Exploring Vulnerability in the Informal Sector – A review of the Literature

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Introduction

Informality has become one of the most daunting challenges to urban sustainability experienced in most developing countries. There is evidence to show that in fact the size of the informal economy has grown substantially large especially in Eastern Europe (averaging at about 40.2%), Africa and Latin America at 40% and 39.2% (Elgin and Oztunali, 2012; Medina, Jonelis, and Cangul, 2017). Whilst it is now established and well documented that the informal sector contributes substantively to production, employment and economic development (Bhattacharyya, 1993; Asea, 1996; Schneider and Enste, 2000), it remains unrecognised in many contexts, bypassed by public policy and largely regarded as a malady. This has led to vulnerability of segments of the population that participate in and rely on the informal economy for their livelihoods. As such it is necessary to investigate the character and dynamics of vulnerability in the informal sector. This can inform the design and implementation of social and economic policies that bolster the informal sector not only to contribute more sustainably to economic development but also to deal with some of the pressing challenges that households that depend on the informal economy for their livelihoods experience.

This is a review of the body of literature on vulnerability and the informal sector. It explores the conceptualisation of the terms ‘vulnerability’ and ‘informal sector’. It then delves into a review of previous research on determinants of vulnerability in the informal sector focusing on some of the main issues that include: spatial planning and land use management, regulation and the implications of shocks for individuals and households in the informal sector. The review also makes an attempt to consider some of the coping or response mechanisms or strategies pursued by informal sector operators at individual or household and by government and other actors at institutional or policy level.

Section - I: Conceptualisation of key terms

Vulnerability

The concept of vulnerability has been widely researched and written on. The existing body of literature on vulnerability suggests that the appreciation of vulnerability of any group or community must always vary considering the diversity in their circumstances conditioned by what they do and where they live. As such, several definitions have been advanced for the term ‘vulnerability’ (Füssel and Klein 2002; Easterling 2004; Moench and Dixit 2004; Wisner et al. 2004). Vulnerability has been defined as the “diminished capacity of an individual or group to anticipate, cope with, resist, and recover from the impact of natural and/or man-made disaster” (IFRC, 2006). The World Bank defines vulnerability as “the probability or risk today of being in poverty or to fall into deeper poverty in the future. It is a key dimension of welfare since a risk of large changes in income may constrain [households] to lower investments in productive assets—when [households] need to hold some reserves in liquid assets - and in human capital. High risk can also force [households] to diversify their income sources, perhaps at the cost of lower returns. Vulnerability may influence [households] behaviour and coping strategies and is thus, an important consideration for poverty reduction policies” – (Coudouel et al, 2002:54)

Fundamentally, vulnerability takes two major forms: biophysical and socioeconomic (Füssel and Klein 2002; O’Brien 2004). The biophysical concerns the risk factors inherent in nature that threaten a community while the socioeconomic relate to the internal and external characteristics that constrain its responses and ability to adapt (Füssel and Klein 2002). The appreciation of vulnerability that is of most relevance to this study in that which focuses on social implications of shocks. This largely considers the likelihood of the occurrence of a shock on an individual or household or community (Christiaensen and Subbarao, 2001; Dercon and Krishnan, 2000; Hoddinot and Quisumbing, 2003; Hoogeveen et al. 2004).
Informal Sector

So far there has been limited consensus on a clear cut conceptualisation of the term ‘informal sector’. This is largely because of the diversity and dynamism of the sector across different country contexts. This is especially because of the morphing of the use of the term ‘informal sector’ and continuous “emergence of new forms of informal enterprises as a result of changes in technology, scale of production and economic structures” (CUTS, 2009). There has been renewed interest in and a great deal of research work put into defining, measuring and studying the informal economy to comprehend its reach, impact and contributions to the economy and society in developing countries (Chen, 2006; Kanbur, 2009; NCEUS, 2008). Various stakeholders – from government to civil society, academia and private sector are increasingly appreciating the need for mainstream policy and action towards facilitating the informal economy to contribute more significantly and sustainably in inclusive economic growth and development.

The first time the concept of informal sector was used internationally was in 1973 by the ILO when it was considered as “a way of doing things characterised by various factors such as “small scale, low resource base and entry barriers, family ownership, labour intensive methods of production and adapted technology, skills acquired outside the formal sector and unregulated and competitive markets” (ILO, 1973). Several scholars and practitioners have since explored and advanced various definitions of the term informal sector.

Lipton (1984) considered informal sector as that which “consists largely of “unorganised,” unincorporated enterprises, to which legal restrictions on employment (wage minimal, regulations affecting working conditions, etc.) and on acquisitions of non-labour inputs (licences, quotas, etc.) do not apply” – (Lipton, 1984:198-201). Chen (2006) argued for a broader conception of informal sector that includes "[…] not only enterprises that are not legally regulated but also employment relationships that are not legally regulated or protected (Chen, 2006:76). A more comprehensive definition was by (NCUS, 2008) that argue that “the informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers [and that] informal workers “consist of those working in the informal sector or households, excluding regular workers with social security benefits by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers.” (NCEUS, 2008)

Nonetheless, there still remains debate on the possibility of a perfect conceptualisation of the term informal sector. Guha-Khasnobis, Kanbur and Ostrom (2006) argue, that formal and informal are better thought of as metaphors that conjure up a mental picture of whatever the user has in mind at that time.” Kabur (2009) maintains thus that it is perhaps more prudent for each research undertaking to explicitly outline its conceptualisation of ‘informality’ but take cognisance of the diversity in definitions especially when deriving analytical or policy outcomes. As such this study will proceed with the understanding of informal sector developed by ILO (1993).

"[informal enterprises] are private unincorporated enterprises (excluding quasi-corporations), i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s). Private unincorporated enterprises include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and co-operatives formed by members of different households, if they lack complete sets of accounts” – (ILO, 1993).

This is because four major issues emerge from this definition (and from the foregoing definitions) that underscore the concept of informality especially in developing country settings that are suitable for the Kenyan context within which this vulnerability study will be conducted. These are the implications of: i) skill base/set, ii) resource base/scale, iii) legality, and iv) independence of the enterprise. Skill base
relates to the level of skills possessed by those engaged in the formal sector that determine their ability to produce. As such individuals that lack skills or are semi-skilled (without recognised qualification) are constrained in a nature of production that defines their informality. Secondly, resource base/scale concerns the portfolio of capital injected into the productive ventures of those involved in the informal sector which determines the size or magnitude of the productive ventures. Scale here implies the status of being mega, large, medium, small or micro-enterprises. By being largely small or micro, the resource outlays constrain such individuals and/or their enterprises to what’s defined as the informal sector.

Thirdly, legality covers the status of the productive ventures that those in the informal sector deal in. This concerns whether they are registered and recognised by structures of government and comply with (or are liable to) existing tax and regulatory regimes. As such, by being largely unregistered and unrecognised by institutions of government, such enterprises are defined as informal. Lastly, is the idea of independence of the individual or household from the enterprise. This relates to the issue of separation of the enterprise from its owners (individual/household that runs it). The absence of strict independence – existence of the business and its owners as separate legal entities contributes to the definition of such enterprises and their owners as involved in the informal sector.

Section - II: Determinants of Vulnerability in the Informal Sector

Within the context of the informal sector, the existing body of literature indicates that three main clusters of factors determine the occurrence, magnitude, seasonality and also impact of vulnerability of individuals and households. These include: i) Spatial planning and Land-use management, ii) Regulation, and iii) Shocks. The following section explores and interrogates what the literature says about these determinants.

- Spatial planning and Land-use management

Space is one of the most valuable resources in an urban area (Hackenbroch, 2012; Mwau, 2015; Doe, 2015). This is because economic growth and wealth creation takes a spatial dimension and without space one is unable to create income. It is also because urban livelihoods depend almost entirely on urban public space because urban poor characteristically lack private space to venture into economic activities (Hackenbroch, 2012:32). There is a rich body of literature that delves into activities and pursuits of poor urban dwellers in urban public spaces that include street vending in open squares, along roads, in road reservations, pavements, vacant lands and in open markets (Hansen, 2004; Anjaria, 2006; Brown et al., 2010).

However, public space is often not in the control of urban poor – controlled by government and influential private entities. Brown and Lloyd-Jones (2002) argue that access to urban public spaces by urban poor is easily restricted through regulation, application of prohibitive costs and other methods of social exclusion (Brown and Lloyd-Jones, 2002:188). As such, the negotiation of urban space between the formal and informal sectors of the economy has often benefited the formal sector leaving the informal sector to search for economically feasible urban spaces (Mwau, 2005). This is compounded by the fact that standard spatial planning ideas make implicit assumptions about the nature of livelihood, employment and movement patterns that may not be borne out by a closer analysis, missing out on the way informal activities organize spatially at a more local level, and how they might be supported (Enisan, 2013; Doe, 2015). As a result, the use of urban public space, by players in the informal sector (largely urban poor) is often classified or regarded as contrary to formal urban planning and land-use management ideals.

Doe (2005) notes that as a result of exclusion, informal sector businesses in most developing countries are identifiable by three characteristics that distinguish them from those in the formal sector. These include: i) unauthorised use pf public or private land (Barwa, 1995), unauthorised construction of structures and buildings, and iii) reliance on low cost construction materials for developing their premises (Barwa, 1995; Doe, 2015). Rukmana (2007) argues that informal sector enterprises – largely
operated in public places, are often regarded as undesirable by formal sector planning and regulatory mechanisms in many urban settings across the globe especially in the developing world. Thus, conflicts arise between urban authorities trying to keep their cities clean and the urban informal sector operators who need space for their activities. In many cases, authorities forcibly evict informal sector activities in the name of urban order and cleanliness despite evidence that such actions seldom address the problem (Rukmana, 2017). Chepkemei, (2016) studied informal sector in Nairobi and found that whilst informal sector activity generates opportunities for livelihoods of many poor, it also comes with challenges to the functionality and liveability of the urban morphology. As such urban planners and city managers continue to grapple with how to harmonise policy to both harness the potential of informal sector while preventing and dealing with the challenges that come with it.

It is notable in the literature that a lot of spatial planning and land-use management in developing countries, like in Sub-Saharan Africa, is largely driven by neo-liberal ideals (Mirafatb, 2009; Purcel, 2009; Roy, 2009; Doe, 2016). As such, spatial planning, has often regarded settlements, activities of the informal sector as ‘insurgency’ – resisting western models of urban development planning (Mirafatb, 2009; Purcel, 2009; Roy, 2009; Doe, 2016). The contestation of urban public spaces between the formal and informal sector continues to deny informal sector spatial justice – fair urban spaces that proffer benefits to all without discrimination. Such spatial injustices limit ability of players in the informal sector to occupy liveable spaces and to access suitable spaces to locate their entrepreneurial activities upon which they depend on for their livelihoods. This in turn contributes to their vulnerability and furthers existing inequalities.

- Regulation

A core element in the conceptualisation of informal economic activity is the understanding that it involves exchange of goods or services in the absence of some form of state based regulation (Bonnet and Vankatesh, 2016:11). There is a lot of literature in the legalist school of thought that speaks to the regulatory limitations and challenges that the informal sector faces. Legality is an element of the conceptualisation of informal sector. The legalists argue that the informal economy is made up of entrepreneurs who evade the regulatory obligations (like for registration) (De Soto, 1989; Chepkemei, 2016). Legalists maintain that informality is the product of rational entrepreneurs that feel hindered by non-favourable state regulatory frameworks that hinder their productivity and creativity (De Soto, 1989). As such in many contexts the existing regimes treat the informal sector as illegal, undocumented, un-regulated and are most often hostile. De Soto argues that burdensome government rules and procedures create obstacles to formalization and consequently stifle the productive potential of informal entrepreneurs (De Soto, 1989). This is further complicated by inadequate public goods and services that could facilitate growth of enterprises in the informal sector like infrastructure, technology and finance (Chepkemei, 2016).

Adame and Tusta (2017) established a negative effect between the tax burden and the informal economy. This was in contrast to earlier work (for example by Friedman et al. (2000)). They find that higher tax rates are assocciate with informality and a larger shadow economy (Medina, Jonelis, and Cangul, 2017). Kanbur (2009) argues that state intervention is a central variable in defining informality. As such, he argues, the ability of the state to enforce regulations impacts informality and profoundly influences the economic agents involved in the informal sector (Kanbur, 2009). He maintains that attitudes of those involved in the informal sector also plays a significant part in determining whether they stay in the informal sector and ability to thrive. Williams et al (2016) surveyed micro-enterprises in Lahore Pakistan investigating the determinants of informality in the informal sector. They established that high taxes, lack of awareness of registration and burdensome regulations were some of the most important reasons why many small scale enterprises remained informal (Williams et al 2016). Gelb et al (2009) compared productivity of formal and informal firms using surveys on the investment climate in southern and eastern Africa. They established that weak regulatory frameworks drive enterprises (with substantive growth capabilities) to remain in the informal sector and hence diminishing their
prospects for growth. Benjamin (2014) argues that the informal sector is in part a symptom of institutional deficiencies and a symptom of government failure to enforce regulations that should apply to these firms, as well as the burdensome nature of regulations and taxation that inhibits compliance.

In absence or ineffectiveness of state regulatory mechanisms, what exist in the informal sector are informal institutions like community courts and third-party brokers that facilitate resolution of conflicts and some form of justice (Merry 1990; Lewicki et. al., 1992; Venkatesh 2006, Bourgois, 1996). However, such alternative mechanisms for regulation and sometimes even ‘taxation’ increase inequalities and exacerbate vulnerability of some involved in the informal economy. As such, players in the informal sector encounter such challenges as: i) disagreements over pricing, ii) contestations over distribution of revenues amongst joint ventures, iii) disputes over property rights – for example related to access or occupation of public spaces for locating business, iv) difficult bargains regarding competition, and v) conflicts over mediation and punishment of wrong doers (Bonnet and Vankatesh, 2016:11). These have profound implications on the ability of those involved in the informal sector, especially the urban poor, to establish enterprises and profit from their businesses in a manner that can contribute to sustainability of their livelihoods. Such challenges related to regulation therefore contribute to or increase their vulnerability.

The ILO argues that if the productive potential of the urban informal sector is to be unleashed and workers’ protection improved, an enabling and supportive legal and policy environment must exist (ILO, 2000). However, regulating the informal sector remains a challenge that national and local governments grapple with as they are caught between helping the sector to promote employment or alleviate poverty, and enforcing the law (ILO, 2000). Questions therefore arise as to whether to deregulate/loosen the rules or strictly enforce laws/regulations governing informal sector.

- **Shocks**

The understanding of vulnerability in this context relates to the probability of being unable to depend on informal sector work to support livelihoods in the event of occurrence of a shock (Chaudhuri, 2000; Dercon, 2001). Put differently, vulnerability refers to the predisposition of an individual or household to withstand shocks. Shocks are occasional or seasonal events that happen to households or individuals that have implications on their consumption, expenditure patterns and wellbeing.

Shocks may be categorised as internal or exogenous meaning those that derive from within the systems and processes in a household or of an individual and those that derive from the external environment. Internal shocks include, but are not limited to: i) health related problems like occasional sicknesses, chronic or terminal illnesses and death; ii) unexpected disability. Exogenous shocks may include i) events in the economy that include recession, inflation, ii) events in the physical environment like floods, droughts, landslides, earthquakes, and iii) events in the political climate of a country for example violence after or during elections, terrorist incidents. Shocks may also differ in duration and magnitude or impact. Whilst some shocks may last a short while (like fires) others may proceed for months like droughts. Amendha, Buigut and Mohamed (2014) categorise shocks as either covariate or idiosyncratic where covariate shocks are those that affect the whole community and idiosyncratic shocks that affect a particular household or individual (Amendha, Buigut and Mohamed, 2014). Günther and Harttgen (2009) estimated vulnerability of households in Madagascar to idiosyncratic and covariate shocks. They established that for urban households, idiosyncratic shocks have a relatively higher impact on their vulnerability.

As a result of poverty and chronic inequalities, many in the informal sector are characteristically vulnerable to shocks. Many work in squalid conditions resulting from inadequate delivery of public goods like water, energy, transport infrastructure, policing and health services. This is compounded by the working conditions most often involved in self-employment without proper health and safety regulations and protection. Ahmad and Aggarwal (2017) studied the consequences of health shock catastrophic expenditures on welfare of households engaged in the informal sector. They found that a significant
proportion of households (27%) engaged in the informal sector spend more on health expenditures – a phenomenon that was associated with a push towards poverty. They argue that informal sector workers are highly vulnerable to health shocks and economic burden in terms of high treatment costs and low insurance coverage (Ahmad and Aggarwal, 2017). Mehortra (2009) studied the impacts of the global economic crisis on the livelihoods of urban poor in the informal sector in East Asia. He established that lack of social safety nets in the informal sector exposes households to high levels of vulnerability that was exacerbated by high export dependency exhibited by most of the economies in the region (Mehrotra, 2009:116). Dhanaraj, (2016) studied economic vulnerability to health shocks and coping strategies in Andhra Pradesh, India. He established that households were unable to sustain consumption during and after severe health crises due to substantial increase in medical expenditure and/or loss of income. His research indicates that households adopt varied coping strategies to adapt to economic costs of ill-health. Such strategies include mostly - borrowing largely obtained from informal sources (like moneylenders, friends and relatives) and reduction in consumption. He argues that there was no evidence of state health insurance schemes contributing to reduction of household welfare loss from health shocks which pointed to limitations in access, coverage and affordability (Dhanaraj, 2016).

As such those involved in the informal sector perhaps require social protection the most (ILO, 2000). For a livelihood to be sustainable, it should be able to cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future without undermining the natural resource base*. However, there is evidence to show that existing social protection mechanisms do not reach, by-pass or are ineffective (Olivier, Masabo and Kalula, 2012; CMBS, 2016). Foremost because of their design to focus on the formal sector and also their narrow focus on social security, low coverage, lack of reliable statics to facilitate proper targeting (CMBS, 2016). As a result, existing social protection mechanisms remain largely weak and ineffective in dealing with the diverse and dynamic needs of the informal sector. This in essence continues to impair the ability of those involved in the informal sector to effectively produce, develop the sector and increase its contribution to livelihoods and to economic development.

Section – III: Institutional and Individual/household responses to Vulnerability in Informal Sector

In order to survive and protect their livelihoods, households or individuals in the informal sector who are vulnerable to shocks take actions, mostly referred to in the literature as coping strategies or mechanisms (Skoufias and Quisumbing, 2005; Günther and Hartgen, 2009; Amendah, Buigut and Mohamed, 2014). The use of the term coping strategies has largely been to refer to ability of households to elect and pursue suitable activities to protect and/or promote their endowments in the light of eminent shocks (Bird and Prowse, 2009). Amendah, Buigut and Mohamed (2014) studied coping strategies among urban poor in Nairobi, Kenya. They found that exposure to shocks increased the probability of using a coping strategy (Amendah, Buigut and Mohamed, 2014). They categorise coping strategies as either *ex-ante* or *ex-post*. Where *ex-ante* strategies refer mostly to protective mechanisms or actions pursued in anticipation of a shock(s). On the other hand, *ex-post* strategies relate to actions or mechanisms pursued by households/individuals to deal with and mitigate the impacts of a shock (Amendah, Buigut and Mohamed, 2014).

The literature indicates that households pursue diverse coping strategies contingent on the character of their vulnerability and the nature of the shocks that they have to deal with. This is also because coping mechanisms are normally not accessible to all vulnerable in equal measure. Amendah, Buigut and Mohamed (2014) argue for example that because of lack of savings and physical assets that can be used as collateral, they may not be able to use such mechanisms as coping strategies. As such, Del Ninno and Marini (2005) contend that it is crucial to establish a better understanding of shocks and the various coping mechanisms employed by specific households in order to inform design of suitable policies and institutional response mechanisms that can reduce such vulnerabilities. This section explores some of the coping strategies, documented in the existing body of literature, employed by governments at institutional level and also by individuals or households.
Institutional and policy responses to informal sector vulnerability

Physical planning

As already substantively covered in the section on determinants of vulnerability, the literature indicates that unresponsive urban planning contributes a lot to many of the problems associated with the informal sector (Barwa, 1995; Rukmana, 2007; Miraftab, 2009; Roy, 2009; Doe, 2016; Chepkemei, 2016). Doe (2015) notes that most governments in Africa tend to apply a general strategy of hostility and repression often manifested in seizure of the goods, demolitions and forceful evictions. He argues that this approach is often applied to lift the face of the urban façade and also to create more space for formal sector capital investments that most often pays little attention to the circumstances of small scale traders (Doe, 2015). In many such instances, informal sector traders lose their property, lose their preferred business locations or have to deal with authorities, sometimes meaning they have to bribe or pay to secure a space.

As such, many scholars and actors have encouraged conscious efforts to provide spaces designated for informal sector operators arguing that it is an effective measure to effectively include the informal sector in the economy and address some of the most pressing challenges that limit their productivity and threaten their livelihoods (Rukmana, 2018). For instance, Rukmana (2018) maintains that accommodating – maybe even welcoming - the informal sectors in urban spaces would not only reduce conflict between urban authorities and the informal sector, but also reduce the associated environmental problems, and eventually accelerate urban transformation and increase the quality of life in many developing urban areas. Habitat (2015) argues for prioritisation of key spatial solutions to include and promote informal sector activities. It urges that urban planning needs to be inclusive of informal workers and enterprises especially focusing on increasing access to basic services, improving transport and mobility, to make roads and infrastructure accessible to low-income settlements, and to increase specialised allocations of urban spaces for productive activities of the urban poor (like street spaces for vending and transport networks for small transport operators) (Habitat, 2015). There are several examples where such physical planning oriented response strategies have been notable.

“In several cities in India, home-based workers have received basic infrastructure services to improve their homes-cum-workplaces; street vendors have been allocated vending sites by the local municipality; and waste pickers have received contracts from the local municipality to collect, sort, and recycle waste. In February 2014, the Indian Parliament enacted a law to regulate and protect street vendors. In Durban, South Africa, over 6,000 street vendors in a central market area received infrastructure and technical support. Waste pickers in Bogota, Colombia are being paid by the municipality to collect, sort and recycle waste” (Habitat, 2015).

Social Protection

This review of literature has already established significant implications shocks have on the livelihoods of people operating in the informal sector. The literature points to the diversified nature of shocks and varied impacts of shocks depending on the nature of vulnerability and circumstances of those faced by the shocks. It also points to the necessity for effective mechanisms for social protection as one of the ways to anticipate, deal with and/or mitigate the effects of shocks on the livelihoods of those in the informal sector (Norton, Connway and Foster, 2001; Canagarajah and Sethuraman, 2001; Olivier, Masabo and Kalula, 2012; Mehrotra, 2014; Goursat and Pellerano, 2016).

The term social protection, as is widely used in the literature, refers to state-led approaches to supporting poor and vulnerable people to access capabilities to anticipate, mitigate the impacts of shocks and engage in productive activities that assure sustainable livelihoods (Devereux & Sabates-Wheeler, 2004; Harvey et al., 2007; Barrientos & Hulme, 2009). The most common conceptualisation of social protection categorises its approaches as either preventative (aimed at averting deprivation like social insurance), protective (concerned with relieving deprivation like state pensions), promotive (geared towards enhancing individual or household incomes and capabilities to deal with shocks like microfinance or provision of physical assets or skills development), and transformative (aimed at
tackling broader issues of social exclusion and inequality like empowerment and assuming rights based approaches to policy and programmes or government) (Devereux & Sabates-Wheeler, 2004).

Mehrotra (2014) studied the impact of the global economic crisis in 2008 on the informal sector in East Asia. He argued that governments in the region needed to pursue, as response mechanisms, effective social protection modalities to mitigate the impact of the global economic crisis on the poor, address their vulnerabilities and increase incomes. He urged that such modalities should include initiating social insurance and social assistance (like conditional cash transfers) for participants in the informal sector (Mehrotra, 2014). Goursat and Pellerano (2016) explored extension of social protection to workers in the informal economy in Zambia. They argue that there is need for specific mechanisms to progressively extend universal, state led social security coverage to the informal workers especially those that increase the short-term attractiveness of social security to informal sector operators (for example through social insurance packages that combine short term and long term benefits) (Goursat and Pellerano, 2016). Canagarajah and Sethuraman (2001) explored the challenges and opportunities of extending social protection to the informal sector in developing countries. They argue that social protection mechanisms that pursue opportunity, empowerment and security can contribute to protection of informal sector players from risks and vulnerability and assist them to realise their untapped potential (Canagarajah and Sethuraman, 2001).

Regulatory regime incentives for formalisation

A substantive proportion of the literature points to regulation (whether its absence or unresponsiveness) as one of the major issues that determine the growth of the informal sector and propensity of enterprises to remain informal (De Soto, 1989; Kanbur, 2009; Gelb et al, 2009; Benjamin, 2014; Williams et al, 2016). For instance, Benjamin (2014) argues that the public regime along with the quality of public services, governance, political privilege, state failures, and many other institutional features strongly influence the decisions of firms regarding informality (Benjamin, 2014). Loayza (1994) found informality to increase where the rate of statutory corporate income tax considerably increased. Conversely, there is also evidence that has pointed to lower informality where the regulatory environment is more efficient and friendly to the circumstances especially of the urban poor involved in the informal economy (Friedman et al, 2000; Dreher et al. (2005).

As such, a critical component of efforts to respond to vulnerability in the informal sector must include policy and initiatives of government aimed at encouraging more in the informal sector to formalise. This could be through provision of incentives that make it easier and attractive for informal sector entrepreneurs and players to register, pay tax and submit to the formal regulatory regime. There is a lot of literature that argues for government policies that aim to assist informal sector players to move towards formal sector status in the long run through provision of services and extension of incentives (Benjamin, 2014). Rei and Bhattacharya (2008) explored the impact of institutions and policy on informal economy in developing countries. They argue in conclusion that combining good governance and regulation (rather than deregulation) can incentivise enterprises in the informal economy to formalise.

- Individual responses to vulnerability in informal sector

Some of the common coping strategies at individual level in the literature include: expenditure of savings, income diversification, working longer hours, consumption reduction, support from social networks (capital), borrowing and selling assets (De Haan et al, 2002; Nelson, 2002; Leive and Xu, 2008). Further, there is a strand of the literature that explores individual or community responses to vulnerability that focus on increasing voice and championing for more social inclusion. For instance, ILO (2015) argues for provision of an enabling environment for players in the informal economy to exercise their right to organise and collectively bargain and participate in public discourse regarding transition from the informal to formal economy (ILO, 2015).
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