WIEGO

Women in Informal Employment: Globalizing and Organizing

Understanding the Informal Economy

The informal economy provides a source of earnings for a majority of households in developing countries. It also plays an important role in the provision of affordable goods and services to people who live on daily earnings. It is not, however, homogeneous: working conditions and levels of earnings vary a great deal among different occupational groups, from waste picking to garment production; from domestic work to street vending to temporary data processing.

Official statistics show that informal employment accounts for 82% of total non-agricultural employment in South Asia; 66% in Sub-Saharan Africa; 65% in Southeast Asia; and 51% in Latin America and the Caribbean.

Frequently Asked Questions About the Informal Economy

What is the informal economy?

The informal sector refers to production and employment that takes place in unincorporated small or unregistered enterprises. Informal employment refers to employment without legal and social protection, both inside and outside the informal sector (i.e., in informal firms, formal firms and households). The informal economy refers to all units, activities, and workers so defined, as well as their output.

Why does informal employment exist?

There are different theories of what gives rise to informal employment. Some enterprise owners prefer to work informally, but most informal workers do so out of necessity, social conditioning, or tradition, trying to make an honest living against great odds. No single theory can account for all segments of informal employment.

Does the informal economy hinder the formal economy?

No. The informal economy is not isolated from the formal economy. For example, formal firms sometimes source raw materials from the informal economy and may distribute their finished goods through informal firms. Sourcing and supplying of goods or services can take place through individual transactions but more likely take place through a sub-sector network of commercial relationships or a value chain of subcontracted relationships.

Are all informal workers poor?

No. Earnings and poverty risk vary by sex and status in employment. Employers, or people who hire others, are predominantly men, and have higher earnings and lower poverty risk on average. Industrial outworkers and unpaid family contributors are mostly women, and have lower earnings and higher poverty risk on average.

Is the informal economy only present in developing countries?

No. Informal employment is significant in many OECD countries, although at lower percentages. In 2008, informal employment represented 20.9% of total employment in Greece, close to the same share as in Turkey (20.4%). South Korea (18.8%) and Portugal (17.5%) also had considerable rates of informal employment. In many more developed countries of the OECD, informal employment accounts for about 10% of total employment, such as in New Zealand (11.1%), Italy (10.6%) and Canada (10.2%).

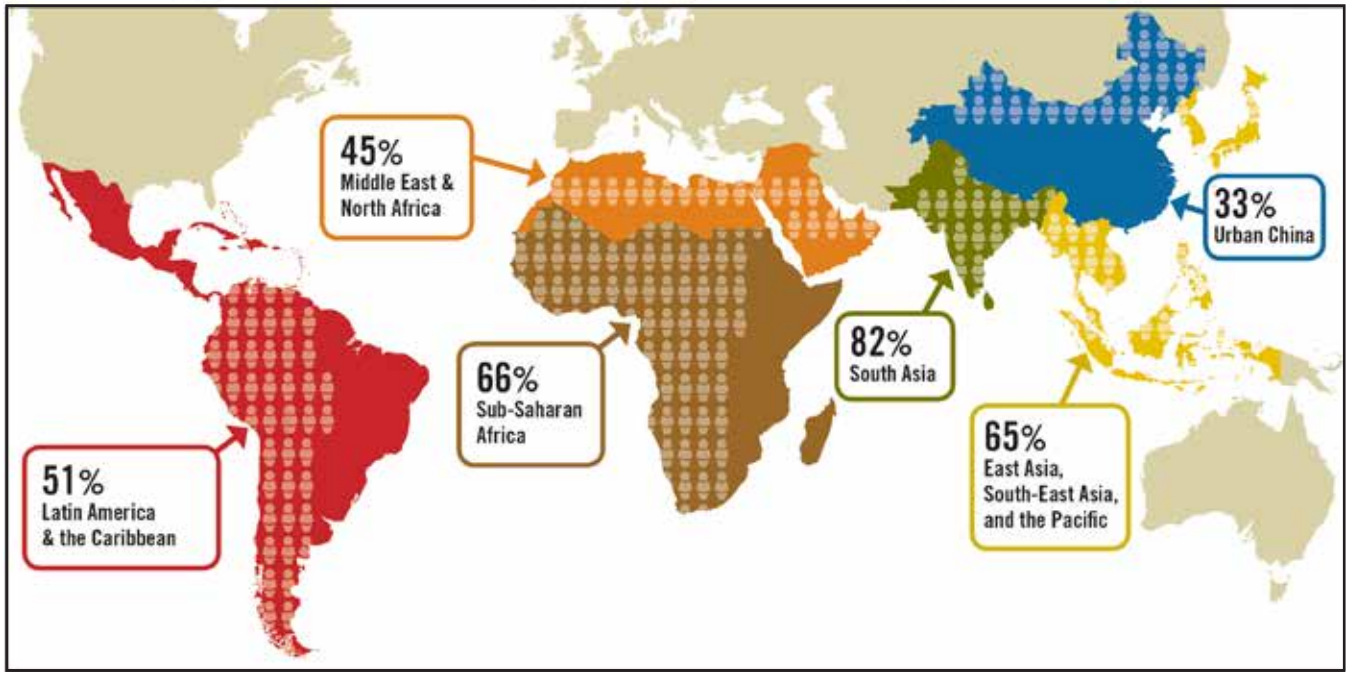
Does the informal economy prevent countries from developing?

No. In fact, there is increased evidence that the informal economy today is integrally linked to the formal economy. Supporting the working poor in the informal economy is a key pathway to reducing poverty and inequality – and supporting women in the informal economy contributes to greater gender equality.

Should the informal economy be formalized?

The formalization of the informal economy means different things to different observers, and it has different implications for different categories of informal workers. To some, it means shifting informal workers to formal wage jobs – but this requires creating more formal wage jobs. To others, it means registering and taxing informal enterprises. For self-employed informal workers, the most important thing is to ensure that formalization offers benefits and protections, and does not simply impose costs. For wage-employed informal workers, formalization can be beneficial if it entails a secure contract, membership in a formal trade union, and employer contributions to their social protection, amongst other forms of worker benefits and protection.

Informal Employment as a Percentage of Non-Agricultural Employment



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

Findings from the Informal Economy Monitoring Study (IEMS)

In 2012 WIEGO and informal worker organizations in 10 cities in Asia, Africa and Latin America undertook the Informal Economy Monitoring Study to evaluate the working conditions and contributions of informal workers in three occupational sectors: home-based workers, street vendors and waste pickers. Qualitative and quantitative research methods provided an in-depth understanding of how these workers are affected by economic trends, city government policies and practices, value chain dynamics, and other economic and social forces.

The IEMS found:

- Over 50% of street vendors in the sample – and 77% of fruit and vegetable vendors – source their goods from formal sector suppliers.
- Nearly 75% of street vendors make payments to their city government for a license, permit or access to public space for vending.
- 84% of street vendors generate work for others by using the services of porters, guards, transport operators, storage providers, repairmen, etc. in their daily work process.
- 68% of street vendors live in households for which the main source of household income is street vending.
- 76% of waste pickers in the sample say their main buyers are formal businesses.
- 34% of waste pickers use municipal services as part of their work, generating revenue for city governments.
- For 65% of waste pickers in the sample, earnings from their work as waste pickers were the main source of household income. Just 8% live in households whose main source of household income is formal wage employment.
- Over 75% of home-based workers in the sample said their households rely entirely on earnings from informal work. The home-based workers' earnings play a critical role in meeting basic family needs.
- Among the home-based worker sample, transport represents around 30% of total enterprise expenditures.

For more information, research and stories about the informal economy, visit www.wiego.org.
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