

## **UTILIZATION OF URBAN SPACE FOR HOME-BASED ENTERPRISES: OBLIGATION FOR URBAN STRATEGIC PLANNING**

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### **ABSTRACT**

Urbanization and underdevelopment manifests in the re-emergence of informal sector activities. This trend includes the escalating growth of informal economic activities, among which are Home-based enterprises (HBEs) in urban residential neighborhoods. This type of informal development, mostly undertaken by low-income urban residents, has defied government attempts to set standards or enforce compliance and is therefore a challenge for urban planners. There is a need to reconsider HBE activities in light of their positive contributions, which offset their negative effects on urban space. This paper draws urban planners' attention to urban land use patterns and the alternative planning directions HBEs are prompting. It then calls for further research on how urban planners could plan and redesign the urban space with appropriate consideration of HBE operators. This paper has implications for national economies, especially in African and other developing countries.

**Keywords: Informal economy, home-based enterprise, urban space, strategic planning**

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## INRODUCTION

The United Nations reported in 2008 that for the first time in history, the world is now more urban than rural. Meanwhile UN-HABITAT (2008) notes that urbanization is occurring more rapidly in developing countries than in developed countries; that in Africa and Asia, annual urban population growth is projected to be 2.4 percent and that the concentration of population in urban areas leads to a number of challenges. A major contemporary—and widely debated—challenge posed by this urbanization is the re-emergence of the urban informal economy. Although this phenomenon existed in European and North American countries during the Industrial Revolution, it went into dormancy but has subsequently re-emerged, presenting itself in varying forms and degrees in both developed and developing countries. The scope and dynamism of the urban informal economy has led to a wide range of definitions, usually based on the discipline of the author who is writing about it. Authors have variously been concerned with the informal economy's marginalization of workers, its contribution to GDP, gender bias, employment creation, or its role as a survival strategy for many people. This paper examines the relationship of urban planners to the informal economy (and specifically to HBEs). In the process, it asks whether HBEs justify strategic planning to accommodate the growth of the informal economy. For the urban planner, the primary concern is how they impact existing land use patterns. What should be the attitude of urban planners to HBEs and their effects on planned urban spaces? Many view this sector as the last hope of the unemployed, the clear means of affordable survival means for the urban poor, and the first entry point of rural-to-urban migrants into the urban economy. Should planners ignore the urban informal economy, condemn it, or strategize to accommodate it, recognizing that it is no longer a temporary trend as earlier speculated but another kind of economy that is here to stay in contemporary developing countries?

Some urban planners consider this growing phenomenon a form of urban insurgency. MirafTAB and Wills (2005) assert that “as the urban poor defy policies imposed on them from above, they shape their environment through resistance and insurgency.” This paper calls on urban planners to reconsider the contributions of the informal economy, since it is often crucial for a large part of the income of the poor (Becker 2004). It concludes by recommending that government officials, policy makers, and especially urban planners need to reconsider their attitudes and

actions towards the informal economy and particularly towards HBEs. It calls on urban planners to consider the prospects of this phenomenon while ameliorating its detrimental effects on urban space.

### **INFORMAL ECONOMY DEFINED**

Becker (2004) describes the informal economy based on “place of work.” Four categories were identified: home-based workers; street traders and street vendors; itinerant, seasonal or temporary job workers on building sites or road works; and those in between the streets and home. This paper relies upon a recent definition of the informal economy given by Edgcomb and Thetford: That component of the overall market in which enterprises, employers, and self-employed individuals engage in legal but unregulated activities, while they do not comply with standard business practices, taxation regulations, and/or other business reporting requirements; they are otherwise not engaged in overtly criminal activity. (2004, 6.)

The study of the informal economy is strongly advocated by Tiwari (2006), owing to its capacity to provide employment and income opportunities for the urban poor, and because studying it via a data-grounded methodology “will enable a proper examination of the potential of the informal sector as an instrument of growth, besides being useful in evolving an appropriate development policy for the informal sector workers.” This was affirmed by Blades et al. (2011), who stated that despite a substantial literature on informality in labor and development economics, when compared to the importance of the sector for the lives of billions of people, research on the income and wealth generated in the informal sector in poor countries.

The first World Employment Mission at Kenya in 1972 revealed that the traditional sector had not just persisted but expanded in scope (ILO 1972). Participants in the Mission decided to use the phrase “informal sector” instead of the then-customary “traditional sector”, a phrase coined in 1971 by Keith Hart during his original work among rural migrants in Ghana (1973). This informal sector concept was greeted with a mixed reception, including a hope for its eventual disappearance and the fear of its persistence and domination of the economy (WIEGO History & Debates 2011). These positions have not changed much recently among policy makers. The 1980s and 1990s witnessed rapid growth of the informal sector, not only in developing countries

but also in advanced capitalist economies, giving rise to another evolution of the phrase “informal economy.” The informal economy refers to the phenomenon of unregulated economic activity. In 1993, the International Conference of Labor Statisticians (ICLS) elaborated the definition to be based on production units, rather than on employment relations, defining them as “units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons involved.”

The significance of this paper at this period of global economic crises is in emphasizing the contributions of the informal economy. Becker (2004) opines that these contributions are mostly ignored, rarely supported, and sometimes actively discouraged by policy makers and government. The sustainable (holistic) city model as proposed by Branea (2011) best captures the ideas advocated in this paper. It proposes “avoiding the excessive oneway development, and tries to avoid the social and ecological unbalances which result from an exclusively economical development, be it based on services or entrepreneurs. This should be a city’s main management objective.

## **THEORETICAL FRAMEWORK**

This study is anchored on neo-liberal approach, a major proponent of this model is De Soto (1989), who views the informal economy as a reaction to extreme state regulations, and claims that it will persist as long as complex government bureaucracies continue to be operative. He views informal economy actors as those who have refused to be handicapped by government regulations, but rather rise above their limitations, even if doing so means defying existing regulations. De Soto concludes that the informal economy is filled with “revolutionary potential.” He proposes that productivity could be increased by linking informal workers with access to capital, providing the collateral for loans through the granting of property rights.

In this paper, the motivation for households with HBEs is understood according to a neo-liberal approach. The informal economy is understood as a strategy of the lower class, where those who are excluded from formal employment have decided to bypass the formal state regulations and the extra costs and cumbersome registrations they incur to generate earnings for their households in the informal economy (De Soto 2000). However, this paper excludes De Soto’s policy

prescription that HBE entrepreneurs be granted formal property rights, in view of the possible detrimental consequences—particularly the possibility that the HBE entrepreneurs earn capital by mortgaging lands rather than utilizing them for the approved use. In many instances, encroachments, land use conversions, and contraventions on such lands have occurred in order to meet the economic needs of new land owners. Such policies have also led to internal conflicts among residents and within households (Roy 2005). Rather, this paper aligns with the structuralists' perspective on the recommendations for the informal economy. Structuralists hold that the informal economy sustains the viability of the capitalist structure. Supported by globalization, the urban informal economy helps producers to maintain market competitiveness as they strive to reduce production costs, especially wages (Castells and Portes 1989).

### **Home-Based Enterprises (HBEs)**

A Home-Based Enterprise is a sub-group of the informal economy. “Home” is defined as a dwelling unit and/or structure attached to a dwelling unit and/or an open area adjacent to a dwelling unit. Stresemann (1987) defined an HBE as one which occurs in or very close to the home rather than in a commercial or industrial building or area. ILO (1972) defined the sector based on the distinguishing features of ease of entry, reliance on indigenous resources, family ownership of enterprise, small scale of operation, labor-intensive and adapted technology, skills acquired outside the formal school system, and lastly, unregulated and competitive markets and lack of legal or government recognition. Home-based workers typically have the least security and lowest earnings among informal workers.

There are two types of home-based workers: industrial outworkers, who carry out work for firms or their intermediaries, and own-account or self-employed homebased workers, who independently produce and sell market-oriented goods or services in their homes (Carr and Chen 2002, Horn 2009). For many households in the cities of developing countries, a small income earned on a regular basis can make the difference between subsistence and destitution. In many instances, the prevalence of HBEs shows not only the clamor for additional income, but also represents potential savings in transportation costs and time. The vast majority of HBE workers are women, who combine paid and unpaid work within their homes (Horn 2009).

Benería (2001) observed that women are disproportionately represented among home-based workers across countries and that this gender disparity has increased in all regions. HBEs have become an important source of livelihood for those who have no other choice but to combine such enterprises with their domestic responsibilities (Carr et al. 2000; ILO 2002). Tipple (1993) also emphasized the importance of HBEs, stating that their roles vary depending on the type of neighborhoods in various developing countries. He argued that petty retail trading and cooked-food production are more prevalent in poor neighborhoods that have less access, transportation, proximity to the formal sector, availability of working capital, or likelihood to be an appropriate production environment. A lot of work on HBEs has focused on low-income neighborhoods. However, they are not restricted to low-income groups. For example, Strassman (1986) presented an analysis of HBEs in four neighborhoods of different housing and income categories in Lima, Peru. Similarly, in a study of 172 households in Kitwe, Zambia, Kazimbaya-Senkwe (2004) found that 55 percent of households in peri-urban squatter areas, 50 percent in low-cost housing areas, 30 percent in medium-cost, and 34 percent in highcost areas had HBEs. The spread of HBEs across all housing categories.

### **DISADVANTAGES OF HOME BASED ENTERPRISES**

Benería and Floro (2005), in examining the effects of HBEs, pointed a dimension of their negative spillovers. They emphasized that HBEs are characterized by the use of child labor, thereby perpetrating low-quality education and consequently continuing the cycle of poverty in such homes. Also, the lack of special skill associated with HBEs is cited by some writers as one reason why home-based informal economic activity is underrated both by the women who primarily conduct such work, and also by men. (Berik 1987; Ghvamshahidi 1995). Other negative effects of HBEs include the evasion of taxes or of specific service charges, and the avoidance of regulatory requirements like licensing. These in turn result in lower fiscal returns to governments.

HBEs have been regarded as undesirable in planning orthodoxy because they introduce commercial and industrial uses into areas zoned as residential. Researchers frequently claim that there is a close relationship between poverty, informal housing, and informal income generation (Gilbert and Gugler 1992). In most cases, the need for additional income through informal

business ventures is the driving force behind dwelling alterations (ILO/UNCHS, 1995). Okeke (2000) further noted that the extensive use of temporary structures, commonplace in this sector, exhibits very high nuisance value in land use development. The continued development of sheds for workshops and retail outlets results in a different physical neighborhood character from that envisaged by planners, making such alterations a clear example of residents acting in defiance of official regulations. Strassman (1986), in reviewing the effects of HBEs, confirmed that the worth of buildings in neighborhoods with a high rate of HBEs is usually lower than those in neighborhoods lacking them, since negative impacts, such as fumes from fish smoking, cause nuisance effects.

### **Advantages (Benefits) of HBEs**

In terms of employment, jobs are created cheaply as large numbers of individuals who would otherwise be unemployed and a burden to society are gainfully employed. Recent studies indicate that the share of the informal economy generally exceeded 60 percent of total employment in all of Africa (African Development Bank, 1997). The informal economy also accommodated 75 percent of the new entrants into the African labor force in the 1980s. By the year 2020, it is estimated that 95 percent of all African workers will be in the informal sector (Hope 2001). Hope (2004) stressed that given the current importance and potential of the informal sector as a source of economic growth and employment, most restrictions on this sector should therefore be eliminated so that it can flourish as a means of promoting further growth and reducing poverty and deprivation in the African economies. The informal economy (particularly HBEs) has exhibited vibrancy and a resilience that must be enhanced. The informal economy (particularly HBEs and their associated jobs) should therefore not be discouraged, since it represents a major source of economic activity and employment in Africa. In many cases, those employed in the informal economy.

Global evidence suggests that informal economy (particularly HBE) employment tends to swell during periods of adjustment as workers laid off in the formal sector seek new jobs, and women and other household members find employment to assist in offsetting declines in household income (World Bank 1995; Hope 1997). This was affirmed by Roy (2005), who noted that HBEs have been and are important in times when formal wages diminish or cease, and enterprises are

started in the only place available: the home. Many low-income households rely on HBEs for employment, income, and services. Without them, countless millions of households would be unable to meet survival needs, food could not be purchased conveniently, and carrying out simple tasks, such as having a haircut, would require a major expedition.

### **HBEs IN URBAN SPACE**

The nature, speed, and scale of urbanization processes in cities of the Global South, together with resource shortages, make the task of managing the collective affairs of urban regions ever more complex, adding new challenges to urban governance. In 2007, it was recognized that regions in the South have had the greatest changes in rates of urbanization over time. Due to geopolitical changes and their accompanying economic and social changes, city center areas are the most vulnerable urban spaces (Branea 2011). In assessing the effect of HBEs on available urban space, Tipple et al. (2002) noted that there is a great deal of exchange in the use of space between enterprise and domestic activity throughout the hours of day and night. Raj and Mitra (1990) studied households in Delhi and found that 50 percent of HBE operators accepted that the flexible use of space in the house was a major benefit, and 12.5 percent used the public space in front of the plot for petty trading.

### **INFORMAL ECONOMY (HBES) AND URBAN PLANNING**

Land use allocation in contemporary Nigerian urban areas is liberalized, irrespective of statutory regulatory frameworks (Okeke 2000). Also, the spread of HBEs into all housing categories can be taken to suggest either the dearth or unattractiveness of formal employment, a laxity or failure of planning authorities to enforce land use regulations, or the spread of poverty across all social groups. But Watson (2011) opined that planning regulations are frequently so onerous that the poor are obliged to step outside the requirements of the law, living and working in ways that are categorized as “informal” and are, therefore, open to state-initiated censure and often repressive intervention.

Watson (2011) reported on the degree to which urban planning education across the globe, specifically in countries of the Global South, addresses issues of inclusivity and planning for the working poor. She stated that the laws, regulations, and professional practices linked to the



discipline of urban planning have significant effects on the ability of the poor to survive in towns and cities. She further stated that often planners are educated and encouraged (by prevailing legislation) to fulfill a function in cities that is predominantly about control. This negatively impacts the livelihoods and shelter options of the urban poor and serves formal economic interests, resulting in urban environments that exclude both socially and spatially.

Informality at first glance seems to be a land use problem, and it is thus often managed through attempts to restore “order” to the urban landscape, or to bring it into the fold of formal markets. The limitations of urban upgrading policies reflect the limitations of the ideology of space. In such policy approaches, what is redeveloped is space—the built environment and physical amenities—and the search for rational order is framed in aesthetic terms, via a belief that an efficient city is one that looks regimented and orderly in a geometrical sense, rather than one that truly enhances people’s capacities or livelihoods (Roy 2005). In order to achieve optimal integration of business opportunities in low-income residential developments, while avoiding the perpetration of aesthetically offensive alterations, urban planners and other professionals in environmental management need to incorporate the processes of the informal economy into their designs. Our role, as shapers of space, should be one of continuous harmonization of imbalance between these two elements: on one hand, the perception of informal spaces as unplannable; and on the other, the desire to improve and integrate such spaces. Whatever the role we choose to play, the spatial planners take the lead (Branea 2011).

### **DEVELOPING POLICIES TO PROMOTE HBES**

Many researchers (Sarraf 2003; Hope 2004; Ezeadichie 2009) have argued that policies should be developed for the advancement of the informal economy (particularly home-based enterprises). The premise for this advocacy is that this sector is the only safe haven for the ever-increasing numbers of urban poor in sub-Saharan Africa and South Asia. The Organization for Economic Cooperation and Development (OECD 1998) and the United Nations Economic Commission for Africa (UNECA 2001) reported that, on average, 45 to 50 percent of sub-Saharan Africans live below their national poverty lines, representing a much higher proportion than in any other region of the world. People in sub-Saharan Africa, along with those in South Asia, remain among the poorest on the globe.

The World Bank also reported that approximately 47 percent of sub-Saharan Africans live on less than US\$1 per day and more than half of them are from East Africa and Nigeria. Given the above statistics, and the reality that the poor so often resort to the informal economy (particularly home-based enterprises), there is a need for policies that give adequate consideration to a high proportion of the population while making efforts to ameliorate negative effects. Hope (2004) has argued that: including the poor is a necessary and progressive step in any attempt to sustain growth, development and socio-economic transformation in Africa.

Countries that do not include the poor in their national policy frameworks run the risk of achieving growth without development and creating a large cadre of permanently poor and underprivileged people who would lack the fundamental capacity to sustain future economic progress. Another key determinant of good governance is the inclusion of all actors, particularly marginalized people who have been excluded from provision of essential services and from participation in the development process (Tanaka 2009). Sarraf (2003) advocated for gender-responsive government budgeting, as practiced in South Africa, stating that it can facilitate the preparation and implementation of pro-poor budgets by targeting women supportive activities. Chen, Sebstad, and O'Connell (1999), sharing this view, wrote that informal sector workers can be protected and supported through public interventions and policies, including most notably direct assistance such as training, input supply, and marketing and regulatory policies. They also called for urban policy reform to promote protective (and remove restrictive) zoning and housing regulations and to incorporate street vendors and other informal sector workers in urban plans.

## **CONCLUSION AND RECOMMENDATIONS**

This work has examined the contributions and effects of the informal economy (particularly HBEs) to urban development. HBEs, although viewed by some as constituting an urban insurgency, have many inherent values, especially among low-income urban residents. Considering the high proportion of urban residents in the low-income class, this paper advocates for the enhancement of the “revolutionary potentials” of this phenomenon while ameliorating the abhorrent negative effects on urban space. Urban planners and policy makers are urged to give adequate consideration to this source of livelihood for many of the urban poor in future land use plans rather than ignoring, confronting or penalizing the HBE operators. Efforts to better

understand this phenomenon and a willingness to embrace its possibilities while ameliorating its undesirable effects could lead to innovative plans, affirming that “there is also quite a bit to be learned from what goes wrong” (Roy, 2005: 156).

A shift in the attitude of urban planners towards HBEs operators is recommended, from confrontation to collaboration. As Watson (2011) put it, planners need to alter their planning philosophy to become “pro-poor”. Urban planners are urged to create the enabling environment for HBEs (especially in the low-income areas) to ensure sustainable development of cities and avert distortion of existing plans. Urban planners and other professionals in environmental management need to incorporate the processes of the urban informal economy into their designs. Finally, further research is called for on how urban planners could plan/redesign the urban space with appropriate consideration of HBE operators.

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