
Power and the Urban Informal Economy

The Problem: About half of the world's employed people working outside agriculture are in the informal economy.¹ Economists previously assumed that as countries developed, informal businesses would be absorbed into formal regulatory and legal structures. Yet the informal sector often persists alongside increasing urbanization. In many areas, informal economic activities are a default response, and not exclusively the domain of the poor. Because this diverse sector exists outside the rules and formal administration, little is understood about the current and future power needs of urban informal economies.

The informal urban economy is vast and persistent

- Latin America/Caribbean and sub-Saharan Africa have the largest informal economies in the world.²
- Informal activities account for an estimated:
 - 20-25% of GDP in South Africa and Namibia
 - 50-65% of GDP in Tanzania and Nigeria
 - Up to 55 % of non-agricultural employment in Colombia³
- A study of urban areas in 10 emerging markets found that three out of four women working in the non-agricultural sector are informally employed.⁴

Powering the informal economy?

- Researchers and policymakers tend to focus on access to household electricity, but informal businesses also need affordable, reliable power to thrive. Informal firms are often constrained by lack of energy or dependent on highly inefficient fuels or illegal electricity connections.⁵
- Productivity remains low because of limited access to the modern energy required for heating, cooling, and running machines.
- Competing approaches to address informality in developing countries have led to a policy vacuum on energy for informal productive use.⁶

A better approach

1. Acceptance of the longevity of the informal sector would be more inclusive and enable long-term power-sector planning to account for informal urban energy needs.
2. Create incentives for utilities to address the power needs of informal areas as well as affordability for informal businesses.

Power and Informal Settlements: Examples from India and Kenya

Dharavi in Mumbai, India

Dharavi is one of the best known informal settlements and one of the largest in Asia. With roughly 1700 small- and medium-scale manufacturing businesses, Dharavi is an important contributor to the economy in Mumbai specifically, and India more broadly, even though most of these businesses are informal. Despite the impressive size of the informal economy, these businesses deal with limited, unreliable, and/or unaffordable electricity access, hampering opportunities to be more productive, employ more people, and mitigate some of the poverty that is also part of life in Dharavi.⁶

Kibera in Nairobi, Kenya

Although Kenya has received public recognition for its policy focus on rural household electricity access, just 30% of the small and medium businesses in Kibera, Nairobi's largest informal settlement, had access to electricity in 2007.⁶ While electricity access has improved in Nairobi's informal settlements like Kibera, this change has mainly manifested as greater access to lighting, which is important for the informal economy, but not sufficient.⁷ Electricity theft or the use of dirty fuels for cooking and heating is still common suggesting that greater focus on the urban informal sector is a big missed opportunity in terms of finding ways to drive development through access to services.

Endnotes

1. [International Labour Organization.](#)
2. [IMF. "Chart of the Week: The Potential for Growth and Africa's Informal Economy."](#)
3. [International Labour Organization. "Trends in informal employment in Colombia: 2009 – 2013."](#)
4. [Brown & McGranahan 2016. "The urban informal economy, local inclusion and achieving a global green transformation."](#)
5. [F. M. Butera, P. Caputo, R. Adhikari, A. Facchini. "The Challenge Of Energy In Informal Settlements. A Review Of The Literature For Latin America And Africa."](#)
6. [World Resources Institute. "Powering Cities in the Global South: How Energy Access for All Benefits the Economy and the Environment."](#)
7. [Julia Bird, Piero Monteburuno, Tanner Regan. "Life in a slum: understanding living conditions in Nairobi's slums across time and space." *Oxford Review of Economic Policy*, Volume 33, Issue 3, 1 July 2017, Pages 496–520](#)