

# Rapid Urbanization and the Informal Economy

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## Issue

Informality is a central feature of today's global economy and requires innovative, collaborative and inclusive policy solutions to support the two billion people who live, work and access goods informally.

## Background

Urban populations and global markets are rapidly expanding, creating challenges for the formal sector to adapt and meet the needs of growing populations. In an attempt to keep pace with ever-changing labour market supply and demand, the informal economy has become the main livelihood strategy for urban dwellers. Over 60 percent of global employment is in the informal sector — in some countries, the percentage of informal employment is estimated to be as high as 93.7 percent (Uganda) and 88.2 percent (India) (International Labour Office 2018). With rapid urbanization, informality is becoming a central aspect of everyday lives. More than 740 million women worldwide are estimated to be working in the informal economy, with a high proportion of them located in low- or low to medium-income countries. With over half of employed women working informally, there is a need to support a feminist approach in order to understand today's informal economies.

This policy brief will explore ways in which Canada can both contribute to the success of women working informally as well as enable productive dialogue focused on conditions of work and opportunities. Canada will need to work with its partners to find ways to support women regardless of the space of employment, informal or formal.

## Informality in Urban Centres

Urbanization is a process often observed as a consequence of economic development. Today, 4.2 billion people live in urban areas. The world's urban population is projected to continue growing, reaching almost 6.7 billion people by 2050, or about 68 percent of the world's total population in that year (UN Department of Economic and Social Affairs 2018). The rapid growth of urban populations creates substantial challenges for formal sector employment to keep pace. As a result, many of the new dwellers end up engaging in informal urban activities (Elgin and Oyvat 2013). Thus, for an increasingly large segment of the population, informal is the new normal. This phenomenon calls for urgent action on behalf of governments to support innovative, collaborative and inclusive policies to embrace this reality and harness the ability of the informal economy to meet the demands of rapidly urbanizing populations. As urban populations around the globe continue to grow, sustainable development depends increasingly on the successful management of urban informal economies.

### Understanding Informality

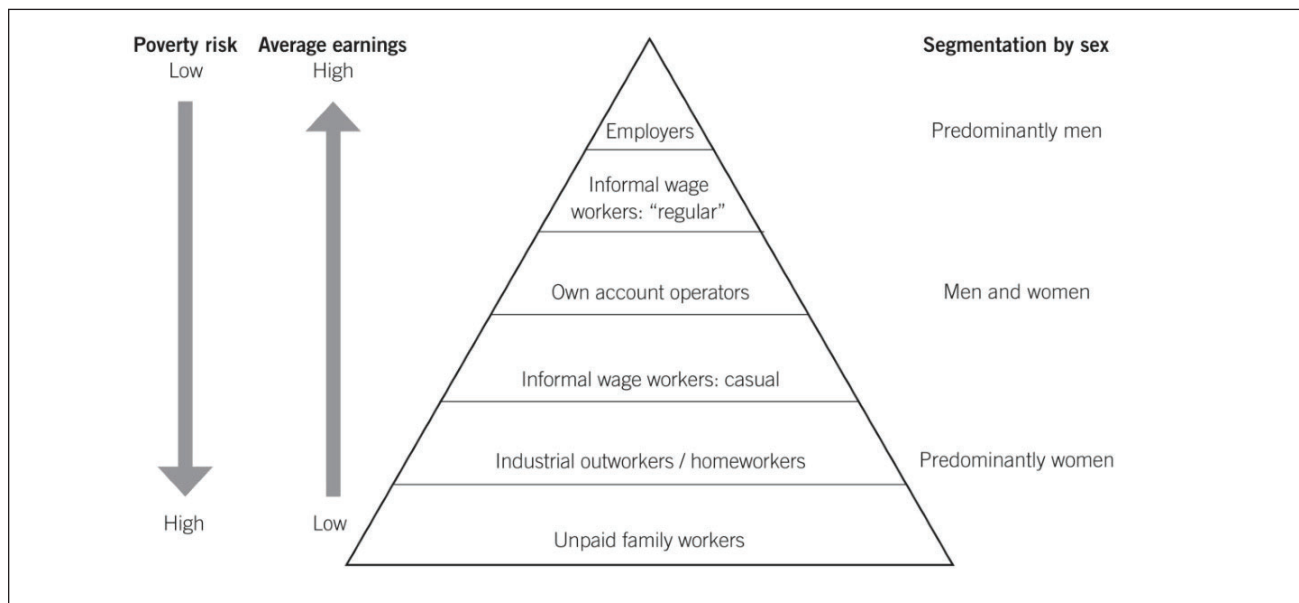
Defining informality is perhaps a central question with respect to addressing its existence. The perception and language used to describe the informal sector bears significant influence over the associated policies and governance structures pertaining to informality. For example, in municipal urban planning agendas such as Accra Metropolitan Assembly’s, the terms “beautification” and “decongestion” are used as a means to govern public space through the displacement of “unauthorized structures” (Fält 2016). Thus, if governments are to promote decent work along the entire continuum from the informal to the formal end of the economy, it is critical to acknowledge the varying degrees in which people engage with the informal economy (see Figure 1) and the influence this can have on policy solutions. Understanding the underlying reasons for how and why people engage in the informal sector is critical in creating localized solutions. The informal sector should not simply be viewed as a strategy of last resort for those involved. Rather, the informal sector can provide enriching opportunities by allowing entrepreneurs an environment to test ideas and market demand for their products and services. “Labour unions and workers’ member associations are among the

labour market institutions most critical to improving worker outcomes” (Jaumotte and Osorio Buitron 2015). Continued support of these initiatives is essential and in line with Canada’s commitment to the United Nations Sustainable Development Goals — most notably Goal 8: Decent Work and Economic Growth.

### Overrepresentation of Women in Informal Urban Employment

Women often face high barriers when trying to access employment in the formal economy. Therefore, informality is a key livelihood opportunity for many women. A study of Ho Chi Minh City in Vietnam by J. P. Cling, M. Razafindrakoto and F. Roubaud (2012) found that women represent 56 percent of all employment in the informal sector. This finding is not unique to the Vietnamese context. C. M. Rogerson (2017) highlights that within the African context informal street vending is a vital income niche for women. As shown in Figure 1, women not only are overrepresented in the informal economy, but also operate in situations of higher precarity (Chen 2012). It is important to further examine the roles women fulfill in the informal economy and whom it serves to benefit. The United Nations High Level Panel on Women’s Economic Empowerment (Klugman and Tyson 2016) highlights

**Figure 1: WIEGO Model of Informal Employment: Hierarchy of Earnings & Poverty Risk by Employment Status & Sex from The Informal Economy: Definitions, Theories and Policies**



Source: (Chen 2012; Permission to reproduce granted on July 25, 2019)

that the informal economy can perpetuate gender norms by limiting women to low-skilled opportunities that largely contain them to home locations or highly saturated sectors. In turn, this limits women's opportunities for advancement through entrepreneurship. Thus, governance structures surrounding informality need to be established on the social and cultural context and not simply on normative arguments for embracing informality.

In Sub-Saharan Africa, 84 percent of women rely on vulnerable forms of work in the informal economy compared to 69.5 percent of their male counterparts (Iodice and Yourougou 2016). Research shows that the outsourcing of certain production stages actually contributed to the informalization of the economy in South Africa, leaving some of the most vulnerable groups, disproportionately black women, more susceptible to weakened labour conditions. This circular pathway of production tends to go between the informal and formal economies. The exploitation of the informal sector into formal sector activities, and the interaction back and forth between the two, is what has been described as the process of "churning," which is in a large part due to "economic insecurity rather than material gain" (Meagher 2013). Kate Meagher (2013) cautions policy makers and scholars to be careful of the "regulation is good, and informality is bad" dichotomy. Crafting the right balance can be achieved through ensuring that policy works for women and marginalized communities rather than entrenching them into further spaces of instability.

### Informality and a Feminist Approach

Canada's Feminist International Assistance Policy states that Canada strives to "promote women's economic rights and access to decent work" (Global Affairs Canada 2018). This statement is inclusive of support for meaningful policy reform and economic programming to address structural barriers and systemic causes of women's marginalization in the workforce. The federal government has made it clear that empowering women and supporting inclusive growth are key pillars to the national development strategy.

Looking at the importance of how structural barriers can impede women in the informal sector is essential to understanding what options are possible in the governance of these spaces. These structural barriers manifest themselves in different ways across communities. In Mali, women account for roughly 91 percent of the informal

workforce, where researchers found that it is essential to focus on equity and support networks such as female-led cooperatives (Iodice and Yourougou 2016). In Cameroon, the number of women working informally increases to 95 percent and it is often noted that women who take on additional work are unlikely to experience further economic empowerment (Fonchingong 2005). In Durban, South Africa, where nearly 36 percent of women work informally, it is noted that limited access to capital and poor home-work balance were identified as barriers to growth (Skinner 2006). Meaningful access to capital such as through micro-financing or female-led cooperatives continues to be commonly discussed options for female empowerment in all markets. It is important to focus on equity and normalizing female entrepreneurship to ensure that social and economic opportunities are equitable regardless of gender (Iodice and Yourougou 2016).

## Recommendations

As a result of rapid urbanization and the expansion of the informal economy, different governance approaches have emerged to address increasing levels of informality. As noted by the International Labour Organization (2018, 1), the main challenge for governments and policy makers "is finding the right policy mix that corresponds to the diversity of characteristics and drivers of informality." This highlights the need for context-specific understandings of informality that inform governance approaches and complements the vision Global Affairs Canada (GAC) has articulated in its Feminist International Development Assistance Policy to develop effective partnerships and to focus on regions where their work can have the greatest impact. These recommendations are targeted to three areas of governance: politics, policy and people.

### Politics

1. **Ensure consistent framing and principles are used when approaching the informal economy across policies and programs in GAC.** If conceptual misalignment exists in the language used to frame and define the informal sector, it bears a significant influence over policy processes. Ensuring consistent treatment of informality can be challenging, however, when GAC works with partner countries, recognizing informality as a reality is the first step towards achieving inclusive empowerment.

### Policy

- 2. Take cooperative approaches to understanding and designing regulation.** Ensuring consistency in knowledge dissemination and localized communication strategies is critical to improve the social contract between the government and citizens. This will promote vertical policy consistency between all levels of government by articulating a common and consistent message and policy goals surrounding informality.
- 3. Create enabling environments for spatial planning and protection mechanisms that prioritize informal as the new normal.** Creating space for informal vendors in formal urban planning processes is essential to ensuring continued access to space and protection of vendors who operate in cities across the world.

### People

- 4. Expansion of existing GAC programs (for example, “Women’s voice in leadership program”) to amplify female voices and support women’s empowerment in leadership.** Drawing on and assisting established rights-based organizations (for example, WIEGO) in developing countries, will support many of the recommendations for best practices presented by those involved in the informal sector. A starting point can be supporting groups of women who have been marginalized or have limited capacity to contribute to relevant policy discussions (Thapa Karki and Xheneti 2018).
- 5. Support existing informal unions and collective action groups.** If the informal sector is to be successfully and sustainably integrated, it is imperative that governments help to facilitate each phase of the process. One vital component in this process is recognizing existing informal workers unions. GAC can help to provide informal worker organizations access to policy spaces, amplifying the voices and concerns of informal workers organizations. This creates room for those in the informal sector to effectively negotiate with the government and employers to secure the rights of those working informally. This will promote transparency and work towards the development of inclusive institutions.

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