

# THE COST OF INFORMALITY: Winners and Losers in the Urban Economy

**60%**  
Over 60% of urban employment opportunities are informal

**80%**  
Around 80% of urban employment is informal



**70%**  
Just under 70% of non-agricultural employment is informal

**5%**  
Formal industrial employment accounts for less than 5% of total urban employment, and at the same time formal industrial activity is stagnating

In Africa, the urban economy is dominated by informal activities that are often unregulated, uncontrolled, unrecorded, and characterised by precarious and harsh working environments. As the informal economy expands, there is an informalisation of employment.

## Challenges of the informal economy

The informal economy can also be a site of inventiveness, entrepreneurial activity and community if cities and governments manage it well. So far, that is not the reality of many African cities, where:

- Very few informal businesses grow, and most remain micro/household enterprises.
- Too many informal activities are survivalist in nature.
- Informal activities are low-productivity, low-return, low-wage operations; those managed by women are especially disadvantaged.

Moreover, the informal economy often reduces productivity, as increasing numbers of informal enterprises in relation to formal economy businesses drag down aggregate productivity figures. There are several reasons for this, including:

- Access to factors of production (including infrastructure, services and finance) is often grossly inadequate.
- Governments often do not support informal activities, take them seriously, or understand their potential.
- Creating, sustaining and expanding channels to markets is often very difficult (and costly).
- The value of their production is often captured by those further along the value chain.
- Skills training and business development support is often totally absent.

Perhaps most significantly, a shift is needed in how city authorities view informality. They often see it as a problem, ignoring the existence of informal activities, seeking to restrict them, or removing them with bulldozers.

## If handled right, informality can be a driver for economic growth

The informal economy, however, often accounts for a huge proportion of value added in a country. Informal activities support the consumption habits of many higher-income people and provide cheap inputs to formal service sector and manufacturing operations.

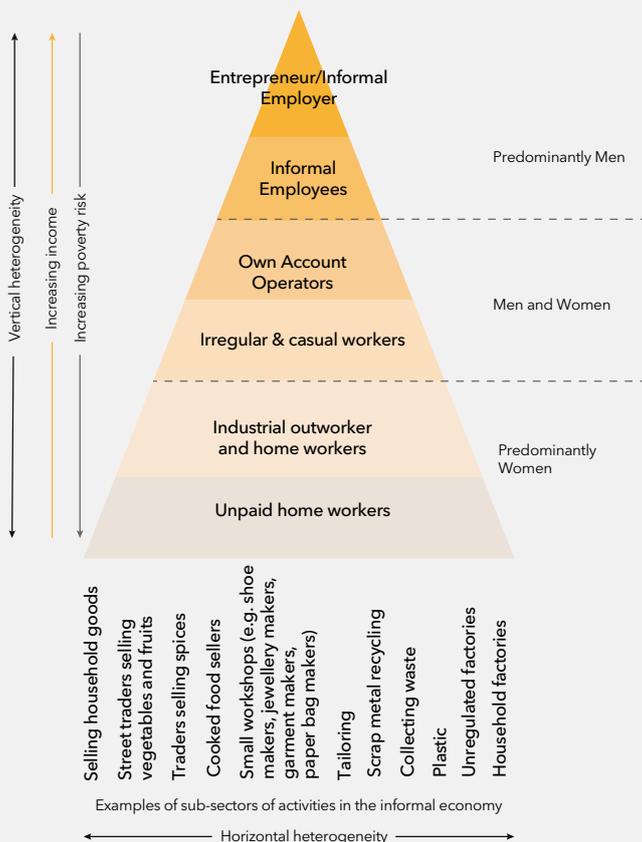
Policies aimed at meeting these challenges can contribute to turning the urban economy in Africa into an engine of growth, creating higher-quality jobs and promoting a prosperous, inclusive society. The informal economy is a tremendous resource for the urban economy as a whole and can underpin structural change and economic transformation when fully integrated into an economy focused on creating high productivity, high return, market-orientated activities. The most pressing issue is how can the informal economy be supported in order to achieve this outcome.

## Recommendations for a development strategy to promote informality

Informal activities should be encouraged by promoting the development of a hybrid economy, in which informal activities are increasingly integrated into and play a major role in the success of key value chains. A development strategy should seek to identify:

- Sectors and related value chains with the potential to expand (especially into export markets);
- Firms whose expansion can strengthen these sector and value chains, and plug gaps in value chains embedded in the priority sectors;
- Technology and business operational improvements these firms need to expand;
- Infrastructure and service constraints that impede the expansion of these firms, and

### WHAT DO THE INFORMAL ACTIVITIES LOOK LIKE? FROM UNPAID HOME-WORK AND SURVIVALIST ACTIVITIES TO INVENTIVE ENTREPRENEURS





The informal economy - problem for a city manager or potential saviour of the national economy

Building the *Hybrid Economy* - Filling in the missing middle via the expansion of informal activities



### Missing middle

There are a few medium-to-large companies and large numbers of very small and informal operations, mainly informal. Uganda's economy is dominated by low productivity personal services and basic manufacturing activities.

"The informal sector is responsible for 90% of goods and services. Street hawkers sell sachets of water, mobile phone top-up cards, fried plantain chips and pirated DVDs at busy intersections and tailors and barbers work out of tiny shops – not only in low-income, high-density neighbourhoods like Nima or Madina, but also in affluent ones like East Legon or Cantonments. Affluent residents roll down their car windows to buy snacks and stop to get their shoes polished on street corners".

Journalist Sharon Benzoni on Accra

- How combined business assistance with measures to improve infrastructure and service access can be successfully implemented, closing the implementation gap that characterises many countries in Africa.

The goal is to develop sectors in which strengthened informal and formal operations work within high productive, high return value chains - constituting a vibrant hybrid economy that creates decent, productive employment for an increasing number. At the same time, the base of the pyramid needs support in order to provide a safety net for those excluded from the new economic opportunities, and the livelihood strategies of household and survival enterprises should be strengthened to provide a seedbed for the development of future hybrid business operations.

## Key policy recommendations



### Registration

Policy reforms to emphasise potential benefits, increase security of tenure and focus on opening up new opportunities



### Governance

Government to work cooperatively with informal trade associations, networks and stakeholders



### Heterogeneity and inclusivity

Positive support at all levels recognising heterogeneity; targeted support for disadvantaged groups including training and skills development and integration into wider value chains and networks



### Gender

Mainstream gender in growth areas to counter current exclusion



### Technology and innovation

Support the adoption, adaption and development of appropriate technology and business innovation



### Infrastructure and basic services

Strategic policy to address a growing urban infrastructure deficit and improve access to basic services in workplaces and informal settlements



### Transportation

A strategic approach to managing traffic and movement; support improved connectivity and improve public transport services incorporating informal transport providers



### Regulation

A more flexible, affordable, accessible and enforceable regulatory framework



### Capacity building

Build capacity at all levels, including in national and particularly local government and informal organisations



### The 'missing middle'

Target advice and business support at promising enterprises and industry associations to improve their productivity in growth and export potential areas; promote social impact funds



### Access to finance

Support access to finance that is cheaper than that currently available for informal businesses



### Green growth and climate resilience

Develop green growth and urban resilience-related policy interventions involving informal economy sectors and enterprises



### Urban planning

Less restrictive, more supportive (and better supported) urban planning including inclusive approaches to accommodate street traders and addressing rural-urban linkages



### Knowledge/data gaps - facilitating community based approaches

Improved understanding of poverty-risk profiles in different informal sectors, spatial distribution of informal activities and ways of engaging local communities