



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. 2011¹)
 - 59% Lima, Peru (Herrera et al. 2011)
 - 53% in Ho Chi Minh City, Vietnam (Herrera et al. 2011)
 - 45% in Buenos Aires, Argentina (Esquivel 2010²)
- 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](#).)

¹ 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.

² Esquivel, Valeria. December 2010. *The Informal Economy in Greater Buenos Aires: A Statistical Profile*. WIEGO Working Paper No. 8,. Available at 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>.