



**BACKGROUNDER – September 2012**

## **Size and Significance of the Informal Economy**

### **Size of the Informal Economy**

In many cities in developing countries, informal employment accounts for the majority of employment.

Data analysis suggests that informal work, rather than being the exception, is *the* dominant mode of work in most towns/cities in developing regions. It comprises one half to three quarters of non-agricultural employment. Specifically, it accounts for:

- 48% in North Africa
- 51% in Latin America
- 65% in Asia
- 72% in sub-Saharan Africa (78% if South Africa is excluded)

(Source: International Labour Organization, [Women and Men in the Informal Economy 2002](#). WIEGO is currently working with the ILO on an update of this publication.)

- At the city level, informal employment is a high proportion of employment:
  - 80% on average in Abidjan, Bamako, Cotonou, Dakar, Lome, Niamey and Ouagadougou (Herrera et al. 2011<sup>1</sup>)
  - 59% Lima, Peru (Herrera et al. 2011)
  - 53% in Ho Chi Minh City, Vietnam (Herrera et al. 2011)
  - 45% in Buenos Aires, Argentina (Esquivel 2010<sup>2</sup>)
- In the developing world, informal employment is generally a larger source of employment for women than formal employment.
- There is a trend toward informalization in developed countries. Since the 1980s, many once-formal jobs have been informalized or casualized in both Western Europe and North America.

### **Significance to Economic Growth**

- The informal economy makes a real contribution to economic growth. Although individual incomes of informal workers are often low, cumulatively informal activities contribute significantly to gross domestic product.
- The contribution of informal enterprises to national GDPs in 16 Sub-Saharan countries varied from 58% in Ghana to 24% in Zambia. On average, the informal sector contributed 41% to GDP. (Source: International Labour Organization, [Women and Men in the Informal Economy 2002](#).)

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<sup>1</sup> Herrera, J., M. Kuepie, C. Nordman, X. Oudin and F. Roubaud. January 2012. *Informal Sector and Informal Employment: Overview of Data for 11 Cities in 10 Developing Countries*. WIEGO Working Paper No. 9, Available at [www.wiego.org](http://www.wiego.org).

<sup>2</sup> Esquivel, Valeria. December 2010. *The Informal Economy in Greater Buenos Aires: A Statistical Profile*. WIEGO Working Paper No. 8,. Available at [www.wiego.org](http://www.wiego.org).

- At the household level, informal activities are often what sustains families living in poorer parts of cities and towns.
- The informal economy provides low-cost labour, inputs, goods, and services to both formal and informal enterprises, as well as low-cost goods and services to the public, especially the poorer sections.
- Accurately measuring the contribution of the informal economy will require rethinking definitions and measures of productivity to include both direct and indirect contributions.

### **Environmental Importance**

- Urban informal workers are playing an important role in climate change mitigation and usually leave a smaller carbon footprint than their formal counterparts. Learn more about [Urban Informal Workers and the Green Economy](http://wiego.org/informal-economy/urban-informal-workers-green-economy) at <http://wiego.org/informal-economy/urban-informal-workers-green-economy>.