

TOPIC GUIDE :

Livelihoods and
Urbanisation



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Welcome to the Evidence on Demand series of Topic Guides. The guides are produced for Climate, Environment, Infrastructure and Livelihoods Advisers in the UK Department for International Development (DFID). There will be up to 40 Topic Guides produced 2013-2016.

The purpose of the Topic Guides is to provide resources to support professional development. Each Topic Guide is written by an expert. Topic Guides:

- Provide an overview of a topic;
- Present the issues and arguments relating to a topic;
- Are illustrated with examples and case studies;
- Stimulate thinking and questioning;
- Provide links to current best 'reads' in an annotated reading list;
- Provide signposts to detailed evidence and further information;
- Provide a glossary of terms for a topic.

Topic Guides are intended to get you started on an unfamiliar subject. If you are already familiar with a topic then you may still find a guide useful. Authors and editors of the guides have put together the best of current thinking and the main issues of debate.

Topic Guides are, above all, designed to be useful to development professionals. You may want to get up to speed on a particular topic in preparation for taking up a new position, or you may want to learn about a topic that has cropped up in your work. Whether you are a DFID Climate, Environment, Infrastructure or Livelihoods Adviser, an adviser in another professional group, a member of a development agency or non-governmental organisation, a student, or a researcher we hope that you will find Topic Guides useful.

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The Topic Guides, and key texts referred to in the guides, cover the latest thinking on subject areas. If you think that a specific issue might be raised when you are under the spotlight, you can scan a Topic Guide dealing with that issue to get up to speed.

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I would like to read items in the reading list. Where can I access them?

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More about this Topic Guide and how to use it

This Topic Guide, Livelihoods and Urbanisation, explores the challenges that people and communities face in constructing livelihoods in an urbanising world. Crucially, as urban populations increase and jobs in the formal sector remain scarce, many urban residents construct precarious livelihoods in the informal economy – the main focus of this Topic Guide. Understanding the urban informal economy is crucial in livelihoods interventions. The Topic Guide is structured around the Sustainable Livelihoods Framework (SLF), a conceptual approach developed in the late 1990s which remains a useful analytical tool today.

After the introduction, **Chapter 2** provides a broad introduction to the SLF, **Chapter 3** discusses definitions and dimensions of the urban informal economy, and **Chapter 4** examines conventional policy approaches. The remaining three chapters are structured round the three components of SLF. **Chapter 5** examines the vulnerabilities and context within which urban livelihoods are constructed. **Chapter 6** discusses the assets which individuals draw on to construct their livelihoods, and **Chapter 7** discusses relationship between livelihoods and governance. **Key messages** are included at the end of each section.

The **core message** of this guide is that the urban informal economy is a crucial source of employment, providing up to 80% of all non-agricultural jobs in some low-income cities, and makes major contributions to urban economies, yet is largely ignored in economic policy and strategies. Too often a common approach is clearance and eviction of vulnerable workers, thus exacerbating poverty. Strengthening informal economy livelihoods is thus a crucial component of livelihoods development.

About the Authors

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Using this Topic Guide



Key messages. Highlighted in green for ease of reference, these are included at the end of each sub-topic or section for a quick recap of the main points covered.



Read more. Various hyperlinks have been included in the text leading directly to relevant sources of information – use *Control Click* to open the link.



How long should I set aside for reading this Topic Guide?

If you have time we recommend that you allow up to four hours to get to grips with the main points. Allow additional time to follow links and read some of the resources. Whilst readers are encouraged to read the whole piece it may not always be possible to read the Guide in one sitting given the breadth of material covered. Here are some suggestions, depending on the time you have available.



If you only have time for a quick glance at this Topic Guide (5-10 minutes), we suggest you go to the **Table of Contents** to guide you a relevant sections, and then skim the section and/or pick up on any key messages (in green).



If you have 15 to 30 minutes to spare, we suggest you read one or two sections closest to your entry point of interest, along with a review of key messages (in green) throughout the Topic Guide.

Suggested entry points include

Section 3 on *Urbanisation and urban economies* (9 pages) and **Section 4** on *Urban economic policy* (7 pages) to understand the role, context and relevance of the informal economy in urban livelihoods and key issues for addressing the needs of those engaged in it

Section 5 on *Reducing vulnerabilities* (9 pages) to understand risks and challenges facing particular urban stakeholder groups in securing livelihoods.

Section 6 on *Strengthening the asset framework* (15 pages) and **Section 7** on *Governance for Livelihoods* (8 pages) to review recommended approaches and entry points to support action to improve the welfare and livelihoods of the urban poor.

Then come back later to the rest of the Guide for a fuller understanding of those issues in contact.

SECTION 1

Introduction

This Topic Guide, Livelihoods and Urbanisation, explores the challenges that people and communities face in constructing livelihoods in an urbanising world. The Topic Guide is structured around the Sustainable Livelihoods Framework (SLF), a conceptual approach developed in the late 1990s which remains a useful analytical tool today. The SLF clearly has wide applications to rural and urban settings, and to livelihoods in both the formal and informal economy, but, as distinctions are blurred and the literature on the informal economy better captures the vulnerabilities of marginalised urban livelihoods, the informal economy is the focus of this Topic Guide.

1.1 Context

More than half the world's population lives in cities, a proportion set to rise to two thirds by 2050. Between 2014 and 2050 the urban population is predicted to increase from 3.9 billion to 6.4 billion, with an estimated 95% of growth taking place in cities and towns of the Global South (UNDESA, 2014, p. 1). Secure and decent livelihoods are critical to ensuring that urban households can claim an equitable stake in urban life.

Economic development policy has long prioritised macro-economic growth and focused on promoting jobs in formal urban economies – economic activity that is registered and regulated by the state – for example through industrialisation, import substitution or foreign direct investment. This focus has often come at the expense of other socioeconomic geographies. Such a focus has been widely criticised for failing to consider the link between growth and improvements in the quality of life for individuals and communities.

A major policy oversight has been the *urban informal economy* as a source of jobs and livelihoods. Despite its importance – in some cities up to 80% of the urban workforce in non-agricultural jobs works informally – clearances and evictions of workers are common. This Topic Guide argues that secure tenure for livelihoods, and affordable access to water, electricity and sanitation – often controlled by landlords/mafia with high transaction costs for the urban poor – deserve as much attention as land and basic services for housing. Thus, while this Topic Guide will briefly consider formal urban economies, it is the marginalised yet significant informal economy on which the Guide will focus. Application of the **Sustainable Livelihoods Framework** (SLF) can go a long way towards addressing this imbalance. While the SLF it is not the only framework for appraising urban livelihoods, it remains a useful analytical tool.

Box 1 Defining the informal economy

The **informal economy** consists of all economic activity that is not registered or operates outside of formal state regulation and includes two related concepts:- the **informal sector** refers to economic activity in unincorporated or unregistered enterprises; **informal employment** refers to employment without legal or social protection – both inside or outside the informal sector. The **informal economy** thus refers to all units, activities and workers in the informal sector or informal employment (Chen, 2012, p. 8).

The informal economy excludes criminal activities, such as prostitution or the drug trade. Fuller definitions are given in Box 2 and Section 3.

There have been many attempts to improve the links between macro- and micro-scale development. Among the most prominent has been the approach to development analysis that emerged from a focus on '**livelihoods**' – defined as *'the capabilities, assets (including both material and social resources) and activities required for a means of living'* (Carney, 1998, p. 4).

The **Sustainable Livelihoods Framework** (SLF) emerged in the late 1990s – largely through work by the UK's Department for International Development (DFID) – as a prominent tool for understanding how individuals and communities create, sustain and enhance their livelihoods. A sustainable livelihood is considered to be one that *"can cope with and recover from stresses and shocks ... both now and in the future, while not undermining the natural resource base."* (Carney, 1998, p.4).

Urban livelihoods are complex and context specific and the Topic Guide is thus not intended as a comprehensive account, but rather gives a summary of key issues relevant to field-practitioners.

It is important to note that a range of factors, including climate change, environmental degradation (or assets), nutrition, infrastructure (and others) are important in the urban context. Within the scope of this Topic Guide it is not the intention to cover each of these aspects in great detail, though each factor is addressed at a number of points to illustrate its impact on urban livelihoods and their sustainability. Gender is a crucial dimension and has been interwoven throughout the Topic Guide rather than discussed in isolation.

1.2 Structure



Following this introductory chapter Sections 2-7 contain the main reading material:

Section 2 looks at *Livelihoods: definitions and debates*. It outlines and critiques the SLF and provides a synthesised version, drawn from a wide array of practitioner and academic sources, and critically reviews the applicability of the SLF to understanding urban livelihoods.

Section 3 provides the background on *Urbanisation and urban economies*, arguing that the informal economy is a significant and growing socioeconomic phenomenon, addressed in the rest of the Topic Guide.

Section 4 examines conventional *Urban economic policy* and highlights the importance of participatory approaches to livelihoods analysis and development.

The SLF is then used to structure the Topic Guide to present a critical discussion of the potential for urban livelihood interventions.

Section 5 looks at *Reducing vulnerabilities*, focussing on lessening shocks and stresses for extremely vulnerable groups.

Section 6 on *Strengthening assets* examines each of the six dimensions of assets identified in Section 2.

Finally, **Section 7** examines the *Governance of livelihoods*, exploring the relationship between the state and the informal economy.

Each section contains **short case study examples** to illustrate relevant points in the main text, as well as a summary of **key messages** (see below)

SECTION 2

Livelihoods definitions and debate

2.1 Sustainable Livelihoods Framework

The Sustainable Livelihoods Framework (SLF) emerged out of efforts to avoid negative and static conceptualisations of poverty, and find a fresh approach to the evaluation and planning around human need in the developing world. Overall, the SLF offers ‘a *guide to thinking about the objectives, scope and priorities of development*’ (Rakodi and Lloyd-Jones, 2002, p. 3). This approach focused on the achievements of the poor who, despite multiple deprivations, are able to generate the income required for their daily needs, bolster their lives against an array of negative shocks and, in some cases, accumulate sufficient assets to move out of deprivation. Where ‘livelihoods’ are understood as the means by which people generate the income necessary to live a life they value, the concept can be directly connected to the promotion of ‘development as freedom’ (Sen, 1999).

The SLF has been developed over a decade and a half by both academics and practitioners, and the introduction of the framework into mainstream development practice in the late 1990s was largely driven by the UK’s Department for Development (DFID). While there are many versions of the SLF, Figure 1 represents the authors’ compilation of their variations. This interpretation is specifically designed for urban contexts and the framework has been used to structure this Topic Guide.

2.1.1 Livelihood assets/capital

At the core of the SLF, there is implicit recognition that an individual’s livelihood is facilitated and constrained by *access to a range of assets*: either through direct control or various forms of claims, such as to communal resources like public space. Conventionally the SLF has referred to the ‘asset pentagon’, five dimensions of assets or capital necessary for successful livelihoods as including:

- **Physical:** man-made physical assets, such as buildings (including housing which, in the urban context, might be the most important asset of the poor), tools and equipment.
- **Financial:** commodities or money (objects with value, or that can be used as cash, credit or collateral).
- **Human:** health status, tacit skills and formal knowledge of people.
- **Social/political:** relationships based on norms, reciprocity and trust with individuals and networks of other people, through whom physical assets and intangible resources might be accessed, including political or organisational influence. Political capital is thus often considered as distinct from social capital.
- **Natural:** natural assets that provide finite and renewable, private and public, ecosystem services; generally categorised into: provisioning (e.g. food, raw materials and fresh water), regulating e.g. (climate and water quality), cultural (e.g. recreation, tourism and spiritual) and supporting services (habitats and diversity) (Millennium Ecosystem Assessment, 2005).

Figure 1 disaggregates human capital into **knowledge** and **health** capital, following Odero (2006) who argued for the recognition of knowledge capital and the importance of non-

process knowledge as an essential aspect of livelihoods development. Together these six assets combine to create **labour** capital, which is one of the first to be managed in developing livelihood strategies (Moser, 1998 See below). Thus labour is placed at the centre of the asset framework in Figure 1 as both the focus of livelihoods and also a resource for the individual, household or wider community. Improvements in the effectiveness of labour are thus an outcome of reducing vulnerability, strengthening assets, and improving the governance context.

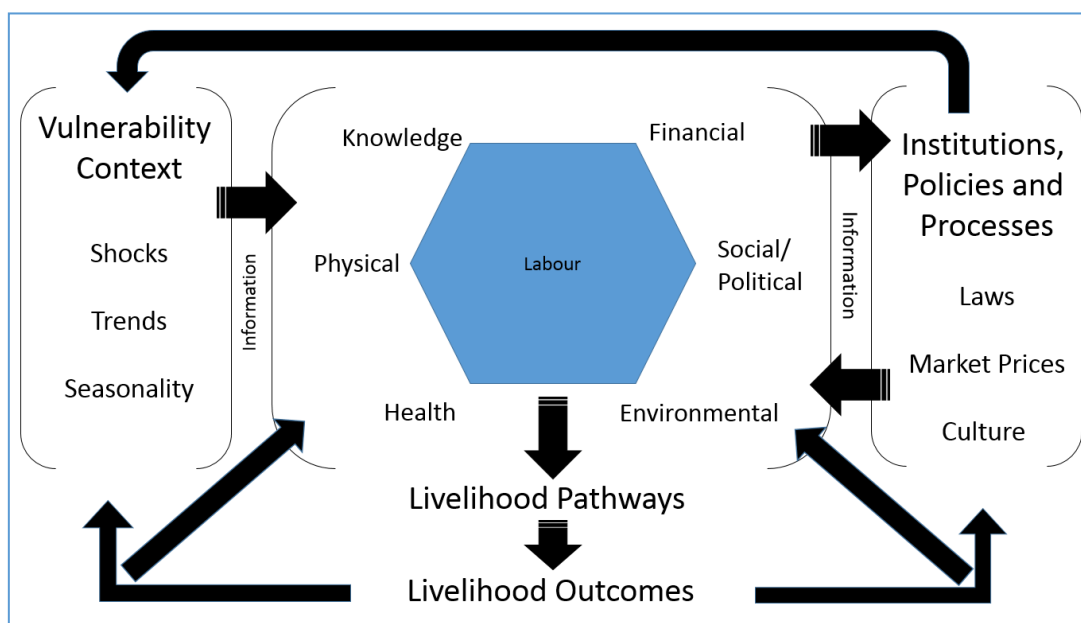


Figure 1 Synthesised sustainable livelihoods framework

Source: Developed by Authors, drawing on Rakodi with Lloyd-Jones, 2002: 9

2.1.2 Vulnerabilities

The second dimension of the SLF is the **vulnerability context** or uncertain environment within which livelihoods operate. This analysis recognises that livelihoods, and particularly those of the poor, are at risk from negative impacts which influence likely options and outcomes (Chambers and Conway, 1991, p. 10). Negative impacts may include long-term trends (e.g. decline in prices, rising population or declining resources) and short-term, sudden and unpredictable shocks. They may be socially or politically driven. Furthermore, negative impacts might be either one-off or cumulative (e.g. a death in the family or environmental degradation), sporadic (causally unrelated) or covariant (causally related, such as severe rains and a subsequent mud slide that destroys tools and equipment). Chronic stress impacts are also significant. For example, traffic congestion, pollution, or lack of access to environmental services also have a dramatic negative impact on elements of the 'asset hexagon' above.

2.1.3 Policies, institutions and processes

The SLF also places the asset framework and vulnerabilities within the wider context of **institutions, policies and process**. Elis (2000, p. 38) suggests that it is important to consider:

- 1) Social relations including gender, caste, class, age, ethnicity, and religion
- 2) Institutions and their operation, including both formal rules and conventions and informal codes of behaviour, e.g. laws, property rights and markets
- 3) Organisations, which are groups of individuals bound by the purpose of achieving certain objectives, such as government agencies, non-governmental organisations (NGOs), associations and private companies.

2.1.4 Livelihood pathways

The SLF implies that the three sets of factors - 1) assets, 2) vulnerability context and 3) institutions/policies/processes - will allow individuals to create and shape livelihood 'pathways'. Pathways will then produce livelihoods outcomes which themselves will feedback into the level of assets that can be accessed (with increases or decreases in the capital available), the interaction with vulnerabilities (affecting probability and severity of impact) and the wider livelihood context (perhaps through the development of markets or changed norms of behaviour).

2.2 Brief evaluation of the SLF

The SLF has been widely deployed in a range of development work: research, project planning and implementation, and project evaluation. Overall, the framework offers a bottom-up perspective on development intervention: it avoids the highly problematic assumptions that market-based approaches to development are sufficient (Smith, 2009), and that macro-economic expansion will see resources trickle down to the poor (Chambers and Conway, 1991; Scoones, 1998).

Table 1 Push incentives versus pull incentives

Push incentives	Pull incentives
Negative factors that motivate actors to exit a given activity	Positive factors that attract actors to become involved in an activity
e.g. acute risk of working at a dump site	e.g. perceived higher income available

However, there are clear limitations to the application of the SLF. First, the SLF's focus on the lived experience of the poor tends to create a micro-level focus. Second, although the SLF is often used to generate quantitative data about livelihoods, the different methodologies adopted mean that data cannot be compared (Bebbington et al., 2004). Given the focus on individuals or households, application of the SLF can

obscure the need for development of supply networks or supply chains, and the implications for collective or community livelihoods strategies is ignored. Although the SLF considers policies and institutions, there is no explicit focus on price incentives or markets, and no analysis of 'distress-push' incentives and 'pull' incentives (Table 1). This is an important distinction given that while livelihoods constructed in response to the former often perpetuate a cycle of poverty, those from pull incentives are more likely to generate asset accumulation (Smith, 2009).

As Levine (2014, p. 5) notes, although the SLF has been criticised for its perceived failure to address issues of violence, gender relations or markets, and because it was ‘too complicated to be useful’, it remains relevant to current practice. Carney (Carney, 2003, p. 36) argues that understanding issues of rights and power are crucial for development interventions, and suggests a more explicit focus on rights, power and citizenship in SLF applications to enrich thinking about governance. As noted above, political capital is sometimes considered as a separate element within SLF.

2.3 Using the livelihoods framework

This Topic Guide considers the application of the SLF to urban livelihoods, particularly the urban informal economy, although of course it has wider applications. The SLF can also be considered in parallel with other development frameworks as briefly noted here.

- i) *DFID’s rural livelihoods work*: several approaches have been developed within the DFID livelihoods cadre including:
 - The *Differentiated livelihoods approach* which argues the need in rural areas to recognise different assets and skills held by different people in rural society, which open up multiple pathways for productive economic participation (Ellis, 2013).
 - ‘*Stepping out*’ of agriculture. This examines how, in contexts of industrial and urban growth, low-earning agricultural households attain the skills and move into better-paying businesses and jobs (Wiggins and Keats, 2015).
- ii) *Cross-cutting approaches* are used in many different contexts and include:
 - *Market-based approaches*, for example *making markets work for the poor (M4P)*, which highlights the importance of systemic large-scale market changes in contributing to poverty reduction (Ruffer and Wach, 2013).
 - Approaches which focus on *Gender* dimensions of livelihoods, emphasising how women’s work remains concentrated in ‘invisible’ and precarious areas, such as domestic labour, piece-rate homework, or street trade. A gender focus is needed to address this (Chant and Pedwell, 2008).
 - *Rights-based approaches* to development which encompass livelihoods, and seek to strengthen the rights and access to resources for the most vulnerable, include the extreme poor and women.
 - *Resilience*, which has become an important development assistance paradigm, to help cities, communities and individuals manage change by maintaining and transforming living standards in the face of disaster, crises and adverse trends e.g. climate change.

2.4 Livelihoods and the SDGs

Livelihoods are integral to the SDGs (Sustainable Development Goals). On 25 September 2015, the United Nations General Assembly formally adopted the universal, integrated and transformative 2030 Agenda for Sustainable Development, along with a set of 17 Sustainable Development Goals (SDGs) and 169 associated targets. While many of the SDGs are relevant to this Topic Guide, two are of particular importance:

- **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- **Goal 11:** Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 8 includes targets to support decent job creation, entrepreneurship and innovation, and encourage the formalisation of micro- small- and medium-sized enterprises (Target 8.3), and by 2030 to achieve full and productive employment and decent work for all women and men (Target 8.5). Other goals relating to ending poverty (Goal 1), quality education (Goal 4), gender equality (Goal 5), infrastructure (Goal 9), and reducing inequality (Goal 10), also have some bearing on urban livelihoods (United Nations, 2015).

However, of significance are some of the key debates which underpinned development of the SDGs. In particular, Goal 8 is criticised for its emphasis on economic growth in preference to 'decent work', and for the focus on formalisation of micro-enterprises, and for Goal 11, despite extensive lobbying, campaigners failed to see inclusion of a target relating to urban livelihoods.

Key message

- ❖ *KM1:* The sustainable livelihoods framework is widely accepted in development practice as a useful tool for analysing fragile livelihoods, and has been widely applied in both urban and rural contexts. Although by no means the only framework that can be applied, the SLF is useful for analysing livelihoods within the urban informal economy. The political dimension and gender dimensions are not explicit in the SLF framework, but need to be considered.

SECTION 3

Urbanisation and urban economies

This section discusses the relationship between urbanisations and urban economies, with a focus on rapidly growing cities in the Global South. The focus is on livelihoods in the informal economy which embraces the occupational sectors where many of the urban poor work, and where urban policy is weakest. Urban policy is covered in more detail in Section 7.

3.1 Characteristics of urban economies

The effects of urban change on livelihoods are acute, but the problems are contextually different. In many countries in the Global South, challenges include rapid urban population growth - particularly in small and medium-sized towns - due to rural-urban migration, a young population structure or influx of refugees. Elsewhere, problems may be caused by an ageing population or urban decline as industry moves away. Contrary to popular belief, Asia, rather than Africa, is the most rapidly urbanising continent, where the urban population is set to increase from 0.9 to 1.4 billion by 2050 (Allen et al., 2015, p. 4).

Close to half of the world's urban dwellers live in relatively small settlements of less than 500,000 inhabitants, while only around one in eight live in the 28 mega-cities with more than 10 million people (UNDESA, 2014). The *“majority of the world's population, particularly in Asia and Africa, live in small and intermediate urban centres.”* (Allen et al., 2015, p. 5), and there are now more than 4,000 cities with populations exceeding 100,000 people (Angel, 2012). Around 2,400 of these have populations of less than 750,000 people and can loosely be described as 'secondary cities' (Roberts, 2014, p. 16). Nevertheless, there is limited knowledge of the different challenges that affect livelihoods in secondary cities compared to those in major cities, a significant gap in understanding.

Political and economic instability and increasing urban poverty also affect livelihood options for urban populations. As noted in the Evidence on Demand Topic Guide (EOD-TG) on *Poverty, Urban Pollution and Environmental Management* (Satterthwaite, 2015, pp. 4-5), current and future growth estimates suggest increasing numbers of low-income urban dwellers in the developing world, and that the *“scale of urban poverty today is much larger than it was in the mid-1970s – and the proportion of the world's population with inadequate incomes who live and work in urban areas has increased”*. Indeed, the scale of urban poverty is probably underestimated especially since the relatively higher urban cost of living is often not fully factored into the construction of poverty lines (Gentilini, 2015, p. 9), and data on informal settlements/slums is poor.

The SLF clearly has wide applications to rural and urban settings, but the literature on the informal economy better captures the vulnerabilities of marginalised urban livelihoods, and is thus the focus of this Topic Guide.

3.2 Identifying and defining the informal economy

As early as the 1940s, it was recognised that colonial economies could be divided into a dualism – activities that came under the jurisdiction of colonial law, and traditional economic activities operating beyond this jurisdiction (Boeke, 1943). However, modernising approaches to development assumed that the traditional or pre-capitalist sector – of petty trade, small-scale production, and a range of casual jobs – would inevitably be absorbed into the capitalist economy.

In the 1970s, research identified the persistence of unskilled low-income activities (Hart, 1973), and offered the concept of the ‘informal sector’ as a category then adopted by the International Labour Organization (ILO) (1972). Informal activities were taken to be those outside of the criminal economy, but which fall on a continuum between illegality and legal. As outlined in the EOD-TG [Planning For Sustainable And Inclusive Cities in the Global South \(Brown, 2015b\)](#), while the *products and services offered* may be legal, the *processes* through which they are pursued may not be fully compliant with regulations, for example where businesses do not pay taxes or are not registered.

Importantly, evidence has continued to question the assumption that growth and development will necessarily reduce the significance of the informal economy (Chen et al., 2012). While levels of informal economic activity are found to increase in times of economic hardship, globalisation has also been found to drive the ‘informalisation’ of work, and it is now widely recognised that informal employment is likely to remain a long-term characteristic of urban economies. Informality, however, is seen as a continuum with degrees of informality – for example, workers may pay taxes, but may not have a permit for their space.

Companies in dominant economies of Europe, North America and East Asia outsource work to peripheral countries, where labour costs are lower, and regulations for worker protection are less effective. Many cities in the developing world have not industrialised, but, instead, function only as non-industrial ‘trading cities’ connecting national and international space (Bryceson, 2006). In many cases, individuals work multiple informal jobs, sometimes in the same day. Without registration or contractual protection, informal economy workers are largely at the whim of wider economic conditions.

Furthermore, in developed and newly industrialising countries, definitions of the informal economy can be blurred as a matter of policy or practice. For example in China, 25% of all urban workers worked in the informal economy, including 60% those without residency status (*non-hukou*) (2010 estimate), although in China the informal economy is seen as closely connected to the formal manufacturing economy and does not conform to the more familiar model of marginalised trade and enterprise (Park, 2012).

Box 2 Terminology – informal sector, informal employment and informal economy

Within the statistical community, the application of accurate terminology is important. The following terms have been approved by the Governing Body of the ILO as international standards on labour statistics under the UN Statistical Commission (Adapted from: ILO, 2013a).

- (a) **Informal sector.** A group of production units (unincorporated enterprises owned by households with less than five employees) including ‘informal own-account enterprises’ and ‘enterprises of informal employers’ (ILO, 1993).
- (b) **Informal sector enterprise.** Unregistered and/or small-scale private unincorporated enterprises engaged in non-agricultural activities with at least some of the goods or services produced for sale or barter (ILO, 1993).
- (c) **Employment in the informal sector.** All jobs in informal sector enterprises, or all persons who were employed in at least one informal sector enterprise, irrespective of their employment status and whether it was their main or secondary job (ILO, 1993).
- (d) **Informal wage employment.** All employee jobs characterised by an employment relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (ILO, 2003).
- (e) **Informal employment.** Total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households, including: employees holding informal jobs; employers and own-account workers employed in their own informal sector enterprises; members of informal producers’ cooperatives; contributing family workers in formal or informal sector enterprises; and own-account workers engaged in the production of goods for own end use by their household (ILO, 2003).
- (f) **Informal economy.** All economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements (based on ILC, 2002).

3.3 Drivers of the informal economy

Four common theories are used to explain the emergence and persistence of the informal economy (Table 2). However, while each of these interpretations has merit, *“The informal economy as a whole is more heterogeneous and complex than the sum of these perspectives would suggest.”* (Chen et al., 2012), and drivers of informality are likely to vary with the overall context. For example, in many African urban areas, workers report being pushed into the informal sector because of lack of formal sector jobs (Adams, 2008, p. 6).

Dualists	Structuralists
Informal sector operators are distinct from and not related to the formal sector, and provide income for the poor and a safety net in times of crisis. They are excluded from modern economic opportunities due to imbalances between the growth of population and capital intensive production, and a mismatch between people's skills and the structure of modern economic opportunities.	The informal economy is seen as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs for large capitalist enterprises. Thus, capitalism drives informality as formal firms outsource work to reduce the costs of labour and state regulation (taxes and social benefits), and increase competitiveness. Such processes underpin global competition and modern production opportunism (off-shoring and subcontracting), and increasingly engage labour through informal relations.
Legalists	Voluntarists
The informal sector comprises micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal regulation and registration. This is a result of a hostile legal system that encourages the self-employed to operate informally with their own informal extra-legal norms. Such micro-enterprises need property rights to convert their assets into legally recognised assets.	Informal entrepreneurs deliberately avoid regulations and taxation, after weighing the costs and benefits of informality relative to formality.

Table 2 Perspectives on drivers of the informal economy

(Adapted from Chen et al., 2012, pp. 4-6).

Another important categorisation of driver for informality is between 1) voluntary 'unofficial earning strategies' where actors consciously choose to ignore governance requirements, and 2) imposed 'coping or survival strategies' where actors have no other reasonable choice other than to operate informally (World Bank, no date). While the former situation will require interventions focused on governance and its enforcement (see Section 7: Governance for livelihoods), the latter should focus on building the capacity of economic actors to meet regulatory requirements (Section 6: Strengthening the asset framework). Also see the discussion of the formalisation agenda in Section 4.4.

3.4 Categorising the informal economy

A long-term challenge has been to assess the scale of the informal economy, both its economic and employment contributions. The International Labour Conference (ILC) and the International Conference of Labour Statisticians (ICLS) in 2003, accepted the advice of a tripartite working group – comprised of the International Labour Office (ILO), the international Expert Group on Informal Sector Statistics (called the Delhi Group) and the global network Women in Informal Employment: Globalizing and Organizing (WIEGO) – to expand the traditional focus on 'informal enterprises' that are not legally regulated, to include work that is not legally regulated or socially protected. Thus, *"Informal employment is widely recognized to include a range of self-employed persons, who mainly work in unincorporated small or unregistered enterprises, as well as a range of wage workers who are employed without employer contributions to social protection."* (Chen, 2012, p. 8), and incorporates four dimensions (Table 3).

Workers	Formal labour relations	Informal labour relations
Enterprises		
Formal enterprises	Workers with contracts and employment benefits employed by registered, legally-regulated companies	Workers without contracts or employment benefits working for formal companies
Informal enterprises	Workers with contracts and employment benefits working for informal enterprises	Workers without contracts or employment benefits, either in own-account work or working for informal enterprises

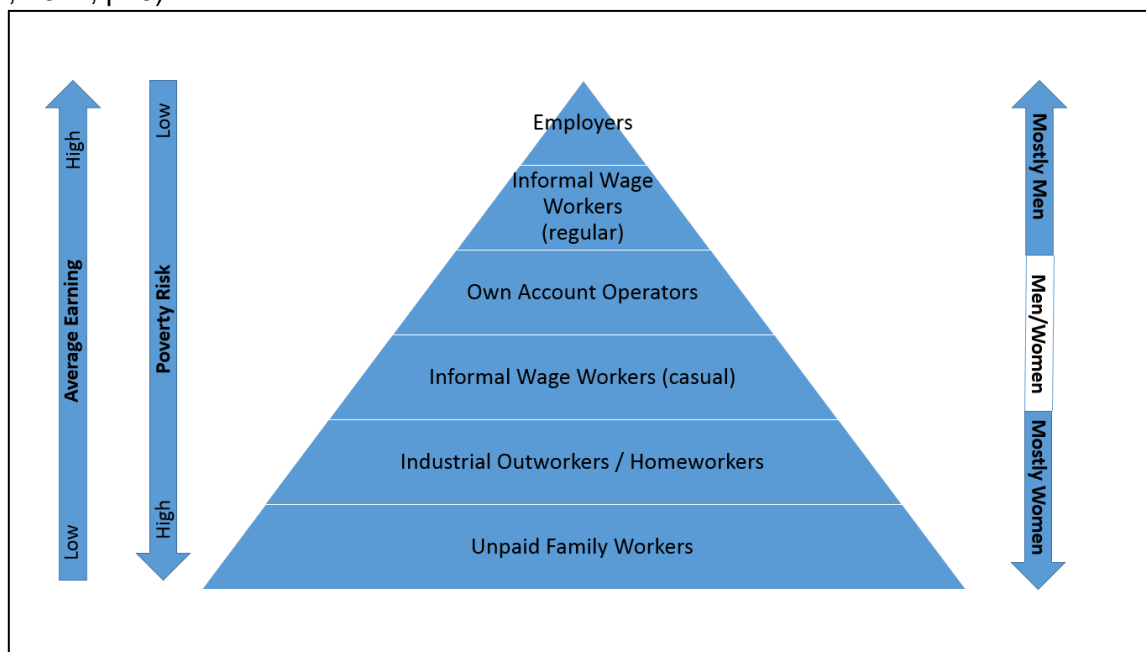
* Components of the informal economy are shaded grey

Table 3 Components of the informal economy*

An alternative and useful conceptualisation of informal employment is according to the *Hierarchy of earnings and poverty risk by employment status and sex* (Chen, 2012, p. 9). Here it can be noted that the status of employment generally correlates with levels of income, therefore levels of poverty risk (risk of being or becoming poor) and gender. Having said this, it is important to stress that those working in the informal economy are not always poor; and although average incomes for informal workers are generally less than those of formal sector workers (Adams, 2008, p. 4), this is not always the case (Brown, 2015b, p. 16).

Figure 2 WIEGO model of informal employment: hierarchy of earnings and poverty risk by employment status and sex

(Chen, 2012, p. 9)

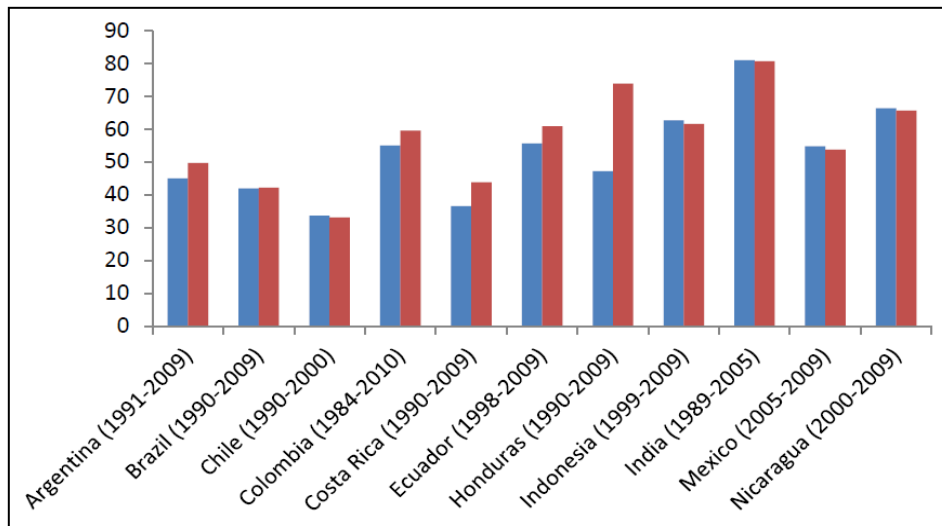


3.5 Scale of the informal economy

By definition, measuring the informal economy is difficult. However, evidence suggests that in many cities the informal economy provides the majority of urban jobs in many cities of the developing world (Ghani and Kanbur, 2013; Jütting and Laiglesia, 2009). Moreover, although there appears to be a relationship between gross domestic product (GDP)/head of the

population and the size of informal economy, in recent time-series data the size of the informal economy in many countries has remained relatedly constant or even increased (Ghani and Kanbur, 2013) (Figure 3).

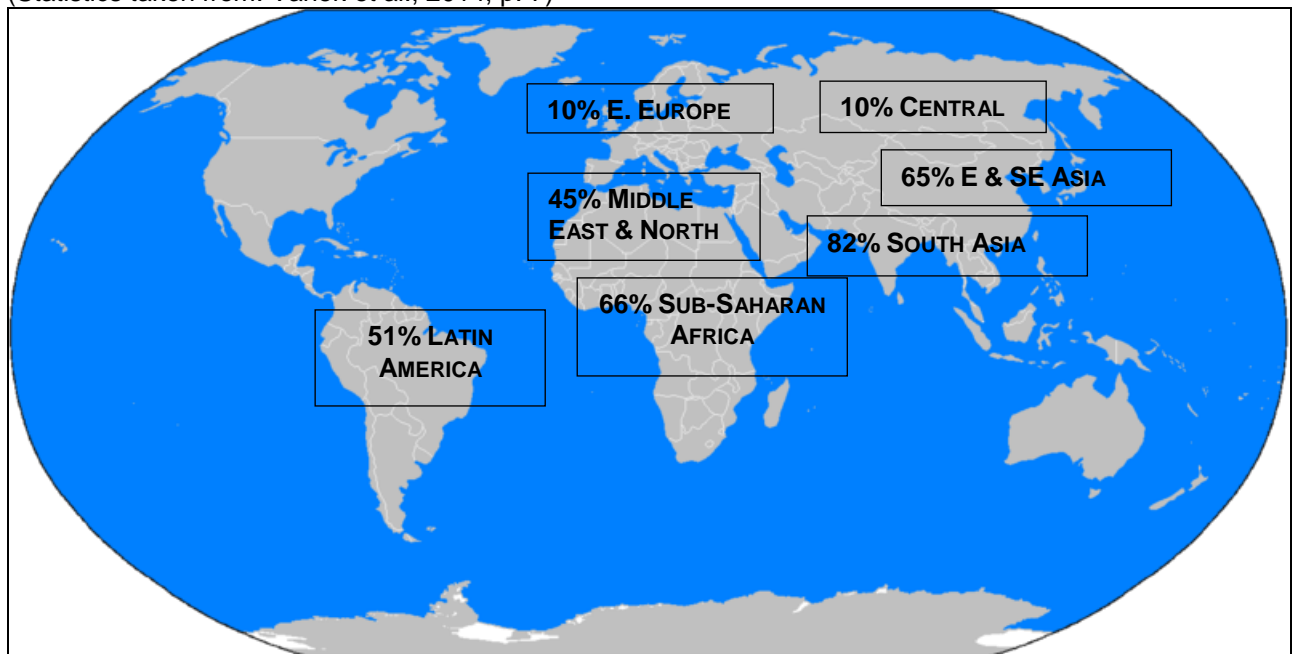
Figure 3 Persistence of the informal economy (share of population in informal employment, earliest and latest data points available) (Ghani and Kanbur, 2013)



Naturally, the size of the informal economy varies by region (Figure 4) and between and within countries: and it is essential that livelihoods interventions are relevant to their context. Aggregate statistics will include those working for formal enterprises (for the public sector, public enterprises, private enterprises, and non-profit institutions, either as engaged paid workers without secure contracts or unpaid family labour), but without the formal protection usually associated with formal employment. There is also vibrant informal employment in post-industrial countries, although this is not considered here.

Figure 4 Percentage of total non-agricultural employment in the informal economy by region

(Statistics taken from: Vanek et al., 2014, p. 7)



Given the diversity in the scale of the informal economy that occurs across the world, it is important for practitioners to understand its scale, and the situation in their specific context. Estimates of the agricultural economy developed with the ILO suggest that (with the exception of the relatively controlled economies of China, Eastern Europe and Central Asia) in most regions of the world the proportion of workers in the non-agricultural informal economy varies from 45% in the Middle East and North Africa to 82% in South Asia (Table 4) (Vanek et al., 2014). Although obtaining existing statistics might be difficult, there are methodologies available from the [International Labour Organization](#) and [WIEGO](#) that can support the development of statistical understandings.

Certain groups, such as the young or women, are over-represented in the informal economy, although the details vary with context (Jütting and Laiglesia, 2009). See Table 4. Women also tend to work in more vulnerable and lower-paid jobs, and are disproportionately represented among paid informal domestic workers, and as unpaid contributing family workers. Thus supporting working poor women in the informal economy is a key pathway to reducing women's poverty and gender inequality (Chen et al., 2004). In many regions, women make up the majority of those informally employed ((Vanek et al., 2014, p. 13). The informal economy can be further disaggregated into self-employment and wage employment as a proportion of informal economy work. In Africa informal self-employment predominates (67%) and in Eastern Europe informal wage employment is highest (59%), but elsewhere they are relatively evenly split (Vanek et al., 2014, p. 11).

	Employment population ratio			Informal self-employment, proportion of non-agricultural informal employment (%)*		
	Women	Men	Total	Women	Men	Total
Latin America and Caribbean	48	75	61	54	47	51
Sub-Saharan Africa	55	74	65	74	61	66
Middle East and North Africa**	22	67	45	35	47	45
Eastern Europe and Central Asia	49	61	55	7	13	10
South Asia	34	78	57	83	82	82
East and Southeast Asia (excluding China)	53	78	65	64	65	65
China**	65	76	71	36	30	33

* Because of the possible existence of some formal wage employment in the informal sector, estimates of total informal employment in this table may be slightly lower than the sum of the two components (informal sector employment and informal employment outside the informal sector)

** Estimates for urban China based on six cities – Fuzhou, Guangzhou, Shanghai, Shenyang, Wuhan and Xi-an

Table 4 Employment structure by region, gender and informal employment, 2004-2010

(Vanek et al., 2014, p. 11)

3.5.1 Sectoral characteristics of the informal economy

The informal economy provides livelihoods in a huge variety of different sectors (Setšabi and Leduka, 2008). Those who work in the street are the more visible occupational groups, but many informal activities take place in homes, on building sites, in factories and waste sites. The unifying factor for informal economy workers is that they face a range of vulnerabilities as a consequence of their unregistered and unregulated status. A brief summary of the key informal sectors and their associated vulnerabilities is given in Table 5.

Occupational sector	Details	Vulnerabilities
Street vendors	Vendors sell all manner of goods, such as food and drink, second-hand and new clothes and apparel, and hardware, but also provide services such as shoe shining, repairs and entertainment (performers). In many countries the sale of imported goods is common, e.g. manufactured goods and clothing from China	Insecure place of work, due to competition for urban space; capital on unfair terms, due to dependence on wholesale traders; uncertain quantity, quality, and price of goods, due to dependence on wholesale traders; lack of infrastructure, shelter, water, sanitation; ambiguous legal status; harassment, evictions, and bribes; negative public image
Waste pickers and recyclers	It is estimated that 1% of the world's urban population lives by collecting and recycling waste: sorting, weighing rubbish for processing	Very low average earnings; fluctuations in quantity, quality and price of waste; harsh working conditions and related occupational hazards; negative public image
Construction	Often casual day-labourers, and perhaps migrants. Many are unskilled and in some countries often women (e.g. India)	Irregular days of work; low and erratic earnings; arduous and hazardous work, frequent accidents and occasional deaths; lack of occupational health and safety measures; lack of accident or disability insurance
Home-based manufacturing workers	Sub-contracted workers or industrial outworkers who work under a sub-contract for one or more firms and their contractors	Low piece-rates and earnings; irregularity of work; irregular and (often) delayed payments; costs of providing/maintaining workspace, utilities, and equipment
Transport workers	Provide transport, carrying and pushing goods and people on carts, as well as motorised collective transport	Low-rates of pay; poor working conditions; vehicles often rented and drivers hire by the day; cartels increase operating costs
Domestic workers	Often women responsible for cooking and cleaning, child care, gardening and chauffeuring	Low wages; long and erratic hours; physical abuse. Only 10% of 5.3 million have equal protection with other workers, and 15.7 million are completely excluded from national labour legislation (ILO, 2014, p. 29)
Manufacturing workers	Might be in formal or informal places of manufacture	Low wages with little protection; poor standards of health and safety

Table 5 Informal employment by main occupational sector: overview and vulnerabilities

Globally, non-agricultural informal employment is dominated by service activities, such as trade, transportation and various other services, but this varies by geographical location and gender (Table 6).

	Manufacturing (%)			Construction (%)			Trade (%)			Transport (%)			Other services (%)		
	W	M	Tot	W	M	Tot	W	M	Tot	W	M	Tot	W	M	Tot
Latin America and the Caribbean	14	14	14	0.4	25	13	36	31	33	1	11	6	49	19	33
Sub-Saharan Africa	15	19	17	1	12	7	51	37	43	1	10	6	31	23	27
Middle East and North Africa*	34	16	18	2	30	26	29	31	31	1	11	10	34	14	17
Eastern Europe and Central Asia	20	12	14	2	42	28	36	20	25	1	10	7	41	16	25
South Asia	46	25	29	7	17	15	15	30	27	1	12	9	30	16	18
East and Southeast Asia (excluding China)	19	18	18	1	18	11	42	26	32	1	16	10	37	21	28
China*	7	9	8	1	7	4	42	34	8	1	10	6	47	40	44

W = women, M = men, Tot = total

*Estimates for urban China based on six cities – Fuzhou, Guangzhou, Shanghai, Shenyang, Wuhan and Xi-an

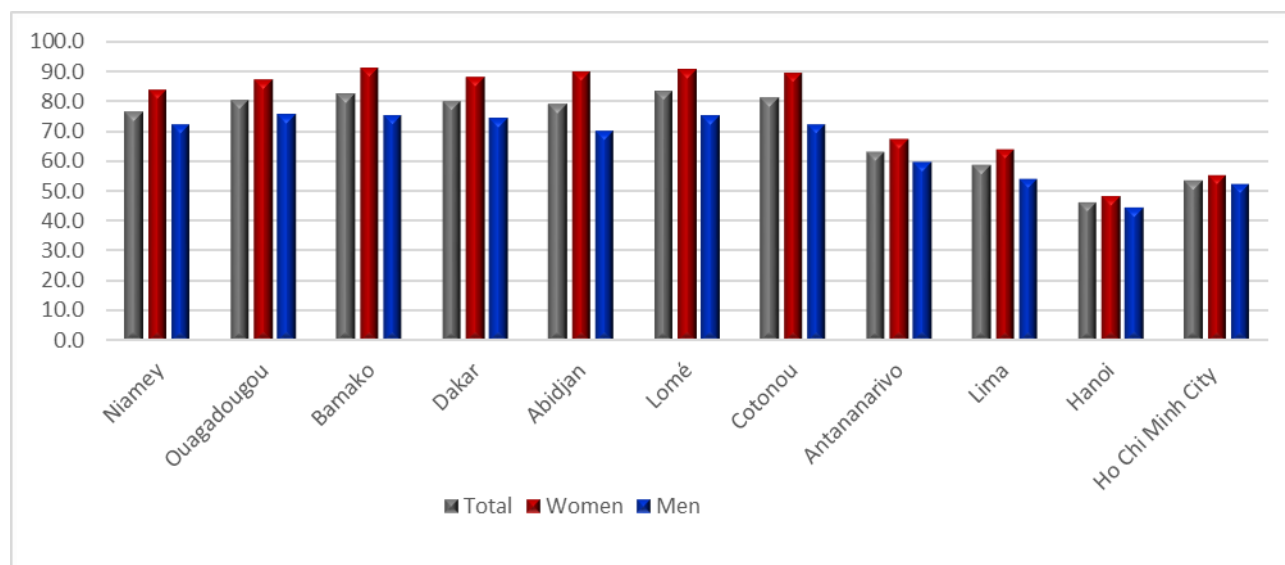
Table 6 Informal economic activities by region and gender

(Vanek et al., 2014)

The scale of the informal economy work in many cities is often very significant, frequently providing the majority of urban jobs. Estimates are largely defined from labour-force surveys, but these focus on national data and reliable urban statistics are rare. However, one study of 11 cities in 10 countries used a three-phase approach using labour-force statistics supplemented by surveys of informal production units, and household surveys of consumption patterns. It found that total informal employment varied between 46.2% and 83.1%, and in all 11 cities more women were employed informally than men (Figure 5).

Chen et al. (2011) suggest that domestic work accounts for 4% of the urban workforce in India and up to 23% in South Africa. The proportion of home-based workers ranges from 3% in Buenos Aires and 6% in urban South Africa, to 18% in urban India. Street vendors constitute an important share of urban employment – 3% in Brazil, 11% in India and 15% in South Africa.

Figure 5 Urban statistics – informal employment as a percentage of non-agricultural employment (Herrera et al., 2012)



3.5.2 Economic contribution of informal work

The informal economy is widely characterised by low productivity (Busso et al., 2012; Jütting and Laiglesia, 2009). But this characterisation does not reflect the scale or reach of the informal economy and the fact that it provides livelihoods for huge numbers of people, and provides goods and services in small quantities that become affordable for the urban poor. Defining the output of the informal economy in conventional economic terms is difficult to measure. However, based on mixed household surveys, it is estimated that across the world the informal sector’s contribution to non-agricultural GDP ranges from 25% to 50%, with regional statistics given in Table 7 (Charmes, 2012).

Region	Contribution of informal employment to GDP
India (as an example of Asia)	38%
Middle East and North Africa	26.2%
Sub-Saharan Africa	31%
Latin America	24%

Table 7 Estimated contribution of informal employment to GDP by region

(Charmes, 2012, pp. 119-125)

Furthermore, the informal economy is fundamentally linked to the formal economy, and, *“Few informal enterprises, except perhaps some survival activities, operate in total isolation from formal firms.”* (Chen, 2007, p. 7). For example, in the garments sector, home-based workers often produce part-finished goods for formal enterprises, who in turn supply large global brands. For this reason, it has long been recognised by DFID that the urban economy is reliant on informal labour and sectors (Brown, 2012, p. 12).

3.5.3 Vulnerabilities of the informal urban economy

The poor often take work they recognise to involve considerable risk because of a lack of other opportunities (Akram, 2014a). For example, workers are often at risk from old and poorly maintained machinery, and are unlikely to receive appropriate training for newer equipment. Lack of legal and social protection means that they are vulnerable to shocks.

Smaller families with less resources tend to take on more risk, as do younger members of a household. Although the details of vulnerability will vary with context (Table 5), common sources of risks to urban livelihoods are discussed further in Section 5.

3.5.4 Data deficiencies

A crucial problem is that, because the informal economy is diverse, complex, gendered, multi-sectoral and partly hidden, there is a significant lack of city-wide data – on the sectoral and employment characteristics of the informal economy and its economic contribution – that is robust enough to inform municipal policy development. City government officials simply do not know enough about the potential assets that the informal economy can hold, or its drawbacks. Although tested methods now exist to provide reliable urban data, for example the three-stage process used by Herrera et al. (2012), these are time-consuming and can only be operated with political will and in contexts of relative stability. Where city-wide data collection is infeasible, sectoral data, or community-led data provided by workers' organisations can fill some of the gaps (Vanek et al., 2012).

Key message

- ❖ *KM2*: In many developing country cities, the informal economy provides the majority of all urban jobs in the non-agricultural sector, and makes significant contributions to urban economies. A crucial problem is that there is a significant lack of policy-relevant data on city-wide or sectoral levels. Developing sound knowledge based on the sectors, operations, scale and characteristics of the informal economy is crucial to effective policy development.

SECTION 4

Urban economic policy

This section of the Topic Guide discusses the broader context of urban economic policy to explore the creation of an enabling environment to support urban livelihoods. Sections 5, 6 and 7 then look at the more detailed application of the SLF framework. Policy and practice recommendations (PPR1, PPR2, etc.) are in bullet points at the end of each section. This section first discusses the implications of local economic development, with its focus on building the formal sector, and of the privatisation of public services. It then considers the prominent debates on formalisation of the informal economy, spearheaded by the ILO, before examining how participatory methods can transform policy approaches to the informal economy.

4.1 Overcoming opposition to the informal economy: bringing stakeholders on board

Despite its size and importance for both urban economies and jobs, the informal economy is often perceived negatively by a wide variety of urban stakeholders. Local governments lament the lack of registration, payment of taxes, or conformity with health and safety legislation and bylaws. Formal businesses object that informal sector enterprises undercut their businesses (Mavunga, 2014). In general, stakeholders raise issue with the encroachment and congestion caused by micro-enterprises.

Policy varies from benign neglect – officials may have family members in the informal economy work, so may be reluctant to prosecute workers – to opposition and politically-driven attempts at clearance and removal. Thus informal economy workers, particularly street vendors and those using public space, are subject to harassment and eviction (Box 3), either temporary displacement due to enforcement of bylaws, or widespread evictions for physical redevelopment or high profile events, such as the South African World Cup in 2010 (Celik, 2011). The aesthetics of organisation, beautification and modernity are often key arguments made against informal workers, especially in cities with aspirations as tourist destinations (Mackie et al., 2014; Middleton, 2003). Where workers are migrants, public xenophobia brands them as unwelcome outsiders (Popke and Ballard, 2004).

Box 3 Harassment of street vendors

“The street vendors are harassed by MCD [Municipal Corporation of Delhi], police, goons and mafias, in the process of beautification, modernisation and development... The goons and mafias, with support from the police and MCD, set up the markets at various places and charged illegally for the space from the vendors. In desperation, vendors pay INR500-1000 to goons or mafias to make a living. Besides, the MCD charge a penalty from the vendors for setting up illegal markets. Thus, vendors are exploited by both, mafias and MCD.”
Testimony of the Self-employed Women’s Association (SEWA, 2012), India.

Such responses reflect a lack of knowledge and misconceptions about the construction of low-income livelihoods. Low-income workers often pay tax, and significant sums in daily fees – the challenge is to ensure that local authorities capture these payments. The legal framework often puts registration out of reach of micro-enterprises (see Section 7). Furthermore, eviction is almost always harmful to low-income workers, and may result in families going hungry and children not going to school (Brown, 2015b). Thus when aiming to support urban micro-enterprises it will be necessary to work with many other urban stakeholders, both officials and the public. Alerting the press and holding public debates can be useful in raising public awareness (Chen et al., 2011, p. 19).

Key message

- ❖ *KM3*: Policy support to urban micro-enterprises must include working with many urban stakeholders to raise awareness of the potential, needs and challenges of micro-enterprises and the informal economy, e.g. local government officials, the public, formal businesses, and informal economy organisations and representatives.

4.2 Local economic development

Local economic development (LED) and its potential to revive urban economies has been a core theme of development debates for many years. Its traditional focus has been expansion of the larger-scale and formal economy – enterprises which are licenced and regulated, and provide employment, pay and operate within defined parameters, covering health and safety, intellectual property rights and environmental sustainability – through either indigenous growth or (national or foreign) direct investment. Local governments have been leading proponents of the LED approach, with many international forums promoting the approach, for example the annual *World Forum on Economic Development*.

According to the World Bank (2011a) LED aims to, “...build the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.” With the explicit mention of ‘business’ and ‘non-government sector partners’, LED proponents tend to work with formal stakeholders.

However, the important issue is that LED is not focused on growth, but on the improvement of economic capacity, which to some degree is closer to the livelihoods approach than in other areas of economic development policy. The LED process encourages inclusion, with the responsible members of the local government seeking stakeholder involvement (Swinburn et al., 2004). The process recognises the need for development of both *hard capacity*, including physical infrastructure, and the *soft capacity* of a healthy and well trained workforce, supported by developing markets, value chains and economic clusters.

Despite the potential contribution of micro-enterprises and informal economy livelihoods to LED, many donors, government policy makers and NGOs know little about the operations of the informal economy, including its market context and value chains. The common assumption that small-scale enterprises deal mainly with locally-produced goods sold to a local clientele is simply wrong. Research by the authors has shown that most operators are part of complex, often international, market chains and social dependency networks, although relatively little is known about some sectors. For example many small-scale African entrepreneurs are inextricably involved in the China-Africa trade, but their scope for accumulation is limited by insecure operating contexts (Lyons and Brown, 2010). Thus lack

of knowledge about the informal economy means that a critical component of LED is being missed.

Key message

- ❖ **KM4:** There is a need to include the informal economy in Local Economic Development strategies. These should be based on an understanding of informal economy sectors and the wider value chains in which they operate, in order to identify key sectors with employment potential and factors inhibiting their growth.

4.3 Urban services

Following the recognition that public investment in physical infrastructure is largely inadequate, and the marginalisation of infrastructure projects by development agencies in the 1980s and 1990s, there has been a new focus on the privatisation of urban services. DFID has explored the potential of private investment in infrastructure, for example through public-private partnerships (PPPs), through the Private Infrastructure Development Group (PIDG, 2015) and the Public-Private Partnership for the Urban Environment (PPPUE – now Public-Private Partnerships for Service Delivery). These programmes aim to address barriers to service provision and investment (or state and market failures) across four main areas (Shah and Batley, 2009):

- 1) The enabling environment – policies, legal, financial and regulatory capacity and frameworks, and institutions for investment
- 2) Capacity in project development – generating investor interest, managing risk, overcoming high transaction costs, and strengthening local project development capacity
- 3) Financing needs – mobilising local credit and capital markets, addressing perceptions of high risk and integrating aid with other finance
- 4) Design and financing of local or community-level projects – e.g. through pro-poor subsidies and promoting community-led projects.

The provision of reliable infrastructure is expected to facilitate economic growth and reduce poverty, and in some cases offer employment. Better sanitation and clean drinking water improves health outcomes and improved public transport promotes connectivity and access to jobs (conversely poor infrastructure can exacerbate pollution problems that have detrimental impacts on health). A study of informal settlement upgrading in the Philippines, both community and externally-funded, found that improvements to roads, water supply and electricity have, on balance, improved sales by reducing transport costs, ensuring reliable services and improving working conditions (Yu, 2002). In surveys of rural households in post-conflict settings, Mallet et al. (2015) found that education was critical in promoting well-being outcomes, that the quality of a service was more important than its proximity and that service support does not necessarily contribute to state building.

Major public works have mixed outcomes for the informal economy – in many countries quality public infrastructure can help reduce under- and unemployment (ILO, 2014, p. 37), sometimes securing jobs by “...making informal suppliers formal” (Shah and Batley, 2009, p. 402) (Box 4). However, more frequently, informal sector service providers who filled a gap in service provision, (e.g. water sellers or waste pickers), lose their jobs through infrastructure privatisation and development. Often the tender requirements for contracting-out basic services exclude small-scale providers. Governments have found it difficult to work with the many small, non-state providers that emerge when government-led services fail and the

development of livelihoods has rarely been an explicit objective of infrastructure investment (Shah and Batley, 2009). For more information on how infrastructure can supportive livelihoods of the poor see the EOD-TG [Maximising Benefits to the Poor from Infrastructure Programmes Aimed at Increasing Growth \(Hawkins et al., 2014\)](#).

Box 4 Belo Horizonte: inclusion of recyclers in urban service provision

Recycling in Belo Horizonte began in the 1960s when many poor people started to collect rubbish from the open dump. In 1973 the dump was closed and replaced by a sanitary landfill, so the *catadores* (recyclers) started to work on the streets collecting recyclables from rubbish put out for collection by the city council. The first association of *catadores*, ASMARE, was set up in 1990, to promote the right to earn a living from recyclables. The Public Cleansing Agency (SLU) was responsible for solid waste management and in 1990 introduced legislation that encouraged the integration of worker organisations into the waste management process.

In 1993, SLU introduced widespread innovations in waste management that included integrating informal workers into the system. SLU started a consultation process with ASMARE, and introduced a mixed collection system including a defined a role for the *catadores*, who were supported by technical capacity building. Political commitment and the support of government officials was crucial to the success of the programme. Recycling containers were set up in public areas, and a community involvement programme sought to change the public view that *catadores* were beggars to explain their positive contribution – in true Brazilian style this included carnival parades, theatre, dance and music. A recycling programme for civil and construction waste that included *carroceiros* (collectors of building rubble) was also set up.

Since then the programme has expanded dramatically. ASMARE collaborates with *catadores'* organisations across the state, collection points are now city-wide, recyclers have proper equipment and regular payment, much recycling is done in warehouses and childcare enables more women to get involved. One of the most influential aspects of the programme was the creation of the Municipal Waste and Citizenship Forum, with worker representatives, city officials and NGOs debating policy and innovations (Dias, 2012).

Key message

- ❖ **KM5:** Privatisation of urban services should include a livelihoods component, making specific allowance for the inclusion of micro-enterprises and informal economy workers already involved in service provision, e.g. waste pickers, recyclers, or water-sellers, with the aim of securing jobs, enhancing payment mechanisms, and improving working conditions.
- ❖ **KM6:** There is relatively limited donor experience of supporting value chains for the urban informal economy, or links between the formal and informal economy. Two critical factors need to be achieved: first continuity of programmes over a sustained period of time, and second an enabling policy environment.

4.4 The formalisation agenda

A widely-advocated approach to the informal economy is formalisation and regulatory compliance. Formalisation is often adopted as a populist political agenda to ‘clean up the streets’ or increase tax revenue, with little understanding of the reasons why workers operate outside legal and regulatory frameworks. Another common argument is that informal economy enterprises and workers do not pay taxes, but in reality they often pay extensive amounts to work – in daily tolls or bribes – but those payments do not always reach municipal budgets. In practice there are many barriers to formalisation: antiquated and conflicting legislation and bylaws, lack of literacy, lack of a formal address, the cost of licences all deter registration and regulatory compliance (Mahadevia et al., 2012). Sometimes also resistance to formalisation is motivated by the desire to evade regulation and benefit from the advantages of informal operation.

The formalisation agenda has been extensively explored by the ILO (International Labour Organization), a tripartite UN agency with government, employer and worker representation. Over the last 40 years, the ILO has developed a specific focus on the informal economy, and played a leading role in developing the concept of the ‘informal sector’ (Bangasser, 2009) broadening this to embrace the ‘informal economy’. Several major ILO initiatives culminated in the 2015 recommendation 204 on *Transition from the informal to the formal economy* (Table 8).

ILO initiative	Key elements
1972 Report of employment mission to Kenya	A document initiating the concept of the ‘informal sector’
1984-1991 ILO-led initiative	Debates and seminars on the ‘informal sector’
1992 ICLS (International Conference of Labour Statisticians)	Defines standard on ‘informal sector’ statistics
2002 ILC (International Labour Conference)	<i>Resolution on Decent Work and the Informal Economy</i> , adopted on 19 June 2002, ILC, 90th Session, Geneva, 2002
2003 17 th ICLS (International Conference of Labour Statisticians)	Strengthens definition and measurement of the informal economy. Adopts <i>Guidelines concerning a statistical definition of informal employment</i>
2007 Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization	International meeting, Geneva, 27-29 Nov 2007; objective to share good practice and knowledge on enabling transition to formalisation as central to the decent work agenda
2011, Domestic Workers Convention (No. 189)	Signatories commit to apply the decent work agenda to domestic workers
2014, ILC (International Labour Conference) 103rd Session	Examines facilitating transition from the informal to the formal economy with a view to preparing a recommendation
2015, R204, Transition from the Informal to the Formal Economy, Recommendation, 204	Seeks to facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers’ fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship’

Table 8 Key ILO milestones on the informal economy

The ILO sees formalisation as a means to address the critical problem that, ‘Workers and economic units in the informal economy experience specific disadvantages and most severe decent work deficits and their conditions are precarious and vulnerable’ (ILO, 2007) and as a broader part of the ‘decent work’ agenda (Box 5). The ILO argues that the informal economy traps individuals and enterprises in a spiral of low productivity and poverty, workers are not recognised or protected under labour or social legislation, are often not organised and thus are unable to exercise or defend their basic rights (ILO, 2014, p. 9).

Box 5 The ILO and the decent work agenda

The concept of decent work is at the core of ILO work and supports the view that development should aim to improve the lives of individuals in line with their own aspirations and values. Decent work “...involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.” (ILO, 2016a).

The ILO has been a strong proponent of support for those in informal employment. For example, the ILO (2011) Domestic Workers Convention (No: 189), states that:

“Every domestic worker has the right to a safe and healthy working environment. Each Member [country] shall take, in accordance with national laws, regulations and practice, effective measures, with due regard for the specific characteristics of domestic work, to ensure the occupational safety and health of domestic workers.” (ILO, 2011, Article 13)

The strategy promoted by the ILO is country and context specific. It argues for the application of all its instruments to workers, e.g. freedom of association and collective bargaining, freedom from forced labour, the avoidance of child labour, and avoidance of discrimination (ILO, 2014, pp. 35-36). The approach recognises that although transitions to the formal economy and decent work are desired goals, there are many different ways in which they can be achieved, ranging from narrow compliance with the law, or multidimensional approaches that lower the cost of transition to formality, increase decent work (e.g. access to facilities or shelter), strengthen workers’ organisations and rights and promote an enabling policy environment (ILO, 2014, pp. 16-22). The ultimate objective is to increase livelihood security and therefore “...enhance the productivity of the poorest members of society.” (Busso et al., 2012, p. 20).

This Topic Guide argues that, while addressing decent work deficits is crucial and formalisation has an important role to play in increasing livelihood security, formalisation may not be viable if the legislative framework is outdated or inappropriate. Furthermore, the informal economy is so prevalent that policy should also recognise its continued existence, and interventions should focus on reducing vulnerabilities rather than formalisation *per se* – some formalisation will be an inevitable outcome, but should not be the main agenda.

WIEGO, the informal economy policy advocacy network, suggests rethinking formalisation, to consider different aspects of legality, e.g. registration, taxation, organisation and representation, legal and social protection, and that formalisation means different things for informal enterprises and informal economy workers, and for different trades (Box 6) (WIEGO, 2016e).

Box 6 Rethinking formalisation: the WIEGO approach

WIEGO (Women in Informal Employment: Globalizing and Organizing) is a global policy advocacy network that includes informal economy workers, researchers and practitioners, which aims to build the voice, visibility and validity of the working poor, especially women.

WIEGO's approach to 'rethinking formalisation' argues that formalisation of the economy can take many forms, including "...registration, taxation, organization and representation, legal and social protection, business incentives and support, and more." (WIEGO, 2016e).

For example, for *informal enterprises*, formalisation may include simplified registration procedures and progressive registration fees, appropriate property rights and use rights to public space. Advantages would include giving access to public infrastructure, enforceable commercial contracts, etc. For *informal jobs* formalisation may mean legal recognition and protection as workers, a minimum wage, occupational health and safety measures, and the right to organise. Formalisation would be differently interpreted for different trades. For *construction workers* formalisation would include more regular work, higher wages, skills and training, safety procedures, accident insurance and ID cards. For *homeworkers* formalisation may mean regular, secure and enforceable work orders, regular and timely payments, occupational health and safety measures, and access to basic infrastructure. For *street vendors* formalisation would include secure vending sites, license to sell and identity cards, infrastructure services at vending sites and freedom from harassment, evictions and bribes. For *waste pickers* it will be important to give legal recognition and a positive public image, identity cards, organisation and bargaining power, and protective implements and clothing.

There is much useful information on statistics, methods and case studies on the WIEGO website, www.wiego.org.

Source: WIEGO (2016b).

Key message

- ❖ *KM7*: Formalisation should focus on reducing vulnerabilities, and strengthening value chains, rather than formalisation *per se* – some formalisation will be an inevitable outcome. The approach must be nuanced and should recognise the varied needs of micro-enterprises compared to employees, and should adopt approaches specific for the different sectors of the informal economy.

4.5 Grassroots participation

For many of the urban poor, particularly young people, the prevalence of TV, mobile phones, mobile money and the internet is transforming their knowledge and agency, and the landscape of poverty is also changing. Those that are organised have considerable potential to shape their own livelihoods, if key blockages can be overcome. It is thus absolutely essential that livelihood analysis, planning and evaluation is deeply participatory from the very inception of intervention (Chambers, 2013; Majale, 2008; Moser and McIlwaine, 1999; UN Habitat, 2001). The very essence of the livelihoods approach is to stress the importance

of locally specific conditions and the views and priorities of poor men, women and children through participatory methods (Mayoux and Chambers, 2005). Overall, each of the three primary elements of the SLF – vulnerabilities, capitals and policies/institutions/processes – can be taken as a prompt for information gathering and analysis, in order to plan interventions. There is a strong case for combining participatory methods with collecting robust qualitative and quantitative data.

Informal economy workers are now seeking to achieve visibility and agency, in order to build grassroots responses for influencing policy agendas. Several global and regional networks of informal economy workers now exist - for example, StreetNet International, a network of membership-based organisations (unions, cooperatives or associations) directly organising street vendors, market vendors and/or hawkers. StreetNet is now a member of Cities Alliance (StreetNet.org, 2002). A further example is Red Latinoamericana de Recicladores (Red Lacre), an umbrella organisation that represents movements of waste pickers and recyclers in Latin America and the Caribbean (Lacre, 2016).

It is also important to consider the availability of information on the contextual factors. Just because supportive policies/institutions might exist, these might not be known about by relevant stakeholders. Other points also critical to note are that:

- Livelihoods are highly gendered and sensitivity to this must remain at the heart of projects from inception to evaluation (Ortiz Escalante and Gutiérrez Valdivia, 2015).
- Individual livelihoods do not operate in isolation and are often nodes in complex supply chains and economic networks. Interventions that fail to consider this wider context are likely to be inadequate and therefore it is essential to establish connections as part of scoping livelihoods. Separate interventions might be required to target individuals and sectors in very distinct ways.
- It is essential to recognise that urban and rural livelihoods are often intimately connected (Haller and Einsiedler, 2015).

Thus participation is essential to illuminate the complexity of modern urban livelihoods.

Key message

- ❖ *KM8:* Access to new technology is changing the landscape of urban poverty, particularly for young people. Many people now have considerable potential to shape their own livelihoods, if key blockages can be overcome. It is thus essential that livelihoods interventions are deeply participatory from inception to intervention.

SECTION 5

Reducing vulnerabilities

The SLF can be used to analyse livelihoods interventions to enable individuals and enterprises to develop a secure asset base as a basis for reducing vulnerabilities and supporting the transition into more secure activities (Carney, 1998). The next three sections of this Topic Guide thus follow the SLF. Section 5 discusses the vulnerability contexts and how these can be addressed, Section 6 examines livelihood assets and Section 7 the governance and institutional framework.

Vulnerabilities can arise from external shocks and stresses that destabilise fragile livelihoods and the external factors that affect particular groups of people.

5.1 Shocks, trends and seasonality

Vulnerability refers to, “...*the insecurity of the well-being of individuals, households or communities in the face of a changing environment. Environmental changes threatening welfare can be ecological, economic, social or political, and they can take the form of sudden shocks, long-term trends, or seasonal cycles. With these changes often come increasing risk and uncertainty, and declining self-respect. Because people move into and out of poverty, the concept of vulnerability better captures processes of change more than static measures of poverty.*” (Moser, 1996, p. 2).

Analysing vulnerability includes identifying both the threat and also the capabilities for resilience. While poor households have always adopted strategies to cope with low incomes, or fluctuating market environments, sudden shocks can deplete savings and overwhelm their capacity to recover. Those who have limited assets or resilience, or face social or political discrimination, form a category of the ‘extremely vulnerable’, discussed in more detail below

5.1.1 Shocks

Informal economy workers face a wide range of shocks. These range from cataclysmic events which affect the wider urban population, to those which impact mainly on the individual and their families. Common shocks include:

- Municipality crack-downs: summary and unpredictable evictions from the place of work are perhaps the single most significant cause of vulnerability, often resulting in loss of equipment and goods, and sometimes in fines and prosecutions. These can range from low-level removals as the police walk by, to large-scale coordinated evictions and prosecutions which mean that workers lose their livelihoods for months at a time (Brown et al., 2015). Evictions are sometimes violent if workers resist and the police are involved. Workers report continued psychological stress from summary evictions. Evictions from living areas may take place too – affecting shelter, home-based work, social networks, and proximity to jobs disrupt livelihoods.
- Flooding and adverse weather conditions: worksites are often poorly drained with inadequate flooring. Mud in the wet season and dust in the dry season damages goods and equipment.

- Fire: fire is a common hazard in urban worksites; shelters may be built of wood or other flammable materials, with unsafe, illicit electrical connections.
- Redevelopment proposals: informal economy worksites often occupy under-used land in relatively central locations. As land values increase, these become a target for redevelopment. Businesses are either evicted or relocated, but relocations are often to unviable sites in peripheral locations where enterprises lose their customer base and supply networks.
- Conflict or violence: ethnic or election violence is another threat, affecting workers in exposed locations. Community violence leads to a drop-off in supplies.
- Individual shocks: these include theft or the illness or death of an income earner, leaving the household to deal with the cost of medicines or funerals, which in many societies involve significant expenses lasting several days to entertain family members. Few informal economy workers have sickness insurance unless there is universal provision (source, Authors' research).

In urban areas, households depend largely on the cash economy, unlike rural areas where they have more recourse to subsistence agriculture or pooled land and pooled labour. The importance of cash availability “...means that one of the most calamitous events faced by poor households is the loss or illness of a major income earner.” (Farrington et al., 2002, p. 11). Incomes from informal employment are often low or irregular, and there is a lack of labour rights and social protection. Sudden unemployment is a likelihood for day-labours, for example. Indeed, wider economic trends hit informal employees first. Liberalisation resulted in the loss of many informal manufacturing jobs, for example. Given the need for cash, indebtedness is a common problem for urban households.

5.1.2 Trends and seasonality

Workers are affected by wider urban trends, for example economic change and increases in traffic or pollution. Problems include:

- Economic trends: informal economies are often intricately linked to city, national and global changes. For example the price of recyclables, such as cardboard and plastic, fluctuates in line with global trends.
- Competition: problems in the wider economy may lead to retrenchments from formal sector jobs and sudden increased competition in the informal economy.
- Seasonality relates to problems of climate and weather, festivals and elections, all of which affect the trading environment.

5.2 Vulnerabilities and their impact on social capital

The external vulnerability context has a considerable impact on social capital, as outlined in Table 9.

Capital deficiencies	
Social capital	<p><i>Social capital.</i> Inequality is often more pronounced in cities and, coupled with wide social diversity and fragmentation, cities are often less safe than rural areas. However, this pattern varies with context and scale. Some urban areas have strong community and social governance networks. Urban households may lack proximity to family networks which can help in managing risk.</p> <p><i>Political capital.</i> Sometimes incorporated into social capital and sometimes separated, the political context of informal economy work is critical. Urban workers are often courted during elections, but lack support afterwards. Relations between informal economy workers and city governments are important – well-organised worker groups and a supportive municipality can win significant gains in security and services.</p>
Financial capital	Although there are generally greater concentrations of financial assets in urban than rural areas, there are significant geographical and social inequalities. Developing world cities have financially poor neighbourhoods, especially in slum areas that often lack accessible and safe financial services for saving and borrowing.
Human capital	Proximity to basic services in urban areas (e.g. infrastructure – water, electricity, etc.) and social services (health and education) is better in urban than rural areas. These are however often not accessible to or affordable for the urban poor. A poor or insecure living environment means that workers suffer high rates of illness and find it difficult to acquire skills to step out of low-paid work.
Environment and health	The urban poor are often compelled to live in poor quality housing in order to live near places of work. Such areas may be located on polluted land, close to industries or waste dumps, and where water sources are contaminated, especially in slums. Poor working environments and lack of health and safety conditions at work can lead to sickness that compromises the effectiveness of people’s labour. Unsafe neighbourhoods heighten the risk of environmental shocks, such as landslides or floods.
Physical capital and work space	Many informal economic activities are undertaken on informally occupied land. Harassment and eviction are constant risks. Informality is often multidimensional, and micro-enterprises may lack registration or decent working conditions, “ <i>These, however, are difficult to address until some form of spatial (tenure) security is achieved.</i> ” (Brown et al., 2015, p. 2236). Informal sector enterprises often have physical vulnerabilities – lack of storage or effective shelter, to protect stock and tools from damage and theft.

Table 9 Vulnerabilities in the informal urban economy

(Adapted from: Farrington et al., 2002, pp. 9-13)

5.2.1 Building resilience

Resilience is “*the ability of countries, communities and households to manage change, by maintaining or transforming living standards in the face of shocks or stresses - such as earthquakes, drought or violent conflict - without compromising their long-term prospects*” (DFID, 2011, p. 6). As a concept, resilience can be applied to any type of hazard, whether natural or man-made. According to Jha et al. (2013) disaster-recovery can be seen as a public good that builds redundancy into urban systems and encourages communities to plan for disruptions. Community resilience describes the ability of communities to function well under stress, adapt successfully to new challenges and promotes self-reliance and social capacity, drawing on social support systems such as neighbourhood groups, kinship networks, mutual interests groups and self-help groups (Arbon et al., 2013).

For informal economy workers the critical need is to build resilience to avert or minimise shocks and stresses, and facilitate recovery when problems occur. This requires enabling workers to develop their own capacity, strengthening the business environment, and a supportive governance context (Box 7).

Box 7 Building resilience: findings from the 10-city informal economy monitoring study

In a longitudinal study of workers and worker organisations across 10 cities in three continents (Accra, Ahmedabad, Bangkok, Belo Horizonte, Bogota, Durban, Lahore, Lima, Nakuru and Pune) on the effects of economic trends, value chains and urban policies, workers identified the following needs:

- Developing capacity: e.g. diversification; strengthening organisation and representation
- Building the value chain: e.g. integrating waste pickers into solid waste management plans; providing infrastructure for waste sorting; increasing security
- Governance and services: e.g. recognising the importance of urban infrastructure to livelihoods; improving the regulatory environment; allowing mixed-use zoning; involving workers in urban policy making

From different sectors in India policy recommendations included:

- *Street vendors in Ahmedabad*: recognise the right to vend as a fundamental constitutional right; protect long-established 'natural markets'; stop unnecessary forced evictions for urban 'beautification' projects; stop harassment, merchandise confiscation and bribes by police and municipal officers; implement national street vending legislation; provide infrastructure; simplify licensing procedures
- *Waste pickers in Pune*: created a universal, state-funded social security scheme; create a comprehensive Municipal Solid Waste Resources Act; improve registration processes and decent work for waste pickers; promote skills development, infrastructure and credit for waste and recycling enterprises

Home-based workers in Ahmedabad: recognise home-based workers (HBWs) as economic actors, and homes as workplaces; give HBWs identity cards; include outside sheds in slum upgrading for polluting work; ratify ILO conventions, and legislate to address low remuneration, poor working conditions; register unorganised workers with the Gujarat Unorganised Sector Workers Social Security Board and health insurance programmes (WIEGO, 2016d).

Key messages

- ❖ **KM9**: Interventions to build resilience need to be context and sector-specific, and multi-faceted, addressing workers' needs, the business environment, and the governance context. Stopping unnecessary forced evictions, simplifying regulations, promoting organisation and social protection are likely to be common programme elements.

5.3 Focus on the extremely vulnerable

Some urban groups have characteristics that exacerbate disadvantage, for example women, youth/children and the elderly as discussed below. Other groups such as lesbian, gay, bisexual and transgender people, people of specific ethnicities, also face disadvantage although these are not discussed here.

5.3.1 Women

Except where social custom prohibits women working outside the home, women often form the majority of informal economy workers (Figure 5, Section 3). In many countries, the informal economy is the primary source of employment for women, for example in India 96% of all women are estimated to work in the 'unorganised sector' (Mohapatra, 2012, p. 198). In many African countries, almost all women in the informal sector are either self-employed or contributing family workers. In many countries in Latin America and Asia, although the majority of workers are self-employed or contributing family members, at least 20% of women in the informal sector are casual wage workers (Chen, no date). Overall, the majority are home-based workers or street vendors. Moreover, the income disparity between men and women is higher in the informal sector than in the formal sector and exists even when women are not wage workers.

Social prejudice and gendered attitudes to public safety make women particularly vulnerable. Women are often required to undertake external economic activity, but also expected to complete unpaid work in the household, cooking and raising children, which can prevent participation in the structured formal sector. The lower participation of women from poor households in education also concentrates their work in lower income segments of the informal economy.

5.3.2 Children and young people

Children have little influence over their lives and therefore find it difficult to realise their internationally agreed [Rights as a Child](#) (UNICEF, 2016). Children are often required to work as an essential part of wider family livelihood strategies that restrict their education and plans. It is often proposed that condemnation and prohibition of child work is the only appropriate response. However, research suggests that a more nuanced and flexible approach is valuable, with a [differentiation between child work and child labour](#) (ILO, 2016b). While children should be protected and prohibited from working in notably dangerous sectors (the [worst forms of child labour](#) (ILO, 2016b)), it is important to recognise the benefits of children's work and support the development of appropriate protection for children engaged in the lighter forms of work such as informal trading (Bromley and Mackie, 2009). The ILO (2002) offers a [handbook on combating child labour which can be accessed here](#).

Young people have also been increasingly recognised as a highly vulnerable group, particularly in countries that have a youth bulge in their population, which, given the lack of formal jobs, is leading to increased competition for wage work and a significant increase in youth unemployment and underemployment (Assaad and Levison, 2013). This often leads to high levels of youth participation in the urban informal economy. Limited education increases the difficulties of finding decent work, either in the formal or informal sector, and thus many countries have prioritised youth employment programmes. For example, Kenya provides enterprise training and credit through the Uwezo fund for business development, and preferential procurement programmes where [youth companies are prioritised as state suppliers](#) (Brookings, 2013). However this does not overcome the social prejudice against own-account work (authors' findings).

5.3.3 Elderly people

There is often no state support for elderly people in the developing world, and where this does exist, it is often focused on supporting those who have retired from formal employment. Those who have had informal work are often left to survive on a combination of savings and family. Older people can sometimes continue working if conditions are supportive.

Some analysis suggests that pensions should be the responsibility of the state, financed through taxation (Bloom et al., 2010), although there have been experiments with micro-pensions in countries such as India (Shankar and Asher, 2011). In some cases, these experience a high level of exit or low participation as more immediate needs are prioritised. Other evidence suggests where products are appropriate, they are understood as useful by informal workers (Uthira.D and Manohar, 2009). Overall, more research is needed to understand the appropriateness of micro-pensions to support informal workers when they are unable to continue working.

Key messages

- ❖ *KM10*: Women's economic empowerment should be a core element of any livelihoods intervention, with a focus on business enterprise and own-account work.
- ❖ *KM11*: Young people have been recognised as highly vulnerable, especially where there is a youth bulge and employment is scarce. Where children's work is unavoidable in combatting household poverty, policies should protect them from harmful work, provide appropriate schooling and recognise the training benefits of work experience.
- ❖ *KM12*: Policy should recognise that many old people can continue to work if vulnerabilities are reduced.

5.4 The extreme poor

The number of extreme urban poor has increased in countries such as Bangladesh, as more people move to urban areas in search of work. While all members of the informal economy are vulnerable, the extreme poor will often lack even the most basic livelihood assets. For example, estimates suggest that at least 4% of the 2.8 million extreme poor in urban Bangladesh, accounting for at least 112,000 people, are pavement dwellers. Many pavement dwellers are illiterate, and their access to livelihoods, formal employment, social services and benefits is almost non-existent. Pavement dwellers find low-paid work as day-labourers and rickshaw pullers in the informal sector of the economy (Concern Worldwide, 2015, pp. 17-21).

In line with the integrated approach suggested in this Topic Guide, multiple interventions can yield positive livelihood improvements for the extreme poor, for example the *Shiree* programme in Bangladesh (Box 8).

Box 8 Economic empowerment as a key to tackling extreme poverty – Shiree in Bangladesh

The *Shiree* programme (the Bangla word for steps) is a challenge fund that works towards economic empowerment of the poorest. The programme aims to help 1 million people take lasting steps out of extreme poverty and achieve sustainable livelihoods. The programme runs from 2008 to 2016. It operates under the auspices of the Government of Bangladesh, supported by UK Aid and the Swiss Agency for Development and Cooperation, working with national and international partner NGOs (PNGOs).

Shiree takes a multidimensional and rights-based approach to helping households graduate from extreme poverty. Delivery is through PNGOs who operate a variety of projects, including providing households with capital or equipment to start a small business, business skills training, market linkages, assets such as equipment or livestock, and support such as hygiene education or sanitation infrastructure. The programme is supported by research into the causes and effects of extreme poverty and the effectiveness of poverty-reduction approaches, and a communications and advocacy strategy to change the way that the extreme poor are viewed by government, civil society, and donors.

By the end of 2014, the programme had reached nearly 310,000 households, encompassing over 1 million people of whom more than half were women and girls. Nearly 130,000 of the participating households had graduated from extreme poverty, and the *Shiree* programme is changing the way that policy makers address poverty eradication. Several key lessons were learnt from the programme in 2014: shocks such as poor health, old age, disasters, disability or being a single-headed household entrench poverty; older people, women, female-headed households and the disabled are extremely vulnerable to poverty and differentiated approaches need to address this; secure title to land and shelter removes the threat of eviction, thus helping beneficiaries invest their energies in economic activities.

The *Investment for Economic Empowerment of Street dwellers, (InvEST)*, one of the partner projects, is managed by Concern Worldwide and implemented by a local NGO Nari Matree to support 700 street dwellers – those who have no roof/shelter at all, but sleep, cook and live on the street. Concern Worldwide promotes the improvement of human and financial assets, the promotion of citizens' rights and entitlements, and a reduction in evictions and loss of physical assets.

The main innovation of the InvEST project was the creation of a social enterprise to provide work to street dwellers and the creation of the first hygienically controlled street food chain in Dhaka under the brand name MojarKabhar. Participants significantly increased their incomes, but the business faced problems of viability, and InvEST is establishing new outlets for the food produced. Another Concern Worldwide project targeting street dwellers is Amrao Manush, providing services for street dwellers and encouraging saving and self-reliance. Amrao Manush's multi-purpose intervention provided a platform for service delivery including day-care and education support for children, health services and access to nutritional services, and 'savings drop-in-centres' for women and children. Participants were supported with income-generating activities and street dwellers were helped to obtain birth certificates and national identity cards in order to access social services.

As a result of this intervention: more pavement dwellers in the project gained employment – up from 4.3% in 2011 to 23.8% in 2014; 3,765 (487 women, 349 men and 2,929 children) received birth certificates; almost 3,000 pavement dwellers received national identity cards; and 4,500 (out of a total of 13,500) pavement and squatter dwellers have successfully moved to more secure shelter through increased incomes and savings over the past four years. (Baten et al., 2013; Baten et al., 2011; UK Aid and SDC, 2014, 2015).

Key message

- ❖ **KM13:** Extreme poverty for the most vulnerable must be tackled through integrated approaches that both improve individual assets and capabilities and address the vulnerability context which they face, e.g. ensuring access to a legal identity, access to health facilities, skills development, and support for children.

5.5 Migrants and refugees

In many cases, those working in the informal economy are internal or international migrants, and in some cases they qualify for refugee status. There are differences in bargaining and entitlement opportunities for migrants from the same country and those from abroad (Akram, 2014b, p. 14). Among the most vulnerable are undocumented international migrants (Balbo, 2007). Furthermore, those identified as migrants often find themselves excluded even more than 'local' informal workers, and are usually excluded from participatory planning processes, which often depend on nationality as a criterion for participation (Brown et al., 2010). They are also deprived of access to health, education and social protection if they have no legal protection, as outlined below.

It is also recognised that, "*People displaced by violent conflict and the ensuing destruction of livelihoods are increasingly likely to end up in urban areas rather than camps.*", and, "*There are considerably more refugees in urban areas than are officially recognised.*", because of the economic opportunities that cities present (Jacobsen, 2006, pp. 273-274). The profile of urban refugees is understood to generally reflect the 'normal' distribution of population, although this will vary with context. In some cases, governments assign prima facie refugee status to all nationals from a particular country, regardless of their individual situations. Thus all Somali and Sudanese nationals were designated as refugees by the Kenyan government and, therefore, were required to live in camps (Campbell, 2006).

Many refugees prefer freedom over formal support and move to urban areas despite their lack of the legal right to work, as in the case of Burmese refugees living in Thailand, who have been there for over 20 years (Brees, 2008). Under international law, refugees and asylum seekers fall under the protection of the host state, as specified in the 1951 Refugee Convention and other international instruments: and, "*These rights pertain no matter where refugees are ... regardless of national policy requirements.*" (Jacobsen, 2006, p. 276). In practice, while some local authorities might be opposed to refugees, elsewhere they offer a flexible approach – judging the local situation is likely to be important in building partnerships (Brees, 2008).

Many refugees in urban areas will work in the informal economy. While in some populations this number may be relatively small, in others the impact can be significant. For example, in Thailand, Burmese migrants have helped transform the border town of Mae Sot from a trading post to a sizeable industrial zone (Brees, 2008). In general, urban refugees are vulnerable, facing problems such as arbitrary arrest and detention, exploitation by employers, discrimination and physical abuse, or xenophobia from the host population (Campbell, 2006; Jacobsen, 2006, p. 276). In many cases, refugees need to rely on networks of fellow countrymen living in the city (Jacobsen, 2006, p. 282), who are important in facilitating livelihoods. Research generally concludes that "*Urban refugees could be highly beneficial to cities if they were allowed to pursue productive lives absent legal restrictions, harassment and insecurity.*" (Jacobsen, 2006, p. 273).

UNHCR (UNHCR, 2009) has developed a specific [Policy on Refugees in Urban Areas](#) – that emphasises protection, avoidance of dependency, and promotion of self-reliance. Amongst core rights of refugees identified is a ‘right to livelihoods opportunities’. Upholding the social and economic standing of refugees is promoted partly by means of training and livelihoods promotion (p. 8). UNHCR seeks to work in partnership with authorities, development agencies, micro-finance institutions and others, to enable refugees to engage in employment or self-employment (p.16). A particular challenge noted by UNHCR is where refugees are denied the right to work under national law or practice (p.17).

Key messages

- ❖ **KM14:** Migrants and refugees are often attracted to urban areas because of the employment opportunities offered and the support available from fellow countryman; policy should recognise that many are entrepreneurial and can make significant contributions to urban economies.
- ❖ **KM15:** Increasing the security of migrant livelihoods e.g. through providing identity papers, a right to work, or language training can reduce vulnerabilities, and maximise their economic contribution.

5.6 Post-conflict urban livelihoods

The aftermath of political upheaval or violent conflict is often characterised by a fundamental failure of governance, and economic collapse. In this context the informal economy is a lifeline for many people, both those who have lost wage employment and rural-urban migrants displaced by security or economic problems elsewhere, but its potential is rarely recognised in humanitarian and crisis-relief programmes.

An immediate impact of crises is often the destruction of local economies and increased unemployment, leading to insecurity, poverty, hunger and frustration, which in turn exacerbates social and economic insecurity and rights violations. Political instability may also disrupt supply chains and markets, while investor confidence evaporates (UNDP, 2013). For instance, after the 2011 revolution, Egypt experienced soaring inflation and unemployment and an influx of migrants from Upper Egypt to Cairo working informally. Earle (2011) suggests that, based on case studies of land dispossessions in São Paulo, Ahmedabad, Kigali and Dar es Salaam, insecure tenure and the threat of eviction causes a spiral of social and spatial exclusion that can create or exacerbate conflict. Links between chronic poverty and conflict also exist and the World Bank finds that the poverty gap between countries affected by violence and others is widening (World Bank, 2011b).

In such contexts there is often a rapid increase in the urban informal economy and the vulnerability of informal economy workers becomes acute, as a result of high inflation, loss of formal work and civil unrest. Collier (1999) suggests that during civil wars, GDP *per capita* income is usually 2.2% lower than it would otherwise have been because of lost production or physical destruction, although a few recent cross-country studies also show that low-intensity conflict is not as harmful as high-intensity conflict. Based on panel data of a range of disasters in 189 countries, Sawada et al. (Sawada et al., 2011) found that, in the long term, wars have positive impacts on per capita GDP growth. A further problem is the failure of local governance and the provision of basic services in conflict-affected settings. Current research by the authors is examining the extent to which the informal economy supports subsistence and replaces basic services that have failed and can provide the seeds for economic growth and recovery.

In South Sudan, the [Urban food security, livelihoods and markets](#) programme, a DFID-funded component of a wider programme, seeks to establish sustainable value chains and livelihoods. The programme targets urban households with no food sources, to help them access food and increase their productive income. It does this by linking them to rural agricultural producers to help them develop agri-business value chains and improve food security, capitalising on the perceived business acumen of people in this part of Sudan. The programme seeks to target value chains and gender inclusion, entrepreneurship, urban household investment in agricultural enterprises, income generation and micro-enterprise development, access to finance, and rights-based advocacy. Although it has faced some delays because of conflict and security concerns, it now looks set to proceed.

Key message

- ❖ *KM16:* Humanitarian agencies need to increase levels of interest in, and recognition of the value of, integrating livelihoods into the humanitarian response – especially in the rehabilitation/recovery phase, given the increased number and length of protracted urban crises and number of people currently being affected. Far from being a temporary problem, even in stable cities the informal economy provides many jobs and services – its potential for building livelihoods to contribute to medium-term economic recovery needs to be explored and supported.

SECTION 6

Strengthening the asset frameworks

This section examines the six individual elements of the SLF asset framework (Figure 1, Section 2) and the policy interventions to strengthen these. The section looks first at social capital, and then at health and knowledge capital (human capital), physical capital, financial capital and environmental capital.

6.1 Social capital: building collective organisation

One of the best means for informal workers to secure economic rights is through collective organisation (ILO, 2014, p. 35). Informal networks and formal organisations create the social capital through which workers can strengthen ‘voice’ and achieve recognition of ‘economic rights’ – the wide range of labour, commercial, and property rights needed to secure their livelihoods – encompassing both positive (freedom to do) and negative approaches (freedom from) (Chen et al., 2011, pp. 6-7).

A wide variety of networks and organisations exists. For example, “*Trader and market associations fall into two groups: formal associations ... such as management committees and trade unions; and informal kinship, religious or other social networks which derive their power outside the formal political or administrative process.*” (Brown et al., 2010, p. 670). Most organisations are locally based, although some international networks of informal economy workers have now developed. Associations provide solidarity and social support, and a useful means of engagement with state authorities, for example in negotiating access of space for informal economic activities, especially where the organisation has a contractual relationship with the local authority and has an ongoing representation in relevant processes (Brown et al., 2015; Chen et al., 2011). Some of the key types are listed below.

International networks. The Bellagio International Declaration of Street Vendors (1995), led to the creation of StreetNet in 2002, with its headquarters in Durban, South Africa (StreetNet.org, 2002). By 2008 the network had associated with 300 street vendors’ organisations in Africa, Asia and Latin America. There are also other international networks, such as the [Congress of South African Trade Unions. Women in Informal Employment: Globalizing and Organizing](#) (WIEGO) is an influential international network aiming to empower informal workers and secure their livelihoods, and strengthen knowledge on the informal economy.

Trade unions. Although formal trade unions may be weak, in Africa for example, there is a strong campaigning lobby that promotes formalised worker organisations, with rights to work and collective bargaining as a basis for pro-poor policy development. For example, the Informal Trade Management Board in Durban, South Africa, provides the authorities with a focus for negotiation, and can undertake bulk purchase or site management for groups of traders. However, accountability to members can be limited, and even where women form the majority of the membership, men tend to take part in the leadership (Skinner, 2008). Furthermore, access to resources and collection of fees is problematic. Where relationships between the state and worker organisations are confrontational, relationship-building may be an important element in constructive intervention.

Chambers of commerce: These are likely to have good negotiation influence with local authorities, but might be more inclined to represent the interests of larger (sometimes formal) enterprises, and therefore, more powerful economic actors (Brown et al., 2010, p. 673).

Formal associations: In many countries associations might be registered with the state, for example, following the Sustainable Dar es Salaam Project (SDP), a strategic planning project initiated by UNDP, about 240 self-help groups represented 16,000 traders and two umbrella groups were established – VIBINDO (Association of Small Businesses) and KIWAKU (an association of clothes sellers) (Brown et al., 2010, p. 674). Objectives included advocacy, acquisition of trading plots and providing business information.

Informal associations. Networks of all kinds are used for social support and political representation: including choirs; youth clubs; developmental charities; churches and religious groups; ethnic associations; welfare groups; savings and credit associations; burial societies and many more. Moreover, these networks might function to represent informal workers, but also provide other services, such as site allocation, childcare, informal insurance or credit. For example, the Mouride brotherhoods in Senegal provided new traders with entry to the central Sandaga Market (before it was burnt) (Brown et al., 2010, p. 673). For hawkers, membership furnishes the trust on which wholesalers allow them goods on a sale-or-return basis.

Cooperatives. These can include either buyers or sellers and can help individuals overcome market domination by large companies. Cooperatives are also points of engagement with the state. Some cooperatives have been subject to governance problems, but there are many examples of successful examples. Cooperatives can also be used to carry out the financial services of saving, borrowing and insurance – for example in India, Cooperative Banks are a key part of the urban financial services for the poor.

Unfortunately, sometimes collective organisations are far from representative and, for example, may be co-opted by state authorities, or leaders may become more concerned more with maintaining their position than protecting workers. This can spark conflict between the organisations that workers see as representative and those accepted by government (Brown et al., 2015). Where relocations are undertaken, those who are members of associations or previously licenced may be given priority for a new site, but often the most vulnerable are left out (Mackie et al., 2014, pp. 1895 & 1896-1897). In the long term, informal economy workers rarely achieve influence in urban policy making, except at times of crisis or during elections when they are courted to support party political interests.

Case studies on the development of collective bargaining have been compiled by the WIEGO Inclusive Cities network, see the [Building organizations](#) resource (Box 9) (WIEGO, 2016a). Other examples of how legal rights have been won were compiled as a background to the 2013 World Development Report: [see Urban informal workers: representative voice and economic rights](#) (Chen et al., 2011).

Key message

- ❖ *KM17:* Supporting the development of representative workers' associations, and a forum for dialogue with the state, is a key strategy for securing livelihoods.

Box 9 Collective bargaining – bidi workers in India

In India in 2001, around 440,000 people were employed in making *bidis* (hand-rolled cigarettes). Unusually, in India's 'unorganised' sector, *bidi*-making is regulated by law, with a set minimum piece rate for a thousand *bidis*. The *bidi* laws were passed as a result of worker action. Since 1978 *bidi* workers have been supported by the Self-Employed Women's Association (SEWA), established in 1972, with about 1.3 million members by 2012 in 10 states of India, and covering 126 traders. In 2012 SEWA covered about 71,000 *bidi* makers.

In 1981 SEWA helped organise the *Bidi Workers Organisation*, lobbying for fairer pay. SEWA workers then formed a cooperative and lobbied for a health centre as required under the legislation and for housing for *bidi* workers, with funds provided by the Urban Development Corporation, and land by the Ahmedabad Urban Development Authority. In 1988, the Gujarat High Court ordered the State Provident Fund Commissioner to review provident fund payments to *bidi* workers. After these successes, organisation of *bidi* workers spread to other cities in Gujarat, West Bengal and Madhya Pradesh, winning concessions of increased pay, provident fund payments, housing, health schemes, etc. (Budlender, 2009)

6.2 Health

Health or physical labour capacity is one of the main assets for the extremely poor (Baten et al., 2013). Healthcare costs or poor health are key drivers of poverty and the poor in urban areas are exposed to many health hazards that are a barrier to secure livelihoods. Poor nutrition is compounded by poor sanitation and high levels of disease and physical danger. Micro-enterprises may operate in poor working conditions without access to basic services and where safety protection is poor, resulting very high levels of risk that undermine economic productivity.

Poor health of a worker or family member requires payment for treatment, and leads to a reduction in working days, income cuts or job loss. In order to cope, households are often forced to use savings, borrow money from formal and informal sources, or sell assets. Working conditions are often hazardous, and occupational exposure may be serious for child labourers, particularly those working in dangerous occupations, such as construction or industrial recycling, e.g. they may suffer from lead poisoning when working with batteries (Shah et al., 2012). In order to improve health and safety, resources on [participatory methods are recommended from the ILO](#), and [health and safety gains can be linked with environmental improvements](#).

Informal employment is also characterised by a lack of formal social protection and health insurance, and women particularly are often excluded from health care (Gideon, 2007). However, given the large-scale of informal economy work for which no social security payments are made, the income for governments to support health care is also weakened.

In response to the lack of health care, there has been widespread experimentation with voluntary schemes specifically targeted at informal workers. A useful resource to [understand the health needs from the perspective of informal workers](#) has been published by WIEGO, with accounts from India, Thailand and South Africa. There is relatively little research into the use of health services targeted at the informal economy, but what is available suggests that uptake of voluntary schemes is low, particularly where those enrolled are required to pay the full cost of insurance. However, where individuals do enrol, they see their out-of-pocket expenses on healthcare fall after they are insured (Thornton et al., 2010).

There is also a burgeoning informal system of health care (Box 10) (Bloom et al., 2011). In some cases this involves illicit payment for health care in public institutions (Lewis, 2007). However, research suggests that “*In many countries poor people obtain a large proportion of their outpatient medical care and drugs from informal providers working outside a regulatory framework.*” (Bloom et al., 2011). Although little is known about the sector, “*Informal health care providers comprise a significant component of health systems in developing nations,*” (Sudhinaraset et al., 2013). Generally, it is found that informal health care is of a poor quality “*...with deleterious consequences in terms of the safety and efficacy of treatment.*” (Bloom et al., 2011). More relevant however, is that interventions to strength other livelihood assets (such as housing, income, social capital and education) will also potentially improve health (Vlahov et al., 2007).

Box 10 Health and outreach

Health care services have sometimes been improved by urban health clinics and follow up support in urban areas. A successful example can be found in Dhaka city run by the Bangladesh-based non-governmental organisation Dushtha Shasthya Kendra (DSK), with key recommendations emerging from this project (Kendra, 2012, pp. 23-24). Another initiative, which has as traditionally focused on rural areas, but could apply in cities, is the use of community health workers, for example, as employed through Concern Sierra Leone’s Child Survival Project, who make monthly home visits to pregnant women, new mothers and children under-five years of age (Cummings et al., 2015).

Key messages

- ❖ **KM18:** Increasing health and safety at work (including access to basic services at work, such as shelter, clean water, toilets, safe electricity, solid waste collection and drainage), and reducing child labour are key interventions to support livelihoods.

6.3 Knowledge and livelihoods

Two aspects of knowledge are relevant to this debate, the education of informal economy workers and business entrepreneurship and awareness.

Knowledge: Poor urban dwellers have no knowledge on their entitlements and rights, and where they can access services. This is often best addressed through associations of the urban poor. A prominent representative group is [SDI \(Shack/Slum Dwellers International\)](#), a network of community-based organisations of the urban poor in 33 countries and hundreds of towns and cities across Africa, Asia and Latin America. SDI affiliates form national federations and members share specific methodologies, including daily and weekly savings groups, peer exchanges, enumerations and mapping, so that communities ‘own’ their information, and partnerships to catalyse slum upgrading. Although SDI does not have a primary livelihoods focus, the daily savings and local projects often support members’ livelihoods.

Mobile phones are transforming access to information, and can now be accessed by many of the urban poor. Those who cannot afford a handset may be able to obtain a SIM card and rent a handset when they need to call – this also saves the problem of recharging phone batteries. Mobile phones are widely used for business, but mobile money and internet-

access is now becoming more common. For example in Kenya, roadside cut flower vendors sell the surplus from the multi-national flower industry, using mobile phones to contact customers and suppliers, purchase flowers and research bouquet designs (Ngobi, 2014).

Education: Families that rely on informal work have complex relationships with education. Some informal economy workers are well-educated (for example a 2014 survey by the authors of 208 micro-enterprises in Nairobi and Kisumu found that 14% had technical education and 3% had university degrees), but many have relatively low education levels and sometimes low literacy. Technical training raises the chances of less vulnerable and formal sector work (Adams, 2008).

There is a link between a household's poverty and vulnerability and the involvement of children in work activities (ILO, 2013b). Many children from poor families work, either permanently, temporarily following a negative shock, or part-time after school. One of the most effective means of increasing participation in school is through interventions that reduce the need for children to work, such as cash and in-kind transfer programmes, public employment programmes, social health protection, social protection for people with disabilities, income security in old age and unemployment protection (ILO, 2013b). For an overview of different modes of cash transfers with potential to promote formal educational involvement, see the ILO [World report on child labour](#). One of the most prominent examples of success in this area is the *Bolsa Família* programme in Brazil, which provides financial aid to families that ensure their children are vaccinated and sent to school (**Error! Reference source not found.** 11). Another example of success is through Fair Trade networks (Box 12).

Box 11 Bolsa Família

The *Bolsa Família* programme aims to reduce poverty and inequality, while promoting knowledge and health capital by improving schooling and by reducing the incidence of malnutrition among the poor population. To achieve this, the programme provided a fixed monthly stipend (in this case BRL70, about USD30) to parents in exchange for sending their children to school and complying with various health check-ups. The programme has provided support to some 50 million low-income Brazilians, or a quarter of the total population.

Overall the program is considered to be a great success, with broad reduction in child poverty (Barrientos and Talias Simunovic, 2015). When outcomes are analysed by further demographic characteristics, it is found that there has been great positive impact in urban areas and also among girls; while older boys have gained significantly more than younger boys (Barrientos and Talias Simunovic, 2015; de Brauw et al., 2015b). There is also evidence to suggest that the programme might increase informal employment as families seek this support by either maintaining or reporting income below the eligibility threshold (de Brauw et al., 2015a). There is also the suggestion that families can become dependent on the transfers and it is difficult to ensure that families and individuals will invest these in remunerative activities, rather than consumption to alleviate poverty (Rakodi and Lloyd-Jones, 2002). Despite these limitations, the *Bolsa Família* programme was been widely 'exported' and is currently being further developed in Brazil.

Box 12 Women's economic empowerment in Fair Trade

Women Organising for Fair Trade is an action research project that took place across seven countries – Kenya, India, Tanzania, Nepal, Uganda, Nicaragua and Mexico – working through local Fair Trade networks. The project aimed to highlight success factors in organising women producers for export production and to strengthen membership-based organisations addressing issues such as leadership, market access, networking, and policy change. Many of the women had low levels of literacy, so the project examined how to reach government agencies, and access information. However, it was evident from the case studies that women producers needed continuous support to innovate in product development, diversify in markets, learn business skills and access fair finance. They also need support in bringing this knowledge to the wider community of women producers (WIEGO, 2016f).

Business entrepreneurship. A critical problem faced by many informal economy workers is the lack of business entrepreneurship skills. Many enter a particular trade because they see others being successful, or are introduced by relatives, but have little awareness of developing markets, pricing, basic accounting or the potential for diversification. Formal schooling does not include business skills although own-account work is likely to be the source of jobs for many young people (unpublished research by authors). Post-education support is either absent or weak for those adopting informal employment (Palmer, 2007). Vocational training within informal work can be highly beneficial, but is often not accessible to people on low incomes. A World Bank study suggested that training for the informal sector is necessarily different to that for the formal sector – it should include both technical skills and business management, be delivered with a flexible schedule and have immediate application as the poor cannot afford long periods of training without a payoff (Johanson and Adams, 2004) (see also Box 13).

Box 13 The Jóvenes en Acción training programme in Colombia

In 1998 Colombia was hit by recession and in 1999 GDP growth fell to -6%. Given the devastating effect on poverty, in 2001, the country introduced three social programmes to help those most affected by the recession. One of these was Jóvenes en Acción (Youth in Action), which ran from 2001 to 2005 and reached around 800,000 people. It provided three months of classroom training and three months of work experience for young people aged 18-25, from the lower income groups. Training programmes for different professions were run in seven cities. They included taxi and bus driving, office work, call-centre operations, nursing, pre-school teaching assistants, textile operators, plumbing, etc. Selection from among eligible candidates was random, and the employment success of selected and non-selected groups were compared after a year. The evaluation found that those offered training were more likely to be employed and had monthly earnings about 12% higher than those not offered training. Training seemed to encourage employment in the formal sector, particularly for women.

The Jóvenes en Acción programme reached an impressive number of young people over a short time, but seems to have been targeted at a young and relatively well-educated target group – most individuals had several years' of high school education – seeking wage employment. This approach is more difficult where poverty levels are lower and the formal sector has no absorption capacity (Attanasio et al., 2009).

Organisations have provided vocational training to young people, offering skills such as basic literacy and numeracy training, practical work skills based on individual needs (such as sewing) and basic rights awareness sessions (Shiree, 2014). For support on the development of vocational training see the GIZ [Toolkit: Learning and working in the informal economy](#). As in other cases, working with local trade associations can be highly beneficial.

Key messages

- ❖ *KM19*: Improving education can both increase the resilience of livelihoods and support transition into formal sector employment where this is available.
- ❖ *KM20*: Business training is valuable, but must be taught in affordable modules at times that do not take people away from work.

6.4 Space and physical planning

Tenure insecurity remains one of the most significant challenges to the urban poor in their livelihoods, not just where they live but also at the place of work. Lack of recognition by government, continuous threat of eviction and repeated experiences of eviction destroys physical and financial assets, breaks supplier and customer links and increases the poor's vulnerability to extreme poverty. Tenure insecurity also results in lack of regular and affordable access to water, electricity and sanitation – these are often expensive and controlled by landlords/mafia, increasing transaction costs for the urban poor. Thus physical planning of space and infrastructure, and understanding the pull and push factors influencing the location of sites for work, are critical to supporting urban livelihoods. *“Secure tenure for livelihoods deserves as much attention as land tenure for housing ... land in the public domain is an important livelihood asset but is subject to complex claims that have barely been explored.”* (Brown, 2015a, p. 239).

Informal economy workers often rely on public space as a key livelihood resource and physical planning of the urban environment has a significant impact on the informal economy (Brown, 2006). The spaces occupied by micro-enterprises are often highly specific, located to capture markets or be near suppliers. Although official policy often seeks to relocate 'messy' areas which support low-income livelihoods, this can be highly counterproductive. For street vendors, relocation even by one or two metres to the rear of the pavement can mean a loss in business takings. The space needs for different types of livelihoods are discussed below.

Location. Certain urban locations have significant potential for micro-enterprises that cannot easily be replicated. *City centres* are areas of high pedestrian flow and thus key locations for street vendors. Major *bus stations and terminals* also offer some of the best trading opportunities. New bus rapid transit systems now being installed in many cities often displace roadside vendors and make no provision for them at new transit stops, despite the commercial opportunity these offer. *Major traffic junctions* are also important vending areas. In many instances, managing congestion caused by micro-enterprises, for example through better use of pavement space or time sharing is a much better option than relocation. *Marginal land* (e.g. flood-prone areas) often provides opportunities for low-cost sites, affordable for micro-enterprises, and is particularly useful when there is road access and some basic services. *Peri-urban areas* also provide low-cost locations (see Box 18).

Home-based work. The ‘home’ is often one of the biggest livelihood assets available to urban residents. Many livelihoods are undertaken in this space (Chandrasekhar, 2014), for example home-based garment work (Hassan and Azman, 2014). In many cases, informal workers, even those living in informal settlements rent their homes from private landlords. Where housing is formally developed however, including any upgrading of informal housing and slums, it is important to bear in mind the likely functions of the building beyond a dwelling space (Holliss, 2015). Improved housing and services – water, waste disposal, sanitation, drainage and electricity – improves the health of occupants, but can also help strengthen livelihoods by providing more secure and safer working environments. However, where housing rents or costs increase, vulnerable groups may be forced to move. Piecework suppliers are often not prepared to follow workers to new locations.

Unplanned and informal settlements. Many of the developing world’s urban population live in informal settlements – e.g. shanties, bidonvilles, favelas, squatter settlements or slums – built without formal land title. See EOD-TG: [Planning for Sustainable and Inclusive Cities in the Global South \(Brown, 2015b\)](#). Such low-income settlements are complex mixed-use areas that often support a rich variety of livelihoods, linked in complex value chains to the wider urban economy. These ‘slum economies’ are rarely replicable in clearance and redevelopment schemes. For example the slum of Dharavi in Mumbai, housing perhaps a million people, is a major centre for waste recycling, with separated waste stored on the roofs of dwellings. This gives rise to separate occupations including waste picking, portering, sorting and the middle men who purchase separated waste. Areas which were informally developed, but have been regularised through grant of land title often retain this complexity of land use. These agglomeration economies are an important part of the urban economy and services, but are little understood. The poor physical and built environments of unplanned and informal settlements often undermine the productivity of micro-enterprises based there.

Property rights. Micro-enterprises often operate on sites without formal tenure, but a myriad of informal property rights exist, allowing occupation, sub-letting, sale or inheritance (Brown, 2015a, p. 239). Vendors operating in the street outside a property may pay the adjacent property owner, who might provide access to taps and a toilet, while the vendor also provides security in return. In Ahmedabad, unofficial ‘landlords’ control large areas of the city centre, keep a written record of tenancies, and extract rent for trading sites, but also negotiate bribes to the city police on behalf of their tenants (Mahadevia et al., 2012, p. 245). Based on a study of livelihoods in Dakar and Senegal, Brown (2015, p.247) found that *“Collective use rights extend to public land, that such use [for livelihoods] provides both public good and private profit, and that these rights can be accommodated with legal frameworks of sub-Saharan Africa.”*

Urban management and zoning. Bylaws that govern zoning and urban management often prohibit the use of large public spaces, such as streets, for informal work such as hawking. Informal workers who occupy these spaces may be subject to temporary or permanent eviction by the authorities. Street-level bureaucrats – the police or local government officials – often use the illegality of activities to extract bribes, which sometimes provides temporary access (Brown et al., 2015). In many cases these processes are highly exploitative. Of 622 micro-traders interviewed in Dar es Salaam (Tanzania), 49% had experienced confiscations, property destruction and harassment while 30% had experienced eviction (Lyons et al., 2014, p. 10869). In Dakar, 90% of 138 respondents had experienced insecurity: harassment, confiscations, fines and evictions (Brown et al., 2015, p. 2241), thus making vulnerable livelihoods even more vulnerable. Even where traders pay fees to the municipality, trading rights are not assured.

Infrastructure. Traditional concerns of the need for infrastructure and basic services are as important to the informal sector as to formal enterprises. It is axiomatic that, *“High-quality goods and services cannot ...be delivered without roads, electricity, and telecommunication. And moving people is as important, if not more important, as moving goods.”* (Busso et al., 2012, p. 22). Businesses need access to water, toilets, storage, electricity and transport, but services are often controlled by gatekeepers and are expensive to the poor.

Redevelopment and relocation. Redevelopment creates major problems for informal sector enterprises – and is often keenly contested. Micro-enterprises are rarely consulted in the redevelopment process and thus the significance and needs of the informal economy are not considered (Cross and Karides, 2007). Even when redevelopment is specifically designed to make space for informal economic actors, this is often poorly designed and located, with insufficient space for all the displaced workers. For example, in Dar es Salaam, of an estimated 700,000 traders displaced by redevelopment, space was found for only 25,000 (Lyons and Msoka, 2010, p. 1088). New trading sites are often located peripherally and receive few customers, as seen in both Africa (Lyons et al., 2014, p. 1088) and Latin America (Mackie et al., 2014), while travel times and costs are increased. Links to suppliers, creditors and customers are disrupted, which also adversely affects the business. In many cases, traders are not involved in the allocation of formalised trading spaces, and so their individual needs and interests cannot be considered, and where sites are unviable workers simply return to previous locations (Mackie et al., 2014, p. 1895). Micro-enterprises also have the potential to regenerate declining areas; for example the Congolese migrants in the Cape Town suburb of Wynberg (Dickenson, 2016). Attempts to relocate street vendors and other who use public space are widespread, but relocation of street vendors to off-street markets almost always fails (Brown, 2015a).

Box 14 Impact of evictions

“In that July eviction, my powder soap worth TZS15,000 was confiscated and TZS10,000 cash taken by the city militia. After a day I went to request for them, but they beat me and told to pay TZS40 000 as a fine. Now I have again lost the small capital which I was trying to raise. It is very painful to me and I don’t know how my two kids are going to survive.”

(Household goods seller turned food seller, Mbeya, cited by: Lyons et al., 2014, p. 1090).

Avoiding evictions. Local policy towards informal economy operators often follows a four-stage approach – harassment, fines, confiscations and evictions (Box 14). Harassment by low-ranking officials is extremely widespread, often accompanied by bribery, taking goods and low-level force. Fines are often over-charged and punitive. Goods are frequently confiscated by local authority staff, and sometimes returned on payment of fines, but often spoiled in the process. Evictions are always harmful to informal economy workers and their families and exacerbate poverty, but are extremely common. The results are loss of income, families going without food, children kept out of school, and disruption to business networks. Evictions may be temporary, pursued by local police or municipality guards – often enforced for a few hours or days. More harmful are widespread politically-driven crack-downs followed by fines and prosecution of operators. Evictions cause livelihoods losses, as people are unable to go to work for a number of days, and many face income cuts or lose hard-won informal jobs; in housing evictions they may lose all basic services and the livelihoods assets these provided (Baten et al., 2011).

Enabling interventions. Spatial and physical planning interventions can enable space for informal economy operations. In Cusco for example, planners eventually recognised that, *“Removing street vendors doesn’t work because the next day he’ll come back because he has to live on something, you have to eat something, you have to keep the house.”* (Sub-

Director of Commerce, Cusco Provincial Government, August 2011, cited in: Mackie et al., 2014, p. 1897). Thus, policies allowed for the use of public space by informal sellers two days in the week and the local government engaged with sellers to improve their business practices, providing training on how to maintain accounts and encouraged them to move away from selling from the floor to selling from tables (Mackie et al., 2014). Warwick Junction remains one of the best examples of inclusion of street traders in major urban projects, although tensions between city council and traders remain (Box 14). The Fair Trade network has sought to strengthen the livelihoods of suppliers (Box 15), and a substantial cross-cutting programme linking infrastructure and livelihoods has been designed in Bangladesh (Box 15).

Box 15 Working in Warwick, Durban's inclusive design for street traders

Warwick Junction is a busy street trading area adjacent to Durban's main train station, bus termini and taxi stops. The Warwick Junction Urban Renewal Project has achieved international acclaim for its inclusion of street traders in a major new upgrading programme, made possible by over a decade of work by local government officials and street trader leaders. In the 1870s Warwick Junction emerged as a trading centre for Durban's Indian community, and the Grey Street Juma Masjid Mosque was built, one of the oldest mosques in the region. This was followed by an influx of rural Africans to the area, and by the 1930s Warwick was the main shopping centre for many of Durban's population (Dobson et al., 2010).

The urban renewal project was set up in 1995 to improve safety, security, cleanliness and economic opportunities and to promote Warwick's role as a regional trading and transport hub, with a focus on the needs of the urban poor. The post-1994 political era ushered in a more tolerant approach to street traders. The 8,000 or so street traders in the area became organised, and the Self-Employed Women's Union, and several other trader associations were set up. Inter-departmental working between local authority staff was key. Specialist facilities included the fresh produce market, bovine head market and the Early Morning Market. The Music Bridge and Traditional Medicine Market were built on a widened footbridge. The Book Street Market clothes market was created by a partial street closure, with the mosque sponsoring a canopy over the street. Areas for clay wholesalers, the bead market and cardboard recyclers were also provided.

However, success did not secure stability, and in the run-up to South Africa's FIFA World Cup in 2010, redevelopment of the Early Morning Market for a mall was proposed. A court case was filed by the Legal Resources Centre on behalf of traders, and the proposal was dropped. In a second successful court case against Durban/eThekweni municipality in 2014, the bylaws allowing confiscation of traders' goods were shown to be unconstitutional (WIEGO, 2014).

Sustained good-practice examples of worker inclusion in urban policy are very hard to find, and, as in Durban, even where ground-breaking and imaginative policy has been established, continuity is far from assured.

Mixed-use communities. Where housing units are planned, it must be recognised that these will also be used for livelihoods (see EOD-TG [Provision and Improvement of Housing for the Poor](#) (Patel, 2013) which highlights the use of housing as a rental asset). One consideration might be the inclusion of space for the production of food (Parrot et al., 2008). There is now growing concern over how expanding urban areas in the developing world will be able to maintain food security and one key suggestion has been the consideration of food production in spatial and physical planning (Sonnino, 2009). This does however, raise the issue of health and safety in areas designated for dwelling and a careful balance is needed for multi-use zoning in the urban environment (Ntema and Marais, 2014).

Box 16 Border towns

The contribution of cross-border trade to wider economies in some parts of the world is very high. For example the West African region is noted for its high volume of trade within the region, of which up to 60% is thought to be informal trade (Jawando et al., 2012). Importantly, much of this happens across national borders as individuals exploit differences in prices, wages and regulatory practices often as part of survival livelihoods (Lesser and Moisé-Leeman, 2009). This activity gives rise to border towns where livelihoods, many of them informal, are linked to cross-border trade, including the provision of transport, portage, customs processing (formal and informal), vehicle parking and maintenance, and services to those involved. While these informal activities create livelihoods, they also undermine formal business and security.

Many of those involved are highly vulnerable, and in many cases trade is largely facilitated by bribery and corruption of officials (Titeca, 2012). Women are actively involved in moving goods through border crossing points and, as in the face of wider constraints on the economic activities of women, this requires little working capital and can be carried out on a flexible schedule. However, women are found to be vulnerable as travel times away from the family are long, and there are increasing risks of violence and intimidation (including from customs officials). The life style often leads to poor views of these women in both popular and state understandings (Okwemba, 2011).

At the macro-level, care must be taken to consider the relevance of trade reforms for informal workers (Peberdy, 2000). Indeed, trade reforms to simplify procedures, especially for low value transactions, can be important and arguably drive the likelihood of formalisation, e.g. through: establishing one-stop-shops for officials from all border agencies, document verification done by a single agency, coordinating physical inspections at one place, getting results of inspections back quickly and periodic reviews of regulations governing imports, permits, labelling, etc. to conform to international standards. (Lesser and Moisé-Leeman, 2009).

Key messages

- ❖ **KM21:** Secure tenure for livelihoods and the place of work is one of the important livelihood interventions that can be made. This has long been ignored in urban policy, but deserves as much attention as secure tenure for housing. Policy should recognise that complex informal property rights for urban livelihoods exist.
- ❖ **KM22:** Forced evictions are almost always harmful to micro- and informal enterprises, and should be avoided. Problems can be minimised through negotiation and with participatory plans for relocation as a last resort.
- ❖ **KM23:** Certain urban locations have significant potential for micro-enterprises that cannot easily be replicated and these should be recognised in urban planning practice. Public space is a key livelihood asset, particularly in busy locations such as bus stations.
- ❖ **KM24:** The 'home' is often one of the biggest livelihood assets available to urban residents, and informally planned settlements should be understood to harbour complex mixed-used economies that are integrally linked to the wider urban area.

6.5 Access to finance

Access to finance is an essential asset for facilitating the development of urban livelihoods. While much livelihood activity is focused on generating cash incomes, the SLF stresses the need for both direct assets (e.g. cash) and indirect assets (e.g. credit), highlighting the importance of credit in urban livelihood pathways. For the urban poor working in the informal economy, *“Credit requirements often arise from uncertain earnings and consequent disruptions in cash flow, medical expenses and other household needs, and harassment, penalization, and extortion by lawful and unlawful actors.”* (Maringanti, 2009, p. 687).

Despite their need for credit, it is well recognised that the poor are generally excluded from formal – registered and regulated – credit markets and usually make recourse to informal borrowing. In some cases, this is from family and friends, or through community savings and loans groups. In many cases the poor are forced to borrow from money lenders, often at very high rates of interest.

Access to finance by the poor has been improved by the emergence of microfinance organisations – offering relatively small sums of money specifically to the poor, and those without collateral. A common method has been to give collective loans to 'solidarity groups' who guarantee each other's lending. Several models of microfinance exist. Lending by microfinance companies or banks is a commercial enterprise, lending to solidarity groups who can then graduate to individual accounts, with interest rates typically quite high ranging from 25% to 100% annual percentage rate. Another model is promoted by NGOs, such as CARE International and World Vision, who support community savings groups, lending smaller amounts from their own savings, but at much lower rates of interest. Both models usually include some form of social insurance to help with family emergencies, such as ill health or funerals.

Although microfinance started in stable rural communities, microfinance services are now emerging in urban areas (Maringanti, 2009). One reason for the slower development in urban areas has been concerns that a more mobile urban population might undermine the social solidarity needed for loan repayments.

For formal microfinance services, core problems include the high proportion of renters in urban areas and the lack of postal addresses in areas without land title, often required on microfinance loan forms. The publication [Street Addressing and Management of Cities](#) (World Bank, 2015a) gives useful information on establishing address systems. Research suggests that where high levels of trust are developed between borrowers and the organisation's officers, high repayment rates, of up to 95%, can be maintained (Rashid, 2015). Other work also suggests that urban microfinance has the potential to enhance livelihood assets (Bashar and Rashid, 2012; Mamun et al., 2013), and increase incomes (Huong, 2009) and savings (Calidoni and Fedele, 2009). Where microfinance is made available to non-poor urban households, benefits can extend to other, informally employed labourers (Niño-Zarazúa, 2013). Microfinance is also found to promote better health and educational outcomes in peri-urban areas, although the borrowing from formal sources is found to have a stronger impact than from informal sources (Doan et al., 2014). The need to reduce the costs of administering microfinance has continued to drive innovation (Calidoni and Fedele, 2009), and a wide range of projects are now using new technologies for record keeping, loan disbursement and recovery, in order to widen participation. Mobile money operators are also offering micro-loans (fieldwork by authors).

Despite the wide reach of microfinance services, many informal economy workers still rely for credit on social networks, community savings and loans groups, and other semi-formal financial services (e.g. cooperative community banks in India, and savings and credit cooperative societies – SACCOs - in Africa) (Box 17). Although cooperatives have been plagued by weak governance scandals, they represent a more cost effective provider of small-scale financial services to the poor than microfinance banks. Research also identified significant limitations of microcredit. Commercial imperatives mean that risk is often evaluated on repayment potential rather than social benefit, and loan recovery methods can be harsh.

Box 17 Community saving and loans groups

The availability of formal financial services, provided by registered and regulated institutions, tends to be higher in urban areas than in rural ones. However, even in urban areas access to finance is geographically unequal. One way that this has been combated in deprived urban areas is through community savings and loans groups. Such groups often operate as quasi-formal organisations or registered social welfare groups, or operate as unregistered arrangements between friends and family. There are many different forms and methodologies for such groups. At their heart, self-selected individuals come together to deposit savings, which are then made available for other members to borrow either on a rating or needs assessed basis (Boonyabanha, 2001). Savings are either held in a strong box with multiple keys, or in a formal bank account – as where individuals may be unable to meet minimum balance and deposit rules, this is more readily achievable by groups. The success of such groups is largely a result of the social governance that promotes repayment. Where groups are particularly effective, they can save thousands of dollars for individual gain and community investments. The advantage with such community savings is that while interest is charged on borrowed money, it all stays within the group and does not leave the community as interest paid to banks, credit providers and external shareholders does (Smith et al., Forthcoming).

The village savings and loans association (VSLA) model is an extremely successful approach to community savings and loans promoted by CARE International, and is now being modified and adopted by urban savings groups. The VSLA method started in Niger in 1990 to help women in polygamous families support their children through small-scale

agricultural development, funded by Norwegian aid. The scheme was a hybrid methodology using some elements of rotating savings and credit associations and accumulated savings and credit associations. The method was explained through *Mata Masu Dubara* (Hausa for women on the move) manuals (VSLA Associates, 2009). Each VSLA sets its own constitution, but most groups require weekly savings meetings, transparent cash handling, agreed interest rates for loans and fines, and an annual 'share-out' of accrued funds. The method is widely supported by CARE International which has now helped establish 150,000 groups in 26 African countries, serving nearly 3.8 million members. Other NGOs, such as World Vision, support groups in establishing similar savings-based approaches.

It is now widely recognised that encouraging savings is often a better way to help the urban poor weather ill health, evictions or other shocks than access to credit. Financial literacy and consumer protection are increasingly emphasised as essential to the financial deepening agenda. Service providers are also beginning to develop micro-insurance and micro-pension products for the poor, while research suggests that micro-health insurance can reduce health expenditure and hardship financing (Savitha and Kiran, 2015). Micro-insurance is found to reduce inequality among poor households (Akotey and Adjasi, 2015). Finally, some organisations are trialling micro-pensions schemes, although health and education usually come before such long-term investments (Ginneken, 1999).

Another option for providing financial resources to the poor might come in the form of 'social assistance' programmes and include non-contributory transfers in cash or in-kind. Although these are used little in urban areas and largely focused in the rural context (Gentilini, 2015), safety nets can be effectively implemented to support those currently reliant on the informal economy. Case studies of safety net programmes are discussed in a [World Bank report](#) (Gentilini, 2015). For example, Oxfam and Concern Worldwide launched the Nairobi Urban Social Protection Programme in Mukuru and the Urban Livelihoods and Social Protection Programme in Korogocho for 4,500 families. These programmes had three components: unconditional cash transfer of \$12.50 per month per household paid through M-Pesa, the mobile money transfer system provided by Safaricom; livelihood support (skills training, cash for work, and business grants); and advocacy (Gentilini, 2015, p. 124). The programmes ran for over two years and were shown to increase food intake as well as reduce asset divestment.

Key messages

- ❖ *KM25:* Encouraging savings is often a better way to help the urban poor weather ill-health, evictions or other shocks than access to credit, although access to reasonably priced and transparent financial services including credit, savings, insurance and pensions can strengthen urban livelihoods.
- ❖ *KM26:* Financial literacy is central to improving access to finance so that savers and borrowers can make informed choices about the costs and benefits of financial access.
- ❖ *KM27:* Community savings and loans groups or financial cooperatives are often the most cost-effective form of microfinance services (particularly for savings and credit), although they need some modification for urban savings groups. Commercial microfinance services can provide larger loans, but interest rates are often extremely high.

6.6 Environmental capital

The informal urban economy is often highly reliant on local and wider regional ecosystems, generally categorised as provisioning (e.g. food, raw materials and fresh water), regulating (e.g. climate and water quality), cultural (e.g. recreation, tourism and spiritual) and supporting services (habitats and diversity) (Millennium Ecosystem Assessment, 2005). However, activities often degrade environmental capital by reducing the available resources and creating non-biodegradable waste. For example, informal workers often use cheap, but environmentally damaging, forms of energy, such as burning tyres and scrap wood in brick making (Blackman and Bannister, 1998). However, some informal economy workers help reduce negative environmental impacts, such as waste pickers and recyclers.

Poor environmental conditions in the place of work undermine the growth potential of micro-enterprises and create challenging or dangerous conditions for workers. Stock and equipment may be damaged by rain, heat or dust, and workers' health may be compromised by working in polluted environments, without health and safety protection, and without access to clean water or safe sanitation. For example, a report in 2002 estimated that, at that time, 51% of India's construction workers were women and girls working almost exclusively as unskilled labourers i.e. carrying bricks, cement, sand and water, digging earth, mixing cement or breaking stones, often without shoes or protective clothing (Jhabvala and Kanbur, 2002). Women construction workers often suffer back and health problems and typically cannot work in construction for more than 10 years.

6.6.1 Environmental pollution

However, the informal economy is likely to operate outside environmental regulation, and environmental management in this sector is exceptionally challenging: the World Bank (2015b) training resources on [Sustainable Land Use Planning](#) suggest strategies for tackling this. Although there is little research into the environmental impact of the informal economy, some empirical studies have examined measures to curtail the environmental impact of informal work. From a study of four initiatives to control emissions from informal brick kilns in northern Mexico (Blackman, 2000), it is recommended that:

- (a) Conventional standards are only enforceable when supported by peer monitoring
- (b) Clean technologies can be successfully diffused even when they raise costs, partly because early adopters have an economic incentive to promote further adoption
- (c) Boycotts of 'dirty' goods sold in informal markets are unenforceable
- (d) Well-organised informal firms can block implementation of costly abatement strategies such as relocation
- (e) Private sector initiatives may be best suited for informal sector pollution control.

6.6.2 Climate change

Climate change clearly has significant implications for all development work – see EOD-TG on [Adaptation: Decision-Making Under Uncertainty](#) (Ranger, 2013) – and the urban informal economy will be no exception (DFID, 2012). A summary of potential impacts is provided in Table 10.

In order to address these increased vulnerabilities, urban institutions need to develop a set of specific policies and strategic actions. While responses will need to be context specific, Dodman and Satterthwaite (2008) suggest that the following steps are likely to be essential in developing a municipal-level adaptation strategy:

- Identify current climate trends and future projections – including the risk of drought, flooding and sea-level rise – and capture this information on local vulnerability maps

- Assess the climate vulnerability of the urban area at a sector level
- Review current development plans and priorities in the light of current climate variability
- Develop and prioritise adaptation options using consultative tools, including participatory assessment, social accounting matrices and cost benefit analyses
- Develop programmes and projects to form a Municipal Adaptation Plan
- Implement, monitor, and review the Plan.

Changes in climate	Possible impacts on urban areas
<p><i>Changes in mean</i></p> <ul style="list-style-type: none"> • Temperature • Precipitation • Sea-level rise 	<ul style="list-style-type: none"> • More energy required for heating and cooling • Urban heat islands • Increased disaster risk – flooding, landslides • Interruption of food supply networks • Coastal flooding • Saline intrusion
<p><i>Changes in extreme</i></p> <ul style="list-style-type: none"> • Rainfall • Drought • Abrupt change e.g. climate/heat 	<ul style="list-style-type: none"> • Disaster risk increases, e.g. from flooding and landslides • Livelihoods disruption and property damage • Water shortage • Food-supply disruption • Energy-demand spikes

Table 10 Climate change impacts on urban areas (Dodman and Satterthwaite, 2008, p. 68)

6.6.3 Green growth

An increasingly mainstream response has included calls for ‘green growth’, which aims to replace negative cycles of growth and environmental decline with socially inclusive growth based on the expansion of green sectors and the simultaneous curbing of brown activities (Vazquez-Brust et al., 2014). While these require broad governance structures and have included advocacy for high technology investments, such as green energy production, there is also scope to consider the role of the informal economy. As noted already, informal activities in many cities include the management of waste, and there may be other opportunities, e.g. projects such as the Kibera Community Youth Programme in Nairobi, which involves unemployed youths in the assembly of small and affordable solar panels (UNEP, 2008). The International Labour Office has produced a [Practitioners Guide for Assessing Green Jobs Potential in Developing Countries](#), which is focused primarily on the opportunities within the informal economy.

Key messages

- ❖ *KM28*: The informal economy is likely to operate outside environmental regulation and some processes and materials used contribute to environmental degradation – developing participatory measures to cope with the worst pollution will be important.
- ❖ *KM29*: There are opportunities for the involvement of informal economy workers in green-growth initiatives, for example in small-scale assembly of new technologies.

SECTION 7

Governance for livelihoods

A key facet of the SLF is that it identifies the importance of the institutional environment for the development of successful livelihoods. Governance of the informal economy is influenced both by the operations of government – often local government -, the legal frameworks which influence economic activity and by the institutions and organisations operated by micro-enterprises themselves.

7.1 Extending government control

For governments, as noted above, one of the primary approaches for engaging informal economy work has been to bring it within government frameworks through formalisation. Unfortunately, this is usually driven by the desire to increase taxation rather than to reduce vulnerabilities. There is a misconception among many policy makers that informal economy workers do not pay taxes. But in practice many of them pay considerable amounts – in daily fees or licenses to municipal authorities, in national taxation and in fines and bribes. The critical problem is that some of these payments do not reach the municipal authorities.

Broadly speaking, there are four areas where government control applies: (1) identification, (2) registration, (3) compliance with legal and regulatory frameworks and (4) taxation (Figure 6). The application of each stage increases government control over and information held about economic activity; and should ideally result in reducing the vulnerability of those able to transition into more formal economic activities.

However, micro-enterprises often resist formalisation. Thus, *“Increasing the degree of formality, either by making formal participation more attractive or informal participation less, may entail some sacrifice of short-run efficiency, as actors will avoid formalisation.”* (Arnott, 2008, p. 4). For this reason, it is essential to understand the drivers of informality, which are likely to differ between sectors, groups and individuals. Furthermore, where informality is largely involuntary the pace of change must be carefully managed through participatory methodologies.

Figure 6 Stages and impacts of formalisation

'Formalisation'			
1) Identification	2) Registration	2) Compliance with legal and regulatory frameworks	
		3) Taxation	
Less	Formal protection for those included		More
Less	Government data and control		More
More	Desire to comply with voluntary informality		Less
More	Ability to comply with involuntary informality		Less

While Table 6 shows a simplified view of formalisation, the process will mean different things to different occupational sectors; a [useful guide to understanding the process in more detail, provided by WIEGO, can be found here](#).

Overall, the cost of formalisation for workers and enterprises should be minimised – by making tax structures and rates simple, providing tax reductions and exceptions (as under Act No. 1429 in Colombia) – and the cost of remaining informal increased (Busso et al., 2012; ILO, p. 31). Some governments have started to reduce unnecessary barriers to formalisation, e.g. by *“Reducing or eliminating the costs involved in registering enterprises with labour administrations and social security authorities; simplifying the requirements, forms and procedures for hiring workers through public employment offices; and recognising contracts of employment, irrespective of their form, and accepting any means of evidence”* (ILO, 2014, p. 31).

7.2 International and national policies

This section looks at different policy agendas adopted for dealing with the informal economy. **International policy.** Few international agencies considering economic governance have paid much attention to the informal economy, with the exception of those seeking to increase tax income. Trade and financial liberalisation have arguably contributed to the growth of the informal economy, as local firms succumb to competition and redundancies force workers into informal economy work. Lyons et al. suggest that although the World Bank ‘Doing Business Reforms’ in Tanzania was aimed at small- and medium-sized enterprises, they specifically excluded micro-enterprises as a target group (Lyons et al., 2014). The ILO is the only multi-lateral to focus on the informal economy, with some excellent reports (see Section 4.4).

National policy. At the national level, formalisation is often narrowly conceived in terms of registration and punitive sanctions for non-compliance with the law: and there has been a particular focus on bringing informal work within the tax system and reducing tax avoidance (E.g. Singh et al., 2012; Slemrod and Weber, 2012; Woodruff, 2013). However, there is good evidence that such a narrow approach can end up increasing livelihood vulnerability and more workers are forced into the informal sector and overall productivity declines (Besley and Burgess, 2004). Poverty-reduction strategy papers have devoted little space to the informal sector, which was seen as a symptom of poverty, rather than as an opportunity for wealth creation (Lyons and Snoxell, 2005, p. 1302), *“Few countries have yet developed a comprehensive and integrated approach...”* to addressing informality and formalisation (ILO, 2014, p. 12), and there is often incoherence between different policies (Njaya, 2014).

In some cases, national governments have set policy precedents for the treatment of the informal economy that have had significant impacts. In Tanzania, local bylaws in the 1960s and 1970s prohibited petty hawking. However, the 1983 Human Resources Deployment Act required every able-bodied person to work, enabling municipal authorities to issue *nguvu kazi*, itinerant trader licenses (Brown et al., 2010, p. 674). However, the license was cancelled in 2003, effectively delegating street trade, and the Finance Act, 2004 confirmed the requirement for all businesses to be registered and licenced. Despite some exemptions for small businesses, fees were still prohibitive (Brown et al., 2010, p. 675). National policy makers should carefully consider the effects of all policies on informal workers, especially where the informal economy provides jobs for the majority of urban citizens. Some (Auriol and Warlters, 2005) argue there is a trade-off between increasing the number of formal sector firms by relaxing regulation and restricting entry to the formal sector, which would raise taxable profits per firm. A successful example of national policy setting with a pro-poor agenda is India’s 2014 street vendor’s legislation (Box 18).

Box 18 India's Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014

In India, extensive lobbying by the National Association of Street Vendors of India (NASVI) has led to the successful promulgation of federal legislation governing street vending. NASVI is a federation of trades unions, community-based organisations and NGOs that represent street vendors, with a membership (in 2016) of 888 organisations and 529,000 members.

Under the aegis of the Ministry of Housing and Urban Poverty Alleviation, NASVI successfully campaigned for the introduction of a *National Policy on Urban Street Vendors*, adopted in 2004 and revised in 2009. The policy had four core innovations, first to recognise street vending as a legitimate part of the urban retail system, second to form Town Vending Committees to supervise the planning, organising and regularising of street vending, including street vendor representatives, third to recognise the importance of 'natural markets', established vending sites where vending is viable, and fourth to avoid arbitrary eviction in the name of "*beautification*' of city space". Street vending plans for each city should be prepared (Sinha and Roeber, 2011).

However, though vending is a state responsibility, its implementation was weak, and India's Supreme Court has upheld the fundamental rights of street traders in court cases over several years, and a ruling in October 2010 called on the government to enact a law on street vending by 2011, based on the national policy (Gazette of India, 2014).

7.2.1 Legal empowerment

Rights-based approaches to inclusion argue that basic rights – including the right to life – incorporating the right to a livelihood should apply to all. A number of countries have thus included the 'right to work' or 'right to a livelihood' in constitutional law. Although some constitutional rights may not be enforceable in a court of law, nevertheless they are an important statement of national commitment and policy.

One of the first global initiatives to focus on the link between exclusion, poverty and the law was the Commission for Legal Empowerment of the Poor (CLEP) and its report *Making the Law Work for Everyone* (CLEP, 2008). The report argues that poverty can only be reduced if governments give all citizens, especially the poor, a legitimate stake in the protections provided by the legal system, which should be the right of everyone. The report explored four pillars of legal empowerment: i) access to justice and the rule of law, ii) property rights for both shelter and livelihoods, iii) labour rights and iv) business rights. Co-chaired by former US Secretary of State, Madeleine Albright and Peruvian economist, Hernando De Soto, the report draws on De Soto's thesis that formal, individual property rights are crucial to the effective functioning of markets and that lack of legally protected property rights denies the poor access to credit and the potential for capital accumulation (Soto, 2000).

The report emphasised that basic commercial rights include rights to work and to a working space (including public land and private residences) (CLEP, 2008, p.201). This requires bylaws that allow street traders and others to operate in urban public land, defining use rights and operating codes for informal businesses, especially in central business districts and areas of high demand (CLEP, 2008, p.221). While there are many critics of De Soto's approach who argue that formalisation of property rights has not delivered the required benefits, the ideas have been influential and adopted in a number of countries, e.g. Peru,

Tunisia, Egypt and Tanzania. What is important in the CLEP report is its emphasis on legal rights as a foundation for social justice.

Some groups are now using legal challenges to establish their rights. For example in India, pavement dwellers successfully argued that the constitutional 'right to life' included a 'right to a livelihood'; the court supported this view, but held that it may be outweighed by other legislation (Mahadevia et al., 2012, p. 245). In Durban, South Africa, street traders have recently won a court case to argue that local bylaws permitting confiscation of their goods contravene the constitution (WIEGO, 2014).

7.3 Role of local government

Local governments have a critical role in managing the urban informal economy. *“Much of the responsibility for dealing with informal trade falls to urban managers, to devise and implement policies to resolve the contradictions engendered as congestion grows, the pace of land use change is accelerated and infrastructure and services are strained beyond capacity.”* (Lyons and Snoxell, 2005, p. 1302). For this reason, it is argued that *“City mayors should find ways to ensure that informal sector is integrated into city planning, budgeting and financing.”* (Busso et al., 2012, p. 22).

In many cases, partly because of changing central government policy, local government has adopted an inconsistent approach to the informal economy, which is problematic (Roever, 2005). Current literature suggests that urban authorities *“... need to engage with organizations of informal workers as partners in development and invite them to participate in city management.”* (Busso et al., 2012, p. 22). Porto Alegre's participatory budgeting approach is often held up as an example of effective participatory engagement (World Bank, 2008). However, participation in local government plans and programmes is often limited by residency and, therefore, often excludes tenants or migrant populations (Brown et al., 2010, p. 670), and particular care should be taken to encompass all relevant stakeholders.

Box 19 Infrastructure and livelihoods in Bangladesh's UPPR programme

The *Urban Partnerships for Poverty Reduction* (UPPR) programme, started in 2008, recognises that poverty is a chronic, complex and multidimensional problem related both to the lack of skills among a recently urbanised population and a lack of government capacity to facilitate access to housing and basic services. It is run by Bangladesh's Local Government Engineering Department in collaboration with UK Aid and UNDP. Many poor urban dwellers are excluded from the essential components of well-being, including land rights, opportunity for decent work, public services and formal representation.

The UPPR programme supports poor urban communities to establish partnerships with other development actors, including governments and the private sector, to support institutional and infrastructure reform. The project found that women leaders and those that took part in credit and savings groups were more likely to achieve success than others. Livelihood support includes apprenticeship grants for training and block grants to help start a business. Links with the private sector for formal employment are also developed. Drawing on the lessons from UPPR, the Government of Bangladesh is drawing up a National Urban Poverty-Reduction Programme (LGED et al., 2014).

Local authority policy is thus crucial in supporting the urban informal economy, and there is scope for a specific component of the SLF to address this and embed relevant strategies in normal government operations (WIEGO, 2016c) (Box 19). WIEGO's [Informal Economy](#)

[Budget Analysis programme](#) interrogates government budgets to explore the extent to which existing budget heads benefit the informal economy, the gaps and potential for enhancement.

7.3.1 Conflicting regulatory environment

Urban regulations and their operation often reflect unequal power dynamics and vested interests that use regulations for their own benefit at the expense of the poor. For example, planning regulations which promote single-use activities can be used to limit home-based work activities and highways or public order regulations often prohibit street trade. Influential city centre business owners often object to traders in the area, who are seen as causing congestion.

Improved regulation is a key basis for negotiated urban management and for a properly constructed urban regulatory regime that maximises the benefits of informal economy work, but reduces its negative impacts, e.g. poor environment. City managers rarely have the tools to manage the informal economy and rely on outdated laws and regulations. A common response is eviction, but this just deprives low-income workers of their livelihoods and causes immense hardship. Undertaking a legal audit is a key way to support the informal economy and explore the options for formalisation. This should review existing legislation, regulations and bylaws, e.g. covering access to space, public space management, highways regulations, law and order regulations, with a view to reforming conflicting regulations and making these accessible for low-income workers.

7.3.2 Fighting local government corruption

There is often a concern that the informal economy harbours work that is defined as illegal because of the nature of the activity (Singh et al., 2012). However, regulation of non-illegal informal work also provides opportunities for addressing corruption and extortion by street-level bureaucrats (e.g. police or local authority officials). Taking steps to address this and to ensure that the oversight of informal economic activities is legal and itself formalised, is an important step to decreasing the vulnerability of informal workers.

7.3.3 Politicisation and livelihoods

The political affiliations and relationships of informal economy workers are complicated. Urban workers often form economic sectors around ethnic or kinship groups, sometimes with political affiliations. In some contexts informal economy workers have achieved prominence through demonstration and direct action, although rarely achieving long-term gain.

During elections, politicians often court worker groups in order to gain votes, but workers complain that promises do not materialise after the election. Some trades, ethnic groups or workers align themselves to particular political parties and may be at the forefront of political protest. For example, the 2011 Arab uprisings were sparked by the suicide of a Tunisian street vendor, pushed to the limit by repressive regulation. In Kenya, the 2007-2008 post-election violence in Kenya, while generally considered the result of underlying pressures rather than ethnic tension, was played out in the streets. Cosmopolitan Kibera, one of Nairobi's largest slums, which was a support base for the losing Orange Democratic Movement, saw some of the worst violence, mainly directed at Kikuyu supporters of the winning Party of National Unity, and Toi Market home to perhaps 1,000 mostly-Kikuyu traders went up in flames (De Smet, 2009). Local factions are also problematic.

7.3.4 Identification of informal economic activity

A key step in reducing vulnerability is understanding the scale and extent of the informal sector micro-enterprises and workers. This can help in understanding the employment and economic contribution made and the value chains on which informal economy actors depend. The analysis needed will vary greatly depending on the sectors in which informal work is taking place as some activities may take place on different days of the week or times of day.

7.3.5 Organisation and representation

Local authorities find it easier to negotiate with a few groups rather than manage large numbers of individual operators, so one way to build the capacity of informal economy workers is to strengthen representative organisations (Section 6.1). Such organisations should play a formal role in decision making that affects the informal economy and can be responsible for managing specific sectors or areas and registration of members in a locality or occupational sector. One problem with local organisations is to ensure that they represent members, as elite capture is a problem.

7.3.6 Registration

Registration of micro-enterprises or workers is usually with local authorities, but where there is a history of harassment by the authorities, informal workers may resist registration. An alternative may be registration through a trusted intermediary, e.g. a representative organisation. A key issue will be the actual and perceived cost of registration. Methods and costs of registration should be resolved through participatory processes, developing appropriate and affordable charges and then effectively communicating these to stakeholders. A roadmap study by the ILO et al. (2002) demonstrated the prohibitive costs and complexity of business registration for informal workers.

7.3.7 Health and safety

Participatory training programmes are increasingly used by local government and other agencies to support grassroots initiatives in informal economy workplaces to improve safety, health and working conditions (Kawakami, 2006) (Section 6.2). Here it is important to use *“The easy-to-apply training tools such as illustrated checklists and extensive use of photographs showing local good examples.”* (Kawakami, 2006, p.1) in order to facilitate the participatory development of workable, low-cost solutions to identified issues. [A practically focused guide to this process can be found on the ILO website here](#). For example, projects have focused on training informal workers in hygiene, sales, etc.

7.3.8 Increasing the security of wage work

Although the poor, working as informal employees, are often able to identify the value of contracts, low levels of literacy are a problem (Akram, 2014b). Informal wage employees of formal firms often remain hidden, despite significant efforts to increase oversight, both from national stakeholders (including governments) and international companies outsourcing work (often retailers in consumer countries). Although advocacy and outreach with employers can be successful, in some cases profit-driven organisations show little interest in improving worker conditions (Shree, 2014). Unfortunately, there is little research on the formalisation of non-home-based manufacturing.

7.4 Information for livelihoods

Many versions of the SLF refer to the ‘asset pentagon’ – five domains of assets which are used to construct livelihoods. In these versions the concept of ‘human capital’ covers livelihood skills (knowledge about ‘how to do’ a certain activity, e.g. sewing or carpentry). This Topic Guide had added ‘knowledge capital’ as a sixth dimension, making an asset hexagon (see Figure 1, page 9) on the basis that the wider knowledge imperative to successful livelihoods might otherwise be omitted from analysis and planning, e.g. of wider market processes (Odero, 2002; Odero, 2006) and may be missed in government policy development.

It has long been recognised that “*The urban poor do require knowledge and information to improve their livelihood.*” (Schilderman, 2002, p. 4), but it is also the widespread lack of information – so called information asymmetry – that prevents economic markets from operating effectively. Here it is useful to distinguish between ‘information’ that is shared or transmitted through communication and ‘knowledge’ that is internalised by individuals, a community or a society (Schilderman, 2002, p. 4). This helps to reduce the assumption that simply providing oral or written information will necessarily prove effective (Freire, 2004). The importance of information and knowledge is well defined by the prevalence of educational/vocational projects to support livelihoods. The application of these within the informal economy has included education about legal rights and entitlements. In addition the right to information is broadly recognised in international law and in most countries’ national laws (Corrarino, 2012).

A further classic example of information for livelihoods is knowledge of market prices, as lack of access to accurate price information and the ability to manipulate this effectively can cause significant problems for micro-enterprises. Urban informal workers also lack of information and awareness about how to utilise health services (Baten et al., 2013). However, beyond these examples, there is a hugely diverse range of information that could strengthen livelihoods, for example as shown in Table 11 – this demonstrates that knowledge capital of the SLF.

Capitals	Explanation
Vulnerability context	Advanced knowledge about potential shocks and stresses, e.g. price fluctuations, government crack-downs, etc.; understanding of workers’ rights and entitlements.
Social assets	Knowledge about alternative livelihood strategies; full time and temporary wage work opportunities; suppliers and markets for micro-enterprises; unions, cooperatives and associations.
Health assets	Availability and costs of health care and education. Information about basic hygiene and family planning might also be considered as part of this knowledge capital.
Physical assets	Availability and prices of: work space, housing, transport (as well as travel time), basic commodities (retail prices) including telecommunications and utilities (how connected/accessed and prices).
Financial assets	Knowledge about prices of goods and services in general in the economy; financial literacy and knowledge about formal and informal financial support services – such as credit, savings, insurance and their comparative costs.
Environmental assets	The environmental impact of livelihood activities. The most appropriate means of waste processing, sustainable resource use (urban farming).
Governance	<i>Economic</i> : formal legal governance of economic activities (Corrarino, 2012); consumer protection in respect to purchase of goods, services, and financial services such as credit. <i>Socio-political</i> : procedures of representation in decision making, citizenship rights, responsibilities and how to use the legal system to support livelihoods. <i>Environmental</i> : environmental protection legislation, including rules and how to defend rights to environmental resources.

Table 11 Knowledge and information for informal livelihoods

Generally, information can be obtained through a variety of means in order to promote knowledge, for example kinship, proximity or friendship; workplace interactions or association (Schilderman, 2002, p. 4). It is likely that there is a positive relationship between levels of social capital and information availability –information can also be passed through formal networks such as associations and cooperatives. For those seeking to promote the availability of knowledge valuable to the informal economy, a useful guide is [Using the Right to Information in the Informal Economy: A How-To Guide](#) (WIEGO, 2012).

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