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The informal economy: don't fight it, work with it



Port-au-Prince, Haiti © UN-Habitat

In many cities around the world, the informal economy provides the majority of employment opportunities and is often a substantial, if not the main, contributor to a country's GDP.

This is particularly the case in Africa, where the process of structural change has been slow and a bulging youth population has had to create its own jobs in the low-productivity urban informal economy, for lack of other options.

The informal economy is a broad term encompassing workers, frequently self-employed, who lack social protection and often live in poorly-serviced informal settlements, as well as business units and activities that are unregistered or are small enterprises.

For a long time, governments have seen street vendors, waste pickers and other informal activities as a headache and lost tax revenue opportunity.

Efforts to formalise the informal economy and bring it under regulation have often failed, not just due to its sheer size, but also stemming from a lack of understanding of the political economy conditions that drive people to work in the informal economy in the first place.

But perceptions are changing.

DFID's new Economic Development Strategy, published in January 2017, recognises the important role the informal economy plays in providing livelihoods for the poorest and most marginalised people.

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To enhance opportunities for more productive jobs and to promote inclusion, a number of steps need to be taken. These include:

- Engaging with and integrating local communities and informal workers into local economic development planning and design to create inclusive and competitive cities
- Formally recognising the informal economy and enabling livelihood development, increased income security, and better social protections to economically empower women and girls, people with disabilities, and other poor and marginalised groups to access productive employment.
- Strengthening linkages between the informal and formal economy, including the integration of formal and informal value chains to boost sustainable and productive job opportunities

Several examples of success already exist. For example in Bangalore, India, waste picker organisations which represent some 30,000 informal workers are working closely with the municipal corporation to manage collection points and recycle around 50% of the waste collected. In the process, 7,500 waste pickers have already obtained ID cards which give them the means to claim their rights to health and other services, in an enhanced outcome for social protection.

The ICED urban and economic development team can mobilise a diverse range of technical experts to provide support to DFID Country Offices in conducting scoping studies, preparing business cases, developing analytical tools, and delivering tailored knowledge and learning services. If you would like ICED support or to know more about how we can help you, please get in touch with us at iced.programming@uk.pwc.com.