



Myths & Facts

about the Informal Economy and
Workers in the Informal Economy
May 2015



About this Booklet:

Informal employment represents half or more of total employment in developing countries, and a growing share of total employment in developed countries. However, misconceptions about the informal economy and informal workers limit their opportunities and often endanger their livelihoods.

This document challenges common misperceptions by drawing on research, official statistics, and experience working with informal workers and their organizations.

About WIEGO:

Women in Informal Employment: Globalizing and Organizing is a global network focused on securing livelihoods for the working poor, especially women, in the informal economy. We believe all workers should have equal economic opportunities and rights. WIEGO creates change by building capacity among informal worker organizations, expanding the knowledge base about the informal economy and influencing local, national and international policies. Visit www.wiego.org.

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Seven Common Myths about the Informal Economy and Informal Workers

Recent analyses of official data and research findings by the WIEGO network challenge a set of prevailing myths about the informal economy. What follows is a summary of the evidence challenging seven of these myths:

Myth: The informal economy will shrink or disappear with economic growth.

Fact: Informal employment is likely to remain the main source of employment for most workers in developing countries for the foreseeable future.

The informal economy persists or is growing in most countries of the world. The evidence shows that some parts of the informal economy expand with economic decline, while others expand with economic growth. For instance, home-based production for export manufacturing tends to expand with economic growth. Only long-term sustained high rates of economic growth are associated with the shrinking of the informal economy or a slowing down of its growth rate.

The net result of these trends is that, today, informal employment represents half or more of total employment in developing countries and a growing share of total employment in developed countries.

Myth: The informal economy is comprised of plucky entrepreneurs who seek to avoid taxation and regulation.

Fact: The majority of informal workers are own-account workers with no employees, wage workers, sub-contracted workers or contributing family workers. There are relatively few employers.

Most of the informal self-employed are own account workers who do not hire others or who are unpaid contributing family workers, not entrepreneurs who hire others. Some informal workers choose to work informally but others do so out of necessity or due to tradition (i.e., hereditary occupations). Also, the regulatory environment may be inappropriate, irrelevant or hostile towards informal workers and their activities, thus making it difficult or prohibitive for them to comply with regulations.

Myth: Informal firms represent unfair competition to formal firms, as they do not pay taxes, rent, or utility fees.

Fact: Many informal workers pay various fees, taxes and bribes in order to operate.

Many of the informal self-employed pay a variety of taxes and fees to government. This includes value added taxes on supplies and inputs; operating fees paid to local governments; and fees associated with licenses or permits. Many also have to pay bribes and fines to local authorities in order to operate. Some pay rent to use public space. With their earnings, informal workers also pay utility fees, transport costs, school fees and hospital costs that contribute directly or indirectly to government revenue.

Myth: The informal economy is not linked to the formal economy.

Fact: There are many links between the informal and formal economies.

Many informal workers source their goods/raw materials from formal sector suppliers; some even sell their goods to formal sector enterprises or intermediaries who supply formal firms. For example, many fruit and vegetable vendors buy their goods from formal wholesale markets while other street vendors sell goods on commission for formal firms. Many home-based workers produce goods under sub-contracts for formal firms up the value chain. Also, formal firms are increasingly hiring employees under various kinds of non-formal contractual arrangements.

Myth: The informal economy is comprised of traditional activities that are not part of the modern economy.

Fact: Many informal workers are integral parts of modern chains of production and distribution.

Sub-contracted home-based workers produce brand-name goods for clothing, shoe and sporting goods corporations as well as parts for automobile and airline manufacturers; some also assemble and package goods for electronic and pharmaceutical companies. Some street vendors sell modern goods that they purchase from formal suppliers; others sell goods (e.g. mobile phones, soft drinks) on commission for formal firms. Waste pickers reclaim recyclable materials – plastic, glass, cardboard, metal and more – that are used as raw materials and packing materials by formal manufacturers.

Myth: The informal economy does not contribute to the economy.

Fact: Informal workers produce and distribute goods and services in many branches of the economy.

Recent official statistics indicate that informal economic units contribute a significant share of non-agricultural Gross Value Added (GVA) in those countries where the data are available: around 50 per cent in three West African countries (Benin, Niger and Togo), 46 per cent in India and over 30 per cent in Colombia and Guatemala. In Mexico, total informal employment – both inside and outside informal economic units – accounts for around 25 per cent of the total GVA.

Myth: The informal economy is outside the reach of the state and its laws.

Fact: Informal workers are regularly subjected to punitive laws and regulations.

In the absence of protective laws, informal workers are often subject to punitive laws and regulations. For example, before the introduction of a new law in India, street vendors without licenses were treated as criminals under the criminal code of the country and under several municipal acts in the country, and in Colombia, until the constitutional court ruled in their favour, waste pickers were prohibited from bidding for municipal contracts to collect and transport waste and, under a recent environment law, from collecting waste from the streets or public bins.

Some countries have laws that explicitly or implicitly are designed to protect informal workers. For example, India has a new law to protect the livelihoods of street vendors, and several countries have laws to protect domestic workers.

Additional Reading

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Domestic workers' rally in Geneva, Switzerland. Photo: S. Trevino

Myths and Facts about Domestic Workers

Myth: Domestic workers are not workers but are household helpers. The State should not regulate personal relationships.

Fact: The Domestic Workers Convention (C189) establishes that domestic workers are workers.

For the first time, an international treaty, ILO Convention 189, stipulates that domestic workers are workers. Traditionally, domestic work has been done by women and, in most instances, it was, and still is, unpaid work. As a result, this work is still under-valued and not seen as “proper” work. For many women in the Global South domestic work is the main source of income for themselves and for their families.

Myth: Domestic workers are covered by Convention 189 and therefore are no longer informal workers.

Fact: Despite the international recognition and rights conferred by Convention 189, a majority of domestic workers still work informally.

Only 17 countries have ratified Convention 189 (April 2015), committing them to implementing its provisions through national legislation. In many countries, domestic workers are still not considered as workers and hence excluded from labour legislation protection. Even where domestic workers are covered by labour legislation this is often partial, not implemented by employers nor enforced by governments. The many undocumented migrant domestic workers are even more likely to be employed informally, as immigration laws “trump” any protection they may be afforded under labour legislation.

Myth: A minimum wage for domestic workers will mean domestic workers will lose their jobs as many employers will not be able to afford it.

Fact: Domestic work is growing, even in countries where a minimum wage is legislated.

In countries where the legal minimum wage has been applied to domestic work (such as in Brazil, Chile, Hong Kong, South Africa and Tanzania) there has not been a significant loss of employment in this sector.

Myth: Informal arrangements are more beneficial for domestic workers and employers than formal ones.

Fact: Formal arrangements provide rights, benefits and obligations for both domestic workers and employers.

The majority of domestic workers and their employers who become aware of their rights and obligations prefer to have a formal employment relationship. A formal employment relationship can provide domestic workers with protection against exploitative conditions and, in some countries, with health insurance, access to pensions and other benefits. In some developed countries (for example, Belgium, France and Germany) employers can claim tax reductions for the labour costs of domestic workers.

Myth: It is not possible to monitor or enforce laws or regulations for domestic workers as they work in private homes.

Fact: It is possible to improve levels of compliance through a variety of methods, including labour inspection.

Some countries, such as Australia, Brazil, South Africa and Uruguay have systems of labour inspection in homes. But household inspection is only one component of enforcement. There are other steps which governments can and do take (such as awareness raising programmes, setting up hot-lines, meeting with employers and domestic workers to check contracts or registration with authorities) rather than entering homes. Trade unions can play a crucial role. In some countries, domestic workers' trade unions have collaborated with governments to campaign for compliance with, for example, social security legislation.

Myth: Regulating working time for live-in domestic workers is impossible due to the nature of the work. To be on-call all the time is part of the job.

Fact: In many countries working time for live-in domestic workers is already regulated.

Convention C189 stipulates how to measure working time, which includes normal hours of work, overtime compensation, periods of daily and weekly rest, paid annual leave and on-call time. There are other occupational groups that also do on-call time such as nurses, firemen, security guards and policemen. Their working time is commonly regulated by law or through collective agreements. The same can be done for domestic workers.

Myth: Domestic workers are difficult to organize and are unable to engage in collective bargaining.

Fact: The number of organized domestic workers is growing and there are examples of collective bargaining agreements between domestic workers and employers.

While the percentage of domestic workers organized into membership-based organizations – such as unions, associations and networks – is still small, the numbers are growing. The International Domestic Workers Federation (IDWF) now has 56 affiliates in 45 countries, representing 325,218 domestic worker members (April 2015).

Creative ways are being found to enable collective bargaining between domestic workers' unions and employers. In Uruguay, a Tri-partite Wage Council was established, with the Housewives League representing employers. The first collective agreement on wages and conditions was negotiated in 2008. "This was when the revolution happened in Uruguay." In many states in India, state level governments have included representatives of domestic workers' unions in the tripartite bodies on social protection for workers.

Additional Reading

WIEGO website, [Domestic Workers](#) page.



Myths and Facts about Home-based Workers

Myth: Home-based work is confined to the Global South and to less developed countries and regions.

Fact: Home-based work is a global phenomenon.

Home-based work is a global phenomenon found in countries rich and poor across many industries. It is not confined to the global south. New forms of homework are emerging daily as more and more firms are outsourcing production to home-based workers in order to cut costs and maximize profits. Home-based workers work in the new economy (assembling micro-electronics) as well as the old (weaving carpets), producing for domestic and global value chains. In some countries in Asia, home-based workers represent a significant share of total employment.

Myth: Virtually all home-based workers are women.

Fact: The majority of home-based workers are women, but significant numbers of men are also home-based workers.

The majority of home-based workers in most countries are women: 70 per cent in Brazil, 75 per cent in Pakistan and 88 per cent in Ghana. But significant numbers of home-based workers are also men, particularly in trade and in repair services. Home-based workers – and women home-based workers in particular – are usually not given the rights accorded to other recognised “workers”. Women home-based workers, in particular, are widely assumed to be working for subsistence production or earning “supplementary incomes” (i.e., supplemental to their husband’s or other male earner’s income) even if they are the sole breadwinner in the family. Even as co-breadwinners their earnings are often crucial to the survival of the family.

Myth: Home-based workers are largely engaged in labour-intensive manufacturing.

Fact: Home-based workers are found in a variety of sectors.

Although many home-based workers are involved in manufacturing and assembly (e.g., sewing and packing) they are also found in a variety of other sectors, including the following:

- Artisan production: weaving, basket-making, embroidery and carpet-making.
- Personal services: laundry, beautician and barber, dressmaking, lodging and catering.
- Trade: small shops or bars run from home.
- Repair Services: shoe repairs; bicycle, motorcycle and auto repairs.
- Clerical work: typing, data processing, telemarketing, bookkeeping, accounting and call centre telephonists.
- Professional work: tax accounting, legal advising, design consulting, computer programming, writing, engineering, architectural and medical.

Myth: Home-based work is an outmoded form of production and is not linked to the modern formal economy.

Fact: Home-based work is linked to the modern formal economy.

Many informal home-based workers have links with formal firms – they purchase materials from, and sell to or produce for, formal firms. In fact, home-based workers constitute a significant share of the workforce in many global value chains led by high-end brand-name capitalist firms in the textile, apparel, shoe and sporting goods sectors. Export-led growth is associated with the expansion of home-based production in many countries as global competition has increased pressures on firms to cut costs through flexible work contracts or sub-contracting production.

Myth: Home-based workers, particularly women, prefer or choose to work from home.

Fact: The fact that so many women are home-based workers may be due to different factors: gender norms regarding women's role and mobility; the hiring practices of companies; and the lack of other employment opportunities.

Compared to women workers in factories, home-based women workers tend to be older and are more likely to have children. Home-based work allows them to juggle unpaid domestic work with paid work. This does not necessarily mean that women prefer to work at home. In some communities, the sexual division of labour combined with gender norms prescribing women's seclusion condition women to "prefer" working at home. Also, in many sectors and countries, there are more home-based work opportunities than factory-based work opportunities for women. This is because employers prefer to outsource work to home-based producers in order to avoid social security contributions, to pay lower wages and, thereby, to increase profits. Also, the lack of formal employment opportunities forces many workers to take up work from home.

Myth: Home-based work is part-time and done in the worker's "spare time".

Fact: Home-based workers work for long hours as full-time workers, making critical contributions to their households.

Home-based work is often considered "part time" work, something that is done in the worker's "spare time". But studies have found that home-based workers often work long hours, especially during the peak production season. The recent Informal Economy Monitoring Study (IEMS), coordinated by WIEGO, found that home-based workers make significant contributions to their households, society and to the economy. They contribute to the household budget, often helping to keep their households out of extreme poverty. By working from home, they are available to care for children and the elderly and maintain the quality of family life and are an important part of the social fabric of their communities. They produce goods at low prices for domestic and global value chains.

Myth: Urban planning and policies have no bearing on home-based workers.

Fact: Urban planning and policies have a direct bearing on home-based workers, their productivity and livelihood security.

Home-based work accounts for a significant share of urban employment in some cities/countries: 3 per cent in Buenos Aires, 6 per cent in South Africa and 18 per cent in India. Home-based workers often live and work in overcrowded slums or squatter settlements with limited or poor infrastructure facilities and urban services. Housing, transport, urban infrastructure and land allocation all have a bearing on home-based workers and their livelihood security. Slum clearance schemes destroy not only homes but also workplaces, undermining the livelihoods of home-based workers and their contribution to the local economy. Basic infrastructure deficiencies, such as electricity shortages, further hinder productivity, while utility costs eat into available income. The costs of transport reduce earnings. Poor quality housing leads to damaged goods and raw materials.

Myth: Home-based workers are not organized and are difficult to organize.

Fact: Many organizations and several networks of home-based workers exist.

While it is true that most home-based workers are not organized, there are organizations of home-based workers in many countries around the world. These organizations are linking up to form national and regional associations. One challenge to organizing, in addition to the isolation of home-based workers, is that self-employed home-based workers need different types of services and policy support than sub-contracted home-based workers. The *Self-Employed Women's Association (SEWA)* in India is the world's largest trade union of women informal workers. SEWA now has almost 2 million members, about one fifth of whom are home-based workers and has been instrumental in achieving higher piece-rates for sub-contracted home-based workers, new products and markets for self-employed home-based workers and better working conditions for both groups of home-based workers across many industries.

Myth: It is not possible to measure home-based work.

Fact: Home-based work can be measured in national labour statistics, provided that questions regarding "place of work" are included.

Data on home-based workers has begun to improve in recent years, but challenges to counting this "invisible" workforce remain. For example, some countries do not include questions on "place of work" in labour force surveys, which is key to determining who is a home-based worker. Also, enumerators are often not trained to identify and count home-based workers, listing them as unpaid family workers. Furthermore, home-based workers often do not perceive and report themselves as "workers". The WIEGO Statistics Programme has developed guidelines for estimating home-based workers and other groups of informal workers. To develop a full statistical picture of home-based workers, information must be gathered on status in employment, type of contracts, mode of payment and place of work.

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Chen, Martha Alter. 2014. *Informal Economy Monitoring Study Sector Report: Home-Based Workers*. Cambridge, MA, USA: WIEGO.

WIEGO website, [Home-based Workers page](#).



Market Vendors in Durban, South Africa. Photo: G. Botha

Myths And Facts about Street Vendors

Myth: Street vendors work in public spaces in order to avoid regulations.

Fact: Street vendors are among the most heavily regulated occupational sectors in many cities.

A study by the New York City Independent Budget Office found that in 2009 the city spent at least US\$7.4 million on the enforcement of street vending regulations. The rules are so complicated and cumbersome that it is difficult for the police to know when and where to enforce which restrictions.

Myth: Street vendors choose not to register their businesses.

Fact: Many cities do not have a registration system that is appropriate or accessible to the vast majority of street vendors.

Registration can be linked to licensing, and many cities issue far fewer licenses than there are street vendors. For example, in 2009, São Paulo, Brazil, had about 100,000 vendors, but only 2,200 held licenses; as many as 23,000 vendors had held licenses between 2001 and 2004, but the city government stopped issuing new licenses and gradually revoked those already issued. A license for a vegetable vendor in Ahmedabad, India, specifies 21 restrictions on when, where and how she can sell vegetables. In addition to the rules for registration and licensing being complicated, in some cities they are only published in a language that most street vendors do not speak.

Myth: Street vendors don't pay taxes.

Fact: Street vendors commonly pay a variety of taxes, fees and levies to governments.

Many pay value added tax on their purchases, though they are unable to charge it on their sales. A study conducted in 10 cities, namely the Informal Economy Monitoring Study (IEMS), found that nearly two-thirds of the 743 street vendors sampled pay for a license, permit or access to public space. Street food vendors in many cities are required to pay for special licenses. Market traders often pay even more: in Accra, Ghana, for example, market traders pay yearly, quarterly, monthly, and daily tolls to local and national authorities.

Myth: Street vendors contribute to “crime and grime” in cities.

Fact: Street vendors repeatedly point out that crime and dirty environments are bad for their businesses.

Vendors spend their own time and resources tackling these urban management challenges. Documentation of the cases where street traders have been incorporated into urban plans, like Warwick Junction in inner city Durban and in Bangkok, Thailand, demonstrate the extent to which street vendors can be part of the solution to these urban management challenges. As was powerfully demonstrated in the case of a New York street vendor alerting the authorities of a bomb on Times Square, vendors are the “eyes and ears” of the street.

Myth: Street vending is inherently chaotic.

Fact: Several cities and countries have developed planning schemes and legal norms to regulate and manage street vending.

Where the state does not intervene, street vendors often self-manage, but this can be to the detriment of certain groups within the vendor community—women, young new entrants and migrants. In fact the non-provision of infrastructure and facilities by local authorities contribute to cluttered, dirty environments.

Myth: Street vending is unconnected to the formal economy.

Fact: Many street vendors source their goods from formal sector suppliers.

In the Informal Economy Monitoring Study (IEMS) more than half the sample reported that they sourced their goods from formal suppliers. Some sell their goods to formal sector enterprises or employees. Fruit and vegetable vendors in many cities make their purchases at public sector wholesale markets, where they pay fees and contribute to city government revenue.

Myth: Street vendors buy and sell illegal products.

Fact: The vast majority of vendors buy and sell goods that are legal: fruits and vegetables, prepared food, basic household goods and others.

While there are cases of street vendors selling counterfeit goods, especially falsely branded clothing, the questions of whether more informal vendors than formal enterprises sell counterfeit goods, and whether the volume of counterfeit goods sold is higher among informal vendors or formal retailers, are not well researched. Another under-researched area is whether street vendors who do sell counterfeit goods would be willing to cooperate in programmes to access alternative stock. Though mainstream media often draw attention to raids on vendors selling counterfeit goods, street vendors simply are more visible targets than formal retailers for authorities seeking to clamp down on counterfeit sales.

Myth: Street vending is marginal to employment generation.

Fact: Street vending is a significant generator of employment.

Street vending accounts for 14 per cent of total urban informal employment in India and as much as 12-24 per cent of total urban informal employment in Sub-Saharan African cities. It represents the main source of household income for many families and is the main source of everyday goods and services for many urban residents.

Myth: Most street vendors are entrepreneurs who employ others.

Fact: The vast majority of street vendors are self-employed own-account workers that have only family labour or at most one occasional helper or employee.

Given their marginal income and the constant harassment by local authorities, many of them identify more with workers than with the small business community.

Myth: Street vendors are difficult to organize.

Fact: On the contrary, because they face constant threats to their work security, street vendors are very receptive to collective organization.

As a result, there are many cases of strong, competent organizations of street vendors. The Self-Employed Women's Association in India, for example, has nearly two million members, a significant proportion of whom are street vendors. As of April 2015, StreetNet International has 554,437 members in 51 affiliates in 46 countries in Africa, Asia, Latin America and Eastern Europe. The vast majority of these members are street vendors and informal traders.

Myth: Vendors cannot engage in collective bargaining.

Fact: Just as formal sector workers bargain with their employers, street vendors bargain with local authorities whose decisions critically shape vendors' livelihoods.

Issues such as securing the right to vend, determining where vending is permitted, gaining access to infrastructure – both basic (toilets and water) and work-related (shelter and storage) – are among the issues that need to be negotiated. There are, however, very few recognized forums that formalize these negotiation processes.

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Waste pickers with SWaCH coop in Pune, India. Photo: A. Thavaraj

Myths and Facts about Waste Pickers

Myth: Waste Pickers are a nuisance and do not contribute to cities.

Fact: Waste pickers make an important contribution to the economies, health and environment of our cities.

The vision of modern solid waste systems adopted by governments is often associated with mechanization and the use of high technology. Thus, waste picking is seen as outdated, traditional, primitive, ineffective and a nuisance.

However, waste pickers' economic contribution to cities is significant since they reduce cities' costs of waste collection by providing a service that in many places is not available at all. In fact, waste pickers subsidize formal solid waste systems in many cities of the developing world, and their informal recycling collection systems provide raw materials at low prices to recycling industries. This helps conserve resources, reduce air pollution and mitigate climate change.

Myth: Waste pickers are poor victims.

Fact: Waste pickers are agents of their own destiny.

Waste pickers are usually seen as people out of place: as poor victims. If waste pickers are engaged, this is usually done at the level of the social services department (waste pickers as victims not as agents) and/or as a police case (penalizing them, expelling them from the streets and confiscating their materials).

This lack of understanding of waste picking as an occupation ignores that they are capable of making choices, and that they are important economic actors within solid waste management, deserving of recognition as one of the main stakeholders. Take for instance Pune, India, where itinerant buyers make extensive use of cell phones to make their dealings, showing a great level of creativity and adaptation. Or in Kenya, Nakuru's waste pickers who, in addition to public cleansing services and feeding the industries with recyclables, have ingenious ways of marketing the materials collected (they sell egg shells, bottle tops, bones and cans to artists and designers).

Myth: Waste pickers are not organized.

Fact: Waste pickers are organized informally and increasingly into formal local and even national and international organizations.

It is true that one of the main characteristics of this work is that it is done most often on an individual basis (or as family work). But while working in dumps or in the streets they develop work specializations and establish territories based on agreements they may make with shop owners or residents. They structure

their work and find informal ways of “organizing” themselves by creating self-help groups, or by designating a spokesperson to deal with issues that affect them. Besides this informal level of organizing, waste pickers are increasingly forming organizations which take various shapes: local cooperatives, associations, unions, national associations and regional networks, and they are also connecting internationally through networking processes.

Myth: Informal waste picking is not linked to the formal economy.

Fact: Waste picking is closely linked to the formal economy.

The Informal Economy Monitoring Study (IEMS) coordinated by WIEGO showed that in the 5 cities studied waste pickers are an integral part of the recycling value chain and thus are linked closely to the formal economy.

Over 75 per cent of waste pickers reported that formal businesses are the main buyers of their products. There are extensive backward and forward linkages between them and formal actors with examples of the formal integration of their work within solid waste systems. Waste pickers reported a range of services that they provide, including transportation, recovery of recyclables, semi-processing and, in one of the cities, also composting and biogas production.

Myth: Informal waste pickers are all “freedom lovers” and cannot work within formalized solid waste systems.

Fact: Waste pickers are capable of providing a service within formal solid waste systems.

Facts from countries where progressive laws have been issued to formalize waste pickers in a way that respects their agency have shown that waste pickers are quite capable of working as service providers within formal systems. Peru, Argentina and Brazil, for example, have passed progressive laws in support of formalization encouraging the cooperative model. In these countries waste pickers’ organizations are being hired with proper contracts to provide recycling collection. Also, Belo Horizonte, Brazil, and Pune, India, offer examples of long time successful integration of informal waste pickers into municipal waste management schemes. These secured rights of work and provided infrastructure and social protection for waste pickers. More recently, in Bogota, Colombia, waste pickers were awarded a payment system for the collection of recyclables in recognition of their service to the city.

The legal existence of organizations of waste pickers (unions, associations or cooperatives) has been essential for their integration as this has enabled municipal governments to negotiate and engage in formal agreements with them as partners and as recipients of financial and technical incentives from the national government.

Myth: Waste pickers are found in developing countries only.

Fact: Waste pickers also work in developed countries.

Waste picking is also a feature of developed countries, though to a lesser extent. In Vancouver, Canada waste pickers are grouped within the “Binners Project”. In New York City they may be called trash pickers, canners or magazine scavengers and are credited with recycling up to 60% of recyclable materials – yet they are not acknowledged publicly. Some argue that waste pickers and vendors in New York City work in complementary ways, and their presence enhances social order. Waste picking activity has been reported in other cities such as Paris, San Francisco, Tokyo, Calgary, and many others.

Additional Reading

Dias, Sonia. 2012. Not to be taken for granted: what informal waste pickers offer the urban economy. Article on *The Global Urbanist*. Last accessed May 13, 2015.

WIEGO website, Waste Pickers page.

Myths & Facts about the Informal Economy and Workers in the Informal Economy

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