sort waste whilst collecting it.

The reality of employing waste pickers was problematic. Most of the 16 to 25-year-olds came to Hyderabad to escape village life, and their independence is dear to them. The JHE Association reportedly faced many difficulties retaining and motivating the young men, but after some years the former waste pickers are settled and appreciative of the opportunities given to them. Moula Ali (Age 22) says:

> *'The standard of living increased because I'm assured a salary at the end of the month. Previously I used to get money on a daily basis which was usually spent on the same day for food and for miscellaneous purposes. There was almost no saving. Now I have a monthly income there is ample to save and I can spend in a planned way.' (ASCI 2003).*

Benefits to the waste pickers

> *'Shiva Prasad is 16 years old and the youngest of the workers. He joined the organisation 18 months ago. He has a widowed mother who used to support him before he came down to Hyderabad 5 years ago to support himself. He is proud to be associated with JHE, as it has given him a sense of identity and a steady income. He lives at Borobanda with his colleagues' (ASCI 2003).*

Before joining JHE the waste pickers never had a regular source of income and this made them vulnerable to various shocks such as ill-health or poor weather which affects their work. The employees now feel that, while the job has not necessarily made them much better off financially, they enjoy much more stability and security. In addition, their working hours are manageable and they do not need to do other jobs so they are not working to the point of exhaustion. The association provides them with identity cards, shoes and uniforms for their work. Vocational training has also been offered including driving and office skills, which is also developing their future employability. They perceive that they now have a higher social status, and have formed supportive relationships with their employers. These factors have made them more confident in interacting with society compared to before when they 'felt like outcasts'. It has legitimised their role in waste management.

Issues from Jubilee Hills

The waste pickers have derived many benefits from being acknowledged and employed in improved solid waste management in Hyderabad. It may have been possible to find employees who were more reliable than young waste pickers, but the association members were prepared to persevere and gain the trust and commitment of the young men. If this principle of employing informal-sector waste workers was to be mainstreamed it is questionable if a municipality or private company would have

similar philanthropic motives and/or patience. Waste workers are often among the least-educated and most socially-alienated in society and may often be difficult to work with. This has serious implications on replicability and upscaling.

There are other questions relating to the sustainability and replicability of this collection system. It is not clear from where funds for purchasing the tricycle cart came, or funds for the accommodation, food and training which is provided to employees. Is this level of employer responsibility dependent on the goodwill and generosity of wealthy neighbourhood residents?

It is important to note that employing the waste pickers may have contributed to the effectiveness of the door-to-door collection system. If waste workers had not been employed, they would have been put in direct competition with the JHE collectors. In a bid to secure access to recyclable materials they may have sought access to waste in other ways or tried to disrupt the new collection system.

5. Summary and recommendations

Summary

The case studies have shown how damaging urban development can be to urban entrepreneurs, as well as the benefits they can see from being involved in improved service delivery. Preventing entrepreneurs from pursuing their economic activities results in them losing status, incomes, assets and security and effectively deepening their poverty. Acknowledging and understanding the work of informal sector entrepreneurs provides the key to a more equitable process of urban development.

The potential for absorbing displaced service-delivery enterprises into improved infrastructure and service delivery varies considerably between case studies. For the case of Dhaka, it is difficult to see how the skills of rickshaw drivers could be used in the improved transport system, as well as how such a large number of jobs could be created. In Ethiopia many traditional fuel enterprises are being forced out of business, replaced by a 'modern fuel' sector which offers relatively few unskilled jobs and is less labour-intensive. However, the solid waste collection system in Hyderabad shows how informal-sector enterprises can be involved in the delivery of improved services and contribute to urban development. This example, however, also raises serious questions about sustainability, practicability and upscaling.

Recommendations

These recommendations constitute a distillation of those alluded to in the three sections of this paper. They are intended for those involved with urban projects at both planning and implementation stages and levels.

- Understand the informal sector, quantify and cost its contribution to service delivery, and look at ways of legitimising and regulating entrepreneurial activities.
- When planning urban development projects, learn from existing service delivery mechanisms by informal-sector entrepreneurs and seek ways of working *with,* rather than *against,* existing individuals, businesses and structures.
- 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 entrepreneurs what they think, what they need and how they think they will be affected.
- Consider the root of the problem. For example, do the problems (and solutions) lie in rural areas, and are any urban-based solutions really sustainable?
- Acknowledge that urban infrastructure and services development will always impact the informal sector, and that both decision makers and entrepreneurs will

often have to accept middle ground.

- Advocate at all levels the rights and needs of informal-sector service providers, and shed light on the problems they face in urban development.

There is a need for a paradigm shift in the way informal-sector service providers are viewed. This paper has provided examples of traditional fuel entrepreneurs being viewed as environmentally destructive, rickshaw drivers as the cause of traffic jams, and waste workers as untidy. Despite this reputation, these enterprises form vital parts of the 'urban services machine' and are simply responding to, and effectively meeting, consumers' demands. There is a need for 'champions' of this message at all levels -- particularly at higher policy-forming levels -- who believe in the rights of, and are willing to acknowledge, these numerous poor urban entrepreneurs.

6. Acknowledgements

The case studies described in this paper are based on fieldwork undertaken by the following individuals:

Dhaka: Hasnat Iftekhar Hossain, Nasrin Khandoker and Farzana Yeasmin. MA Anthropology Graduates from the Jehangir Nagar University, Savar, Bangladesh. Supervised by Rabeya Rowshan.

Ethiopia: Mellessaw Shanko of Megan Power Ltd, Addis Ababa.

India: A research team led by Chari Srinivas from ASCI (Administrative Staff College of India), Hyderabad, India.

This research project was funded by DFID, under the Knowledge and Research (KaR) scheme.

7. Literature

References

ASCI. 2003. Study on livelihood substitution aspects in development of urban infrastructure and services: A case study of a community led solid waste management initiative in Hyderabad, India. (Unpublished report) ASCI, India.

DFID. 1999. Sustainable Livelihoods Guidance Sheets. DFID, London.

DPU (Development Planning Unit). 2001. Implementing the Habitat Agenda. In search of urban sustainability. DPU, UK.

Khandoker, N. 2003. Field notes from research in Dhaka. (Unpublished)

Meikle, S. 2002. Paper published in 'Urban Livelihoods. 80 people-centred approach to reducing poverty' Edited by Rakodi, C. and Lloyd-Jones, T. Earthscan Publications Ltd, UK

Rouse, JR and Ali, SM. 2002. Waste Pickers in Dhaka. Using the Sustainable Livelihoods Approach. Key Findings and Field Notes. WEDC, Loughborough University.

UN-Habitat. 2003. The challenge of slums. Global report on human settlements 2003. United Nations Human Settlements Programme, Kenya.

Other literature

The following literature was used in the preparation of this paper but has not been referenced directly.

Hossain, HI. 2003. Field notes from research in Dhaka. (Unpublished)

Shanko, M. 2003. The impacts of fuel substitution on traditional fuel suppliers in Addis Ababa. Megan Power Ltd, Ethiopian. (Unpublished report)

Yeasmin, F. 2003. Field notes from research in Dhaka. (Unpublished)