



HABITAT III ISSUE PAPERS

14 – INFORMAL SECTOR

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ISSUE PAPER ON THE INFORMAL SECTOR

KEY WORDS

informal sector, informal enterprises, informal employment, informal economy, entrepreneurship, formalization, inclusive growth, gender equality

MAIN CONCEPTS

- **Informal sector**¹: Made up of informal production units or informal sector enterprises, as defined below. The informal sector includes informal agricultural production units but does not include households as employers of domestic workers.^{2 3}
- **Informal enterprises**: Private unincorporated enterprises whose size in terms of employment is below a certain threshold to be determined according to national conditions, and/or which are not registered under specific forms of national legislation, such as factories or commercial acts, tax or social security laws, professional groups regulatory acts, or similar acts, laws or regulations established by national legislative bodies and/or whose employees are not registered.⁴
- **Informal employment**: Employment that leaves individuals in employment relationships without labour and social protection through their work, or without entitlement to employment benefits, whether or not the economic units they operate or work for are formal enterprises, informal enterprises or households.⁵
- **Informal economy**: All units, activities, and workers in informal employment and the output from them.⁶
- **Gender equality**: Treating men and women equally, without any discrimination based on gender.

¹ The informal sector plays an important role in the economy of many countries and cities in terms of economic output and jobs. Yet, those engaged in informal employment face serious barriers to prosper and to enter the mainstream of the economy. This paper provides some important information on the informal economy. The data and analysis are limited to selected key issues with particular attention to urban areas, with some specific recommendations for local action. The paper clarifies certain concepts such as the informal sector, informal enterprises, informal employment and informal economy as well as informal employment in formal and informal enterprises that often tend to confuse the reader. However, it is beyond the scope of the paper to address in detail all the elements related to the informal economy.

² ICLS 17th session, 2003

³ International Labour Organization. 1993. "Resolution concerning statistics of employment in the informal sector" in *Fifteenth International Conference of Labour Statisticians (Geneva 19-28 January 1993) Report of the Conference*. Geneva: ILO.

⁴ ICLS 15th session, 1993. The Operational definition adopted in ICLS 1993 includes a size criterion for measurement purposes. It is included here for consistency with the ICLS resolution but it is not used in the description of formalization processes because it is not clear that growing over a certain threshold changes the nature of employment relationships in an enterprise nor that it has particular bearing on the insertion of the productive unit in the mainstream economy.

⁵ International Labour Organization. 2003. "Guidelines concerning a statistical definition of informal employment" in *Seventeenth International Conference of Labour Statisticians (Geneva 24 November – 3 December 2003), Report of the Conference (Geneva, doc. ICLS 17/2003/R.)*

⁶ Ibid.



FIGURES AND KEY FACTS

There are many drivers of informality. Some drivers are transversal (or common) to all situations: inefficient public institutions, inappropriate macroeconomic frameworks, or increased incentives to remain in the informal economy. Many other drivers are specific to particular types of employers; economic units, for example micro and small enterprises; or groups of workers such as domestic workers, street vendors or informal settlers.

- The informal economy makes up a significant proportion of non-agricultural Gross Value Added (GVA). For example, 8-20% in transitional economies, 16-34% in Latin America, 17-34% in Middle East and North African region, 46% in India, and 46-62% in West Africa.⁷
- In many developing countries, informal employment comprises more than half of non-agricultural employment.
- In low-income countries, informal employment makes up 70-95% of total employment (including agriculture) and is found mainly in the informal sector. It is characterized by a high prevalence of own-account workers, for example, 81% in Sub-Saharan Africa.⁸
- In middle-income countries, informal employment makes up 30-60% of total employment. For example, its share outside the informal sector is 10-35% in urban Latin America and Asia. Own-account workers represent 50-70% of the total informal employment.⁹
- Urbanization in developing countries is accompanied by growth in urban informal economies.¹⁰ Rural-urban migration is a particular issue in secondary towns, which will be the largest centres of urban population growth over the next 20 years.¹¹ Among the push and pull factors that drive rural-urban migration are the prospects for better paying jobs. However, limited availability of such jobs means the informal economy is the main option for work.¹² For example, in Hanoi, Vietnam over 50% of the urban labour force is informal. In West African cities, the share is even higher – 76% in Niamey, Niger and 83% in Lomé, Togo.¹³
- Women often form a greater share of the non-agricultural informal economy workforce than men (see Figure 2). For example, in South Asia the ratio is 83% of women to 82% of men; in Sub-Saharan

⁷ ILO, 2013. *Women and men in the informal economy: a statistical picture (second edition)*. International Labour Office, Geneva.

⁸ Ibid.

⁹ Ibid.

¹⁰ Elgin, C and Oyvat, C. (2013). Lurking in the cities: Urbanization and the informal economy. *Structural Change and Economic Dynamics*, 27, 36-37.

¹¹ DESA (2014) World Urbanization Prospects [Highlights]; United Nations Department of Economic and Social Affairs,

¹² Elgin and Oyvat (2013) *ibid*

¹³ J. Herrera and others, *Informal Sector and Informal Employment: Overview of Data for 11 Cities in 10 Developing Countries*, working paper No. 9 (Cambridge, Massachusetts, Women in Informal Employment: Globalizing and Organizing (WIEGO), 2012).

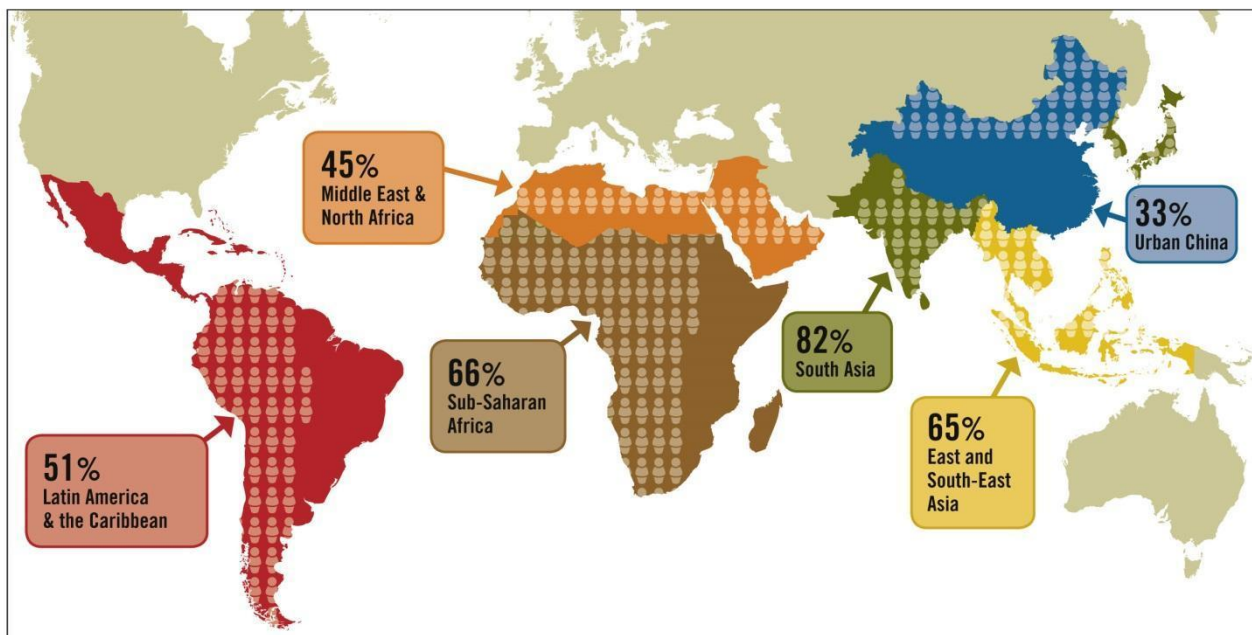


Africa, 74% of women to 61% of men; in Latin America and the Caribbean, it is 54% of women to 48% of men; and in urban China it is 36 to 30%. In Abidjan, Cote d'Ivoire, nine out of every ten women in the labour force have an informal job, compared to seven out of ten for men.¹⁴

- Young people are over represented in the informal economy. Based on averages across ten countries, as many as eight out of ten young workers are employed informally.¹⁵ In many urban areas, the majority of new jobs available to young people are in the informal economy.

Figure 1

Informal Employment: Percent of Non-Agricultural Employment*



*Vaneek, Joanne, Martha Chen, Françoise Carré, James Heintz and Ralf Hussmanns. *Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges*. WIEGO Working Paper (Statistics) No. 2. Cambridge, MA, USA: WIEGO. April 2014.

¹⁴ J. Herrera and et.al, Informal Sector and Informal Employment: Overview of Data for 11 Cities in 10 Developing Countries, working paper No. 9 (Cambridge, Massachusetts, Women in Informal Employment: Globalizing and Organizing (WIEGO), 2012).

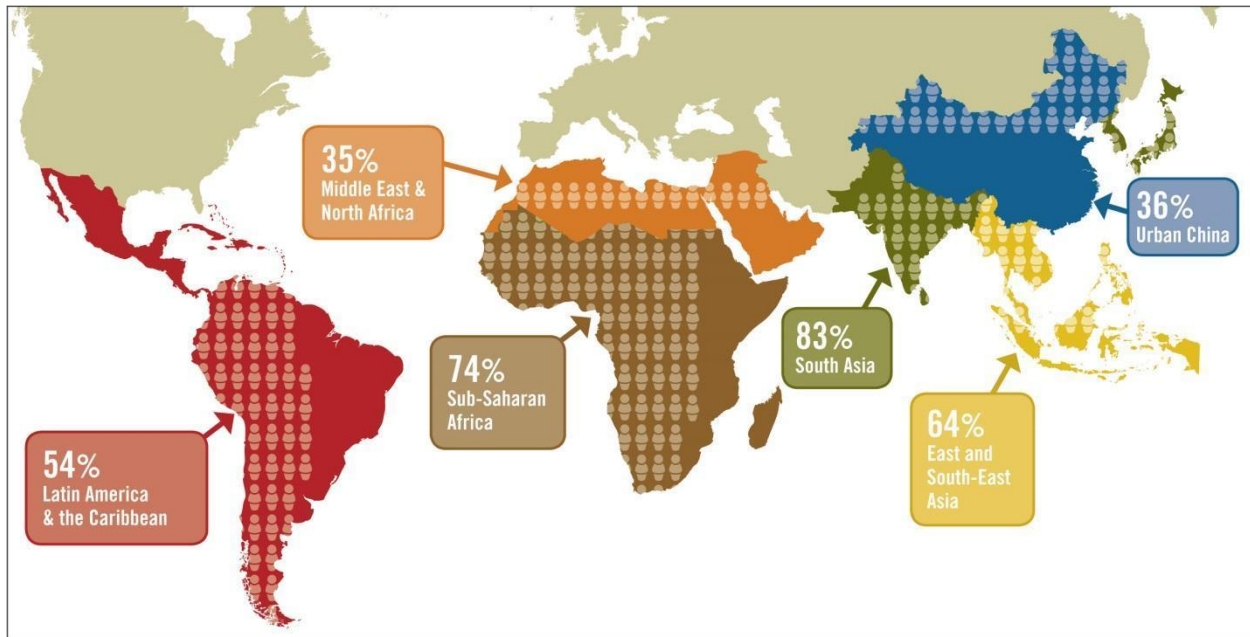
¹⁵ ILO, 2013. *Global employment trends for youth 2013. A generation at risk*. International Labour Organization, Geneva.



Figure

2

Non-Agricultural Informal Employment: Women's Share*



*Vanek, Joanne, Martha Chen, Françoise Carré, James Heintz and Ralf Hussmanns. *Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges*. WIEGO Working Paper (Statistics) No. 2. Cambridge, MA, USA: WIEGO. April 2014.

ISSUE SUMMARY

In this paper, three key issues on the urban informal economy are highlighted.

Workers in the informal economy face insecure and hazardous working conditions, often in breach of fundamental labour rights, with serious implications for their health and wellbeing. Challenges include:

- Long working hours, low pay, and difficult working conditions
- Low job security, higher turnover rates, and low job satisfaction
- Inadequate social security coverage
- Difficulty exercising fundamental rights (e.g. combating child¹⁶ and forced labour, combating discrimination)
- More women than men work in vulnerable, low-paid, or undervalued jobs
- Lack of representation at work

Informal sector enterprises, workers and residents face obsolete and costly municipal regulations and bylaws that make it difficult to formalize. Enterprises often suffer from insecure tenure due to high land prices and

¹⁶ ILO (2013). *Marking progress against child labour: Global estimates and trends 2000-2012*. International Labour Organization, Geneva.



complex procedures that discourage investment in productive expansion. Slum dwellers cannot provide legal addresses needed to obtain a license while street vendors suffer from frequent evictions from their place of work. In situations of removal or relocation, their livelihood strategies are often destroyed.

Although they provide much needed labour to the urban economy and households, a huge proportion of the urban workforce lacks housing provisions and basic services. Moreover, undocumented migrant workers who face restrictive residency and civil registration systems find themselves with no access to social services and benefits.

Urban authorities face many challenges in managing urban informal economies. Congestion and overcrowding can cause harmful environmental consequences, for example, through competition for urban space, sewage dumping, and improper disposal of waste.^{17 18} Urban planning systems exclude peripheries and low-income settlements from infrastructure and transportation networks. They also deny huge sections of the urban population, particularly low-income people, from accessing key services and productive opportunities.

KEY DRIVERS FOR ACTION

Key elements to address the challenges of informality are strengthening the representation and voice of informal economy workers and formalization to reduce vulnerabilities and open access to key services, appropriate regulation, labour and environmental monitoring, licensing and taxation. Considering the negative long-run implications of the informal economy for workers, their families, the environment and governance, avenues for its gradual integration into the formal economy need to be explored. Formalization should be pursued in ways that ensure opportunities for livelihoods are not destroyed but rather recognized and expanded. The goal of formalization is to bring jobs, workers and enterprises under the coverage of formal arrangements. Formalization processes can take multiple forms including: incorporation and registration of enterprises; extension of the scope of labour and social security regulation; registration of undeclared workers; provision of property rights; right to land use; extension of basic services; and the minimum provisions under the social protection floor. Formalization happens also when economy-wide transformations lead to shifts into or the creation of more formal jobs. Within the urban context, specific areas of action to promote formalization include:

- Developing a good understanding of the informal economy in a given locality through collection and analysis of data. A good understanding of the causes of vulnerabilities of informal workers, women workers and enterprises is crucial. There is now a growing body of knowledge that unpacks the scale and scope of the informal economy drawing from statistical data (e.g. Labour Force Surveys) and other special surveys on informal economic activities.¹⁹

¹⁷ Chaudhuri, S and Mukhopadhyay, U (2010). *Revisiting the Informal Sector: A General Equilibrium Approach*. Springer Science + Business Media, LLC: New York. DOI 10.1007/978-1-4419-1194-0.

¹⁸ Biller, D and Quintero, J.D. (1995). Policy options to address informal sector contamination in urban Latin America: The case of leather tanneries in Bogota, Colombia.

¹⁹ See for example Vanek, Joann, Martha Chen, and Govindan Raveendran. 2012. [A Guide to Obtaining Data on Types of Informal Workers in Official Statistics](#), Statistical Brief No. 8, Women in Informal Employment: Globalizing and Organizing:



- Adopting tailored responses. Extending coverage to a heterogeneous set of workers and economic units requires the implementation of several coordinated instruments adapted to the specific characteristics of the different groups, the contingencies to be covered and the national context.^{20,21} The diversity includes: types of income earned (level, regularity, seasonality); status in employment disaggregated by sex and age (workers, employers, own-account workers); sectors; type and size of enterprise; location; social and employment protection. Informality issues must be viewed further from the angle of other basic securities, such as those provided by property rights, land use status, and residency status.
- Prioritizing key spatial solutions. Urban planning needs to be inclusive of informal workers and enterprises with the following essentials: (1) access to basic services; (2) transport and mobility clearly articulated in land-use plans, where informal enterprises benefit from the agglomeration effects of dynamic centres, by making networks of roads and infrastructure accessible to low-income settlements; (3) allocation of urban spaces for expanding productive opportunities to the poor, such as street spaces for vending and transport networks for small transport operators, particularly in urban regeneration projects.
- Planning for social inclusion. Programmes for specific groups can include economic empowerment of women and youth. Local governments could provide an enabling environment for employers and workers in the informal economy to exercise their right to join organizations, federations and confederations of their own choosing, to exercise their right to organize and to collectively bargain and to participate in social dialogue in the transition from the informal to the formal economy.
- Building partnerships. Actions and policies intended to address the informal economy should be based on partnerships among urban authorities, informal economy workers, enterprises and their representatives, building on management processes that already exist. At the same time, and considering that a number of decisions that affect the urban informal sector are taken at supra-municipal levels, local authorities should reach out to provincial and national actors to seek complementarity.
- Drawing on good practices. For example, in several cities in India, home-based workers have received basic infrastructure services to improve their homes-cum-workplaces; street vendors have been allocated vending sites by the local municipality; and waste pickers have received contracts from the local municipality to collect, sort, and recycle waste. In February 2014, the Indian Parliament enacted a law to regulate and protect street vendors. In Durban, South Africa, over 6,000 street vendors in a central market area received infrastructure and technical support. Waste pickers in Bogota, Colombia are being paid by the municipality to collect, sort and recycle waste. The

Cambridge; Roever, Sally. 2011 *How to Plan a Street Trader Census*. Technical Brief (Urban Policies) No. 2, Women in Informal Employment: Globalizing and Organizing: Cambridge and Charman, A. Petersen, L., Piper, L, Liedeman, R and Legg, T. 2015, *Small area census approach to measure the township informal economy in South Africa*, Journal of Mixed Methods Research. P 1–23.

²⁰ ILO: Decent work and the transition to formalization: Recent trends, policy debates and good practices (Geneva, 2008).

²¹ ILO: Extending social security to all: A guide through challenges and options (Geneva, 2010).



Government of Thailand has adopted an act in support of home-based workers.²² Evidence shows that quality jobs drive development: countries that have focused on improving job quality have experienced higher rates of economic growth.²³

PLATFORMS AND PROJECTS

[Resource guide on the informal economy](#)

[Statistical update on employment in the informal economy ILO - Department of Statistics](#)

[Facilitating transitions from the informal to the formal economy](#)

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²² www.wiego.org.

²³ ILO, 2014. *World of Work Report: Development with Jobs*. International Labour Organization, Geneva.