

# Neighbourhood and district economic development:

## Research summary

AFRICAN CITIES  
RESEARCH CONSORTIUM

June 2026

### Context

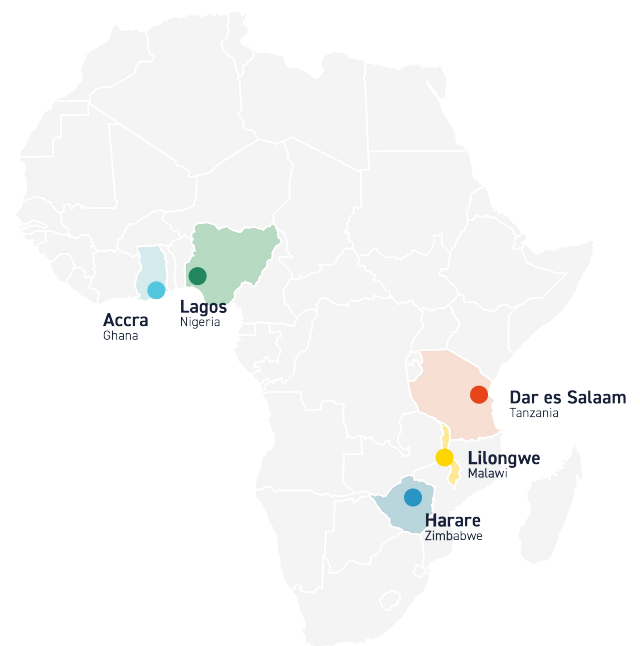
The neighbourhood and district economic development (NDED) domain focuses on what we call household microenterprises (HMEs) in five cities within ACRC: Accra, Ghana; Lagos, Nigeria; Dar es Salaam, Tanzania; Lilongwe, Malawi; and Harare, Zimbabwe. This summary provides an overview of the argument presented in the full paper.

We use the label HME to distinguish these firms employing up to three people, from larger informal sector enterprises (and formal firms). The “household” qualifier is appropriate because an HME’s labour force is often the owner-operator alone, though some also have other family members, and because the home itself is often a site for some or all productive activities.

HMEs are an intermediate category between the household (of the owner-operator) and the firm, with no economic or legal distinction between the two, but we argue that HMEs can be analysed using the same categories as for larger firms.

In each city, we looked at HMEs in two “neighbourhoods”, informal urban residential spaces for low-income people, in which many also secure their livelihoods (production and consumption); and one “district”, spaces of commercial activity for large and small firms, but few residents. Industrial sector (manufacturing or service sub-sectors) and spatial location (the home, the marketplace, workshop yards, and so on) impact firms’ fortunes, while gender is also crucial.

Figure 1: Cities covered by the NDED domain research



## Progress in the NDED domain

The research looks at “progress” in the NDED domain, starting by distinguishing two meanings of the term “regularisation”, as used in Hart’s (1973) introduction of the informal sector concept.<sup>1</sup> One meaning was “order” – stabilised activities with predictable outcomes – and the other “modernisation” – greater productivity and efficiency, leading to higher incomes.

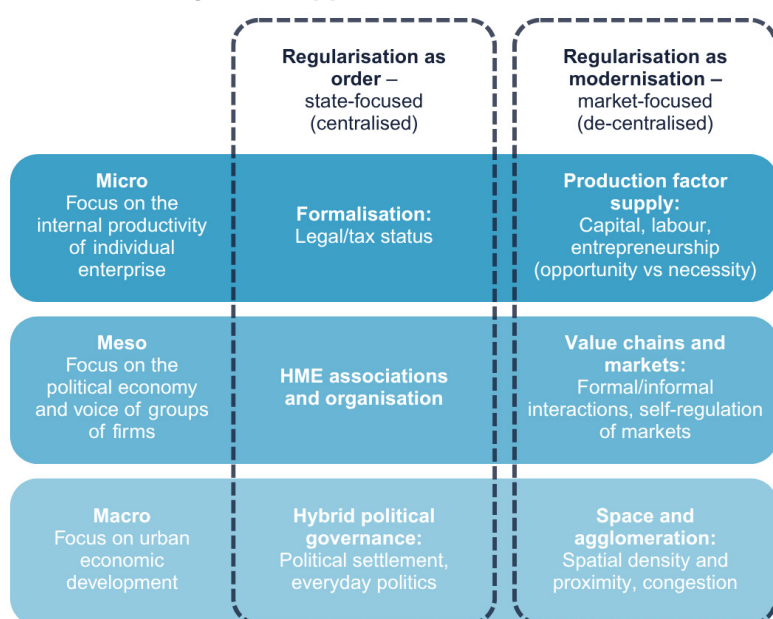
We argue that progress is not reflected in better income levels, or poverty or inequality ratios at a city-wide, or macro, level. It instead involves both routinisation (stability and predictability) of activities and also security (regularity and permanence) of income for both individual HMEs (the micro level) and for clusters or groups (the meso level). This concerns not only revenues, but also costs, direct and indirect, for infrastructure and finance, as well as owner’s time (crucial in small firms), governance arrangements and bargaining power.

## A framework for understanding HMEs as firms

The paper then develops a framework distinguishing six dimensions of HMEs as firms (see Figure 2). The three rows focus on internal productivity of individual firms, “voice” of groups of firms in a cluster or physical space, and city-wide economic development.

The two columns focus on centralised state policy, aiming at regularisation as order, and on decentralised market actions, aiming at regularisation as modernisation.

Figure 2: Approaches to HMEs as firms



1 Hart, K (1973). “Informal income opportunities and urban employment in Ghana”. *Journal of Modern African Studies* 11(1): 61-89.

Much informal sector literature focuses on one or another of the micro or macro cells, often presenting the chosen cell as a “silver bullet” for informal sector firms or for government. The meso cells are largely ignored, as are interactions across cells.

The research looks in detail at each dimension, explaining the concepts illustrated by examples from NDED research and wider literature on these and other cities. We emphasise the importance of industrial sector and spatial locations and examine underlying assumptions to critique alternative policy recommendations.

- > We start by looking at **formalisation** – that is, legal and/or tax state registration. We critique the standard view that informality is chosen by HMEs, and argue that state-imposed formalisation and official construction and management of market spaces are impractical – HMEs ignore formalisation, taxes are not collected, and HME locations are shaped by customer patterns, not state diktats.
- > The **factor supply** cell examines HMEs’ lack of financial inclusion – notwithstanding micro finance institutions, informal savings clubs, and mobile money – forcing them to rely on informal moneylenders for credit. Ecosystems – interdependent institutions, policies and organisations sharing a common purpose – are needed for both entrepreneurial training and financial literacy, but different ecosystems are needed for different types of HME. A crucial distinction, explored in the paper, is between necessity versus opportunity entrepreneurs.
- > **Hybrid governance** means that formal and informal rules and regulations co-exist, though both are based on the threat of violence. Informal groups – gangs, political party members or traditional authorities – impose charges on HMEs, as often do formal state-linked agents, acting privately, over and above formal fees. Some informal regulation systems may have legitimacy for HMEs and residents, such as market queens in Accra, a positive example of “everyday politics” involving implicit codification which offers a critique of formalisation, or legal/tax registration, as the only beneficial path. Everyday politics – the institutional context of daily decisionmaking in neighbourhoods – is locally diverse within cities, and shaped by sector and spatial location, but at least as important to HMEs and informal settlement residents as the “political settlement” shaping formal city politics. There, NDED actors are often relatively powerless “vote banks”.



- > Literature on **agglomeration** in African cities focuses on congestion and its costs – directly on productivity, and indirectly on health, crime and land values. Recent analysis has shown that agglomeration benefits also exist, though lower in Africa, as urban disconnection and fragmentation leads to lower proximity and density, fewer large firms and higher product costs. There are clearly agglomeration benefits for HMEs too, demonstrated by sub-sectoral collocation in both services and manufacturing. The reasons are standard: sharing (collective input acquisition), matching (lower transaction costs for customers and for manufacturers buying inputs), and learning from knowledge circulation (usually within sectoral clusters). As for larger firms, the benefits for HMEs are very localised, but they underline that cooperation benefits offset competition costs.
- > Also not well discussed in the informal sector literature is the **extensive interaction between HMEs and formal firms**, both vertically up or down the same value chain (VC), and horizontally across a single product market. Many HMEs will be pushed towards codified business practices through VC inclusion, while their role in formal sector VCs may affect the latter's profitability. HMEs have limited power over input and output pricing in exchanges with formal firms, which affects "burden-sharing" in response to macro shocks like price rises for oil or agricultural crops, or exchange rate collapses. HMEs' negotiation power is linked to their potential switching costs and so partly depends on the number of formal firms in the sector, but if HMEs are organised within a VC, they can jointly press for greater benefit. In horizontal interactions, HME advantages come from increased customer affordability through smaller packaging or more customer-friendly spatial location or opening hours.

- > Many national, regional or city-based **HME associations** have large numbers of members and may be linked with political parties or trade unions, admitting them to policy debates. But they are not well-consolidated or strongly representative of HMEs, and their policies and membership services, as well as those of the state using these organisations, are "lowest common denominator" rather than specific to different members' needs. The paper argues that "indirect formalisation" – registering highly localised networks based on HMEs' market- or regulatory-related activities rather than individual HMEs – may be more useful to address infrastructure, market spaces, financial inclusion, public tenders and, especially, everyday politics.

## A bottom-up approach

In concluding, the paper underlines there is no general "one-size-fits-all" policy approach appropriate across a whole city, arguing instead for a "bottom up" approach, in which policy focuses on a selected small group of HMEs – using industrial sector and spatial location as selection criteria, as both variables are crucial in shaping successful outcomes for HMEs.

## About this summary

This is a summary of a Working Paper, written by the African Cities Research Consortium (ACRC) neighbourhood and district economic development domain lead, Stephen Gelb.

### Read the full paper

#### Photo information (by order of appearance):

1. Woman selling street food in Lagos, Nigeria - peeterv / iStock;
2. A furniture maker in Harare, Zimbabwe - KnowYourCity TV.



ACRC is funded by UK International Development. The views expressed here do not necessarily reflect the UK Government's official policies.

## Find out more

👉 [www.African-Cities.org](http://www.African-Cities.org)

🐦 [@AfricanCities\\_](https://twitter.com/AfricanCities_)

✉ [bit.ly/ACRCnews](mailto:bit.ly/ACRCnews)

📧 [AfricanCities@manchester.ac.uk](mailto:AfricanCities@manchester.ac.uk)