

**Formalization and informalization
processes in urban Ethiopia:
incorporating informality**

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Preface

Formal and informal economies exist in all countries. However, in developing countries the relative size of the informal economy is enormous. Being incorporated in the formal economy would enable those functioning in the informal economy to enhance their chances of being included and reduce their level of vulnerability. It is clear that those working in the informal economy are more likely to be poor, with the informal economy serving as their safety net. In this regard, there is a general concurrence about the need to pay attention to the informal sector because of its importance to employment and poverty issues.

Another dimension of informality is the informal settlements. In most of the cases, for the poor, urban informal settlements have been a means for their livelihoods. In the case of urban centers in Ethiopia, the inadequacy of land supply and lower economic and institutional capacity has brought settlements under increasing pressure. In many settlements, particularly in Addis Ababa, the housing system is already under great pressure, manifested in the continued occupation of dilapidated structures, the construction of meager shelters, extreme overcrowding, the occupation of dangerous sites and the invasion of public lands.

Understanding the 'informalization and formalization process' in Ethiopian urban centers plays an increasingly important role in the economic development of the cities. Hence, the purpose of this book is to assess the situation of informality in urban Ethiopia based on a broad definition, considering informal businesses, employment, housing and land services. The book is based on the selected papers presented at a conference, organized jointly by the Ethiopian Civil Service College and IHS, Erasmus University Rotterdam, in March 2009. In the conference 17 papers were presented covering topics of informality in the areas of urban economy, urban services, urban land and housing. From the 17 papers, 12 were selected for this book, organized in three parts. Part I: Economic informality, Part II: Land and housing and Part III: Urban Services.

The book commences with an introduction, which contains the history of the informal sector and the conceptualization by sketching a number of theoretical developments. The information clearly elucidates 'how to' and 'why to' incorporate informality as a rational strategy of local and national governments in a situation where they cannot create enough employment, nor provide the necessary services.

Part I of the book deals with the informal urban economy. It reflects on the performance of informal small-scale businesses in urban Ethiopia based on productivity levels and employment creation. 'Informal' businesses are defined as illegal, unlicensed businesses which do not keep books of account and 'small-scale' as businesses and cooperatives with fewer than ten employees. Although this sector employs the great majority of the labour force, it is only recently that policy interventions have been initiated towards developing the sector through programmes such as micro- and small-scale enterprise development. The role small and medium enterprises play in the process of economic development is now widely acknowledged. However, successful interventions require good information on the nature and characteristics of informality in the country. Part I of the book tries to fill this gap.

Part II is about informality in urban land and housing. It clearly explains Ethiopia's fast urbanization and its impact on urban centres in making informal settlements. The section compares the importance of land for economic and urban development in Ethiopia and China, where land is owned by the government. It elucidates land issues in both countries and the existence of informal land markets and transactions. Based on case studies of urban centres in Ethiopia, this section of the book explains the reality of a wide spectrum of informality where urban housing and land connect with regard to access to land. The section also goes beyond the spatial and physical aspects of informality and gives insights from the institutional economic paradigm, providing an alternative perspective to the analysis of informal settlements.

Part III reflects on informal access to services in urban Ethiopia. Basically the solid waste management and access to credit facilities have been addressed in this part. The idea is to make credit available through more freely accessible credit schemes or institutions in the hope that the poor will be able to use it to establish, grow and improve their ability to generate income. There is also the hope that it could promote employment opportunities.

The conclusions and recommendations of the book sum up the findings of all its three parts. Quite simply, informality, in terms of urban economy, urban land and housing, and urban services, is a highly complex entity covering broad aspects of economic and social activity. On one hand, understanding the informality in terms of its causes and consequences is not an easy undertaking. On the other, provision of effective policy solutions is intricate. There is an increasing recognition of the untapped potential of the

informal economy and there is an increased focus by policymakers on tackling its root causes, promoting policies that provide the necessary conditions to encourage people to shift to the formal economy and to establish an environment which would enable the growth of enterprises. In parallel, efforts to achieve this shift should not result in the damaging or affect the continuation of existing informality.

This book embodies the work of many, to whom I would like to express thanks. I thank, of course, each contributor for their input and willingness to be engaged in collective works. I thank Meine Pieter van Dijk, Jan Fransen and Samson Kassahun for editing the book. I thank also the organizers of the conference for their commendable job and the participants for their contributions to the ongoing dialogue of incorporating informality.

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