Unlocking the Informal Economy: A Literature Review on Linkages Between Formal and Informal Economies in Developing Countries

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WIEGO Working Papers

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Abstract

Growing awareness of the size and organizational potential of informal economies in the era of globalization has triggered a profusion of research on linkages between the formal and informal economies, moving in a range of empirical and theoretical directions. This Working Paper reviews over 200 items of current literature on formal-informal linkages under four categories – linkage mapping, institutional design, governance effects, and the politics of formal-informal linkages. These four categories explore distinctive approaches to linkages as mechanisms for mapping, tapping, vesting or contesting the distribution of resources, power and legitimacy between the formal and informal economies. With a focus on developing countries, this Working Paper considers how the realities of globalization, market reforms, and the crisis of the global (formal) economy have reshaped the geographical, sectoral and regulatory scope of formal-informal linkages. It addresses a new, more complex problematic that focuses not only on patterns of linkages and whether they are beneficial or not, but also for whom, and with what impact on the governance structures of formal as well as informal economies.

As the review shows, formal-informal linkages can improve but also worsen the distribution of costs and benefits, and so are not necessarily conducive to empowerment. The integration of informal workers and enterprises into global value chains, and the rise of complex multi-stakeholder networks have created new possibilities for inclusion of informal actors in wider structures of economic growth and decision making. But these linkages have also generated processes of outsourcing and labour informalization that have proven more exploitative than empowering. Innovative processes of co-production and political inclusion, while able to enhance informal political voice, can also turn formal-informal linkages into techniques of governance and subordination. Understanding the specific distributional effects and power relations within these networks is crucial to understanding their ultimate impact on informal economy actors.

After examining what the existing literature reveals, and identifying research gaps, the author outlines policy implications and a framework for further research. Policy implications focus on the distinctive needs of entrepreneurial and survivalist informal actors; policies to encourage synergistic rather than exploitative linkages; the management of multi-stakeholder networks; and policy diagnostics for assessing the developmental impact of co-production and hybrid governance arrangements.
Introduction

The contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developed, as well as the developing, world has highlighted the importance of understanding the relationship between the formal and informal economies. This review of literature will focus specifically on the issue of linkages across the formal-informal divide, and their implications for economic development and policy decisions, with a particular focus on developing countries.

A focus on linkages between the formal and informal economies must be prefaced by a consideration of two key issues: the definitional boundary that distinguishes the informal from the formal economy, and the question of how or whether linkages across that boundary affect the nature of the informal economy, and its definitional distinction from the formal economy.

While early discussions of economic informality in the 1970s and 1980s were plagued by definitional controversy, the reality is that the major definitional debates were resolved over two decades ago. The prevailing definition accepted across disciplinary and ideological boundaries is that the informal economy refers to income generating activities that operate outside the regulatory framework of the state (Castells and Portes 1989; see also De Soto 1989; Feige 1990; Harding and Jenkins 1989). Since the early 1990s, informed debates have shifted away from conceptual controversies about whether there is a clear boundary between formality and informality, to discussions about how to operationalize this definition for statistical and policy purposes. Debates about operational definitions have contributed to refining the conceptual understanding of informality, but have not challenged the prevailing conceptual definition of income generating activities operating outside the regulatory framework of the state. An important development in this regard has been the ILO’s (2002) amendment of the definition of informality to cover not only informal firms and their workers, which was the focus of the original term “informal sector”, but also unregistered or unprotected labour working in formal sector firms. This has resulted in a more precise terminology laid out by Chen (2012) in a recent working paper. The ILO/WIEGO terminology defines economic informality in terms of three central concepts:

- **the informal sector**, which refers to production and employment in unregistered enterprises
- **informal employment**, which focuses on employment outside of the labour protection regulations of a given society, whether in formal or informal firms
- **the informal economy**, which covers all firms, workers, and activities that operate outside the legal regulatory framework of society, and the output that they generate

This paper will focus predominantly on the informal economy, but will make specific reference to the informal sector or informal employment where distinctions need to be made, or where the literature under review involves a more restricted emphasis. In analyzing informal economic processes, two associated definitions include “informal institutions”, and “informal markets”. Informal institutions refer to organizational forms that govern informal economies, given that they are by definition outside the regulatory ambit of the state. Drawing on Helmke and Levitsky’s (2004:8) excellent definition, informal institutions are regulatory arrangements “created, communicated and enforced outside of officially sanctioned channels”, often involving socially embedded practices or unofficial power structures. Informal markets, by contrast, refer to the organizational arenas in which informal economies operate, where labour, goods or services are traded outside the framework of formal regulations, but often subject to a range of informal regulatory arrangements.

Moving beyond definitions of the division between the formal and informal economies, the question of linkages draws attention to the relationship between the two spheres. The focus on linkages across the formal-informal divide aims to survey how the increasing significance of the informal economy in contemporary production and employment has affected the nature of its relationship with the formal economy, and how this changing relationship has been understood in research and policy circles. Tendencies toward dualistic approaches to the informal economy have long been challenged by research on the extent and nature of linkages between the formal and informal economies, without calling into question the underlying distinc-
tion between the formal and informal spheres. By 1978, Victor Tokman had identified four distinct perspectives on the nature of the relationship between the formal and informal sector. These perspectives focused on whether linkages existed between the formal and informal sectors, and whether they were benign or injurious to the developmental potential of the informal sector. These perspectives were heavily theory-driven, owing to an absence of conclusive evidence about either the existence or the nature of linkages between the two sectors.

By the early 1990s, an accumulation of empirical research on formal-informal linkages had generated two reviews of relevant literature. The first, an ILO working paper by John Harriss (1990), was described in the foreword as a first attempt to examine the question of formal-informal linkages. The second, by S.V. Sethuraman (1992), was a chapter in an annotated bibliography on The Urban Informal Sector in Asia. Both reviews reject dual economy perspectives and focus on the nature of linkages and their effect on the developmental prospects of the informal economy. These two studies will serve as a baseline for the current review of literature on formal-informal linkages, which will focus on literature from 1992 to mid-2012.

What is perhaps most striking about the literature reviews on formal-informal linkages in the early 1990s is the paucity of literature, and the relatively simple nature of the problematic. Harriss and Sethuraman comment on the limited literature on formal-informal linkages. Harriss' review of studies covering Africa, Latin America and South Asia amounts to about 25 studies, while Sethuraman, restricting himself to Asia, reviews only 10 studies, and lists a further 19 at the end of the review (though he also draws attention to relevant studies on linkages in the chapters on Sectoral Studies, Credit and Finance, and Labour Markets). By contrast, the intervening two decades have generated a profusion of studies on formal-informal linkages, with a notable acceleration since the mid-2000s. This review covered over 200 important books and articles, which represent key directions in research on linkages, but is only part of a rapidly expanding literature on the issue.

The understanding of formal-informal linkages in the early 1990s also involved a more limited conceptualization of the issue, which was based largely on analyses of resource flows via interfirm linkages. The main problematic involved assessing how linkages structured flows of resources between the formal and informal economies and whether these were beneficial or detrimental to the growth of informal sector enterprises. Most of the studies that were reviewed focused on local or national level linkages, and on direct (forward and backward) and/or indirect (factor markets, production structure or consumption) linkages. Both types of review noted that national, sectoral and growth contexts influenced the nature and effect of linkages, which were recognized to be neither wholly beneficial nor wholly detrimental. Overall, however, there was a sense that the key development problems were not based on any systematic exploitative effect of linkages, but related to market distortions and a lack of adequate linkages between the informal economy and the resources and markets in the wider economy. However, Sethuraman (1992) noted that reliance on intermediaries in linkages with the formal economy could be a source of vulnerability for informal actors.

In the two decades since then, the problematic of formal-informal linkages has become much more complex. New empirical realities, such as globalization, market reforms, the growing prominence of the informal economy in production and reproduction activities, and the crisis of the global (formal) economy, have dramatically altered assumptions about the relationship between the formal and informal economies and their roles in economic development. These changes have expanded the geographical scope of linkages, brought in new actors, and altered the balance of power between the formal and informal economies. In addition, new theoretical approaches have come into the analysis of formal-informal linkages, including

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1 During the 1990s, concerns about the tendency of liberalization and weakened states to blur the conceptual and economic divisions between the formal and informal economies, combined with the rise of the concepts of social capital and social networks, led to widespread questioning of the value of the concept of informality – even by its main proponents – and a significant decline in its use (Klein 1999; Hart 1995; Portes 1994).

2 While some have begun to question whether there is evidence to support the contention that the informal economy is expanding, evidence from World Bank and from ILO studies has confirmed that the vast majority of new jobs in the developing world over the past 15-20 years have been created in the informal economy, owing to high rates of labour force growth and seriously inadequate formal sector job creation and social safety nets (Blunch et al. 2001.10; ILO 2002). This makes informal economic expansion within the developing world, at least as a percentage of the labour force, an unavoidable conclusion. More exact statistical evidence to assess the extent and national distribution of this expansion is an important, but distinct, matter.
the New Institutional Economics, network analysis, global commodity/value chains, legal pluralism, subaltern politics, and Foucauldian conceptions of power beyond the state. The result is a new problematic that focuses not only on patterns of linkages and whether they are beneficial or not, but also for whom, and with what impact on the regulatory structures of formal as well as informal economies.

One effect of this changing problematic has been to raise the regulatory stakes of deciphering the nature and effects of linkages between the formal and informal economies. Mounting quantitative as well as qualitative evidence about the size and increasingly central role of the informal economy in global production and reproduction has triggered incentives to blur rather than clarify formal-informal distinctions and linkages, and to argue for normalization rather than analysis. There has been a new trend in the literature toward reawakening the sense of controversy about the definition of economic informality. The recent World Development Report (2012: 64) on Jobs describes economic informality as a “grey area”, mired in definitional disagreements, with statistical measures just beginning to emerge. Others suggest that formality and informality represent a continuum, with no clear boundaries or definitional consensus (Guha-Khasnobis et al. eds. 2006). This resurrection of old definitional debates tends to draw on literature from the 1970s and 1980s, glossing over the conceptual clarity that has emerged since then, or confusing conceptual with operational debates. In addition, there has been an inclination to represent as nascent statistical measures that have been widely used for a decade in the publications of a range of international institutions, and which have inspired new policy narratives about the contemporary global economy. One might characterize current tendencies to blur boundaries as the irony of success.

This literature review provides a look at the linkages and processes that such blurring would conceal. It will proceed by outlining the methodology of identification and categorization of literature, and will then review the selected literature in each of the four categories indicated. It will conclude with an assessment of policy implications and research gaps, and outline a framework for further research.

Methodology

Reviewing two decades of literature on the formal-informal linkages is complicated not only by the profusion of literature, but by the wide range of disciplinary perspectives involved, and the consequent wealth of terminology used to refer to the issue. In addition to “formal-informal linkages”, key terms include “bricolage”, “co-production”, “hybrid governance/hybridity”, “bottom/base of the pyramid”, “multi-stakeholder networks”, and “synergy”, to name only a selection (see Appendix for definitions). This made literature searches very complex, and inevitably created gaps in the literature identified by electronic means.

The search process was carried out in three broad steps. The first involved employing a doctoral student who specializes in urban and informal economy issues to carry out an electronic literature search. He was briefed on the subject of the literature review, the range of terms, and the core substantive areas to be included in a search for literature on linkages, as well as the dates (1992-2012), geographical scope (developing world/Africa, Asia, Latin America), and the types of literature (books, articles, reports and other grey literature). He was also given a copy of my informal economy course reading list and asked to exclude anything that was already on that list.

The electronic search made use of IBSS, SCOPUS, Google Scholar and general Google search programmes. Search terms were tested and narrowed down to: “informal sector”, “informal economy”, “links”, “linkages”, “interlinkages”, “hybrid”, “hybridity”, “bricolage”, “formal-informal”, “informal-formal”, “globalization”, “global value chain”, “bottom of the pyramid”, “informal enterprises”, “informal firms”, and “institutions”. Journal specific searches were also carried out, as well as author specific searches and extensive bibliography trawling. These various methods were used to draw up a list of 125 most important items, including books, articles and grey literature, with a spread across key fields of linkages literature. Efforts were made to restrict selection to items that explicitly distinguished formal from informal economic ac-
tors or economic spheres, and that explored the implications of linkages between them rather than simply comparing or analyzing them separately.

The second step involved incorporating key material from my own course reading list and my wider knowledge of the field. After categorizing and reading through the list assembled, I removed a number of items that were off-topic despite promising titles, as well as noting a number of gaps in the literature assembled. This led to a third step, which involved carrying out additional searches targeted on particular categories of formal-informal linkage literature that I felt was inadequately represented in the material already assembled. The resulting bibliography involves just over 200 items, which is still far from exhaustive, but should give a good sense of the main trends in the literature on formal-informal linkages.

In order to impose order on the wealth of material, disciplines and sectors represented, the literature has been categorized according to its perspective on formal-informal linkages. Four perspectives have been identified:

1. **Mapping Economic Linkages**: This category, which is by far the largest and most established, relates to literature that attempts to trace the patterns of linkages between the formal and informal economy, and the way in which they structure flows of resources, labour and information between the two spheres. It includes as subcategories the mapping of national or sectoral interfirm linkages, labour market linkages, financial linkages, and linkages within global value chains.

2. **Linkages as Mechanisms of Institutional Design**: This category pulls together literature that views linkages as a means of “tapping” institutional resources across the formal-informal divide for purposes of institutional change. This includes co-production and bottom of the pyramid perspectives, as well as literature on social protection and the informal economy.

3. **Linkages and Governance Transformations**: This category focuses on literature that considers how linkages across the formal-informal divide transform wider governance processes in positive as well as negative ways by “vesting” weak or illegitimate institutions with greater regulatory power, or by “divesting” formal regulatory processes of power or responsibilities. This will include literature on legal pluralism and bricolage, as well as literature on synergy and wider typologies of governance transformation created by linkages.

4. **The Politics of Linkages**: Literature in this category regards linkages as a terrain of struggle rather than as conduits of resources, authority or institutional collaboration. It includes literature on the contestation of urban space, on informal collective organization and alliances, and a limited literature on multi-stakeholder networks involving informal economies.

In short, the literature can be divided among perspectives that regard linkages across the formal-informal divide in terms of mapping, tapping, vesting/divesting and contesting. The review will proceed by outlining the key areas of focus, debates and policy concerns in each category of literature.

## Mapping Formal-Informal Linkages

The literature on mapping economic linkages has the greatest continuity with the earlier linkage problematic represented in the literature reviews on the subject from the early 1990s. It treats linkages as connections through which resources, including finance, inputs, labour, information, and outputs, flow between the formal and informal economies. The UN (1996) recognizes the complexity of linkages between the formal and informal sector, including technological, consumption and financial linkages. More recent literature seeks to uncover the new structures through which these linkages take place, often concealed through new labour relations or complex chains of intermediaries, highlighting the need to map them in...
order to understand their impact on growth as well as social welfare. Chen (2006) maintains that studying formal-informal linkages requires a focus on production systems, and suggests three broad structures that are key to mapping such linkages in contemporary economies: “open markets” involving direct exchange linkages between formal and informal firms or actors; “subsectors” which focus attention on supply, labour and production linkages across formal-informal boundaries in particular activity sectors, such as the garment industry; and “global value chains”, which examine linkages between lead firms and subcontractors extending across national borders. Siggel (2010) highlights four models of linkages operating between the formal and informal sectors within liberalizing developing economies: labour market linkages; financial linkages; skill transfer linkages; and outsourcing linkages. Drawing on both of these, the literature on mapping will be divided into interfirm linkages, labour market linkages, financial linkages, and global value chains. Core debates relate to the types of linkages that exist, the linkages that are most conducive to development, the impact of liberalization and globalization on the role of linkages, the distributive consequences of linkages between key categories of formal and informal actors, and appropriate policy responses.

Interfirm/Forward and Backward Linkages

Studies of interfirm linkages across the formal-informal divide have become a rather dated perspective for two reasons. On the one hand, literature on global value chains has replaced the national perspective of interfirm linkage approaches with a more complex global perspective, which will be explored below. On the other hand, the enterprise cluster literature has come to dominate more localized studies of interfirm linkages, but in ways that tend to obscure issues of informality in favour of a more institutionally vague focus on firm size. Nonetheless, a number of studies were found that explore interfirm linkages with an explicit focus on formal-informal interaction.

The dominant theme of the interfirm linkage literature is an emphasis on the importance of forward linkages/subcontracting with the formal sector in promoting economic development in the informal sector (Ranis and Stewart 1999; Arimah 2001; Pieters et al. 2010; Meagher 1995, 2010; Rogerson 1997; Mlinga and Wells 2002). Ranis and Stewart’s (1999) study of “V-Goods and the Role of the Urban Informal Sector in Development” represents a seminal contribution to this literature. Its innovation on the linkage literature of the 1980s was to introduce a distinction between a “traditional” segment and a “modernizing” segment of informal firms. Ranis and Stewart argue that forward linkages between a fast-growing formal sector and the modernizing segment of the informal sector can increase competitiveness and growth in the formal as well as the informal economies, despite the lack of linkages between the formal sector and traditional informal segment. Case studies of Thailand and the Philippines illustrated differing growth scenarios centred around forward linkages between the modernizing informal segment and the formal sector, and labour linkages between the two informal segments. However, slow formal sector growth can undermine forward linkages to modernizing informal firms, and lead to an expanding and involuntary traditional segment. A similar study of India by Pieters et al. (2010) uses national sample survey (NSS) data to confirm the finding that forward linkages between a modernizing informal segment and the formal economy can lead to growth in the informal as well as the formal sectors. They emphasize the importance of informal sector heterogeneity in the analysis of formal-informal linkages, but focus attention on the dynamic potential of the modernizing segment, while largely ignoring the growth implications of an isolated and involuntary traditional informal segment.

A distinctive literature on Africa draws on Ranis and Stewart’s observation that African countries show a particularly weak modernizing informal segment. As a result, backward linkages with the formal economy predominate over forward linkages. In other words, African informal firms tend to the purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and involuntary informal sector constrained to buy dear and sell cheap. Studies of African interfirm linkages (Arimah 2001; Meagher 2007, 2010; Meagher and Yunusa 1996; Pedersen and McCormick 1999; UNIDO GTZ 2008) tend to confirm the predominance of backward over forward linkages between African informal and formal economies. Using quantitative methods based on
a survey of 2,506 enterprises across Nigeria, Arimah finds backward linkages to the formal sector two to three times more extensive than forward linkages for all types of informal firms.

More qualitative studies of formal-informal linkages in Nigerian informal manufacturing also find forward linkages to be relatively rare, and also highly unstable and exploitative (Meagher 2010). Although only the more skilled and dynamic firms enjoyed forward linkages with formal sector firms, lack of capital, technical weakness, and poor infrastructure made such linkages difficult to maintain, while intense competition and the role of intermediaries kept returns low. Skinner’s (2005) survey of 507 informal firms in Durban, South Africa, finds an even more extreme predominance of backward over forward linkages, leading to weak markets and limited growth potential. In Africa more generally, studies show that the dominance of backward linkages with the formal economy generate an exploitative and involutionary dynamic in which formal sector firms reap the bulk of profits in informal value chains, undermining growth in the informal economy (UNIDO/GTZ 2008; Pedersen and McCormick 1999).

Much of the research since 2000 tends to note that market reforms have failed to improve forward linkages with the formal sector, and favour technical, financial and infrastructural support particularly for the modernizing segment of the informal sector. UNIDO/GTZ (2008) also suggests that linkage promotion should cooperate closely with private sector, including promoting franchising, socially-inclusive standards, and providing credit through value chains. Mlinga and Wells’ (2002) study of the informal construction sector in Tanzania advocates supporting the tendency toward forward linkages with the formal economy through “labour only” subcontracting, which is seen to stabilize employment in hard times while reducing costs for the formal sector.3

Labour Markets

A second steam in the mapping literature focuses on labour market linkages between the formal and informal economies. This shift allows a widening of the focus from ties between formal and informal firms, to an analysis of formal informal-linkages involving informal workers, particularly those working in or connected to formal sector firms. The labour market literature on linkages falls into two categories. The first takes a rational individualist approach to labour market linkages (Levenson and Maloney 1998; Maloney 2004; Levy 2008; Perry et al. 2007), while a second more nuanced literature concentrates on labour market structures that shape the nature and effects of linkages between the formal and informal economies using quantitative (Kanbur and Guha-Khasnobis 2006; Devey et al. 2006) as well as qualitative methods (Harriss-White and Guptu 2001). Labour market approaches to formal-informal linkages tend to be concentrated in the few countries able to meet the exacting data requirements of this kind of analysis. The rational choice perspectives focus mainly on Latin America, while the more structuralist literature has arisen predominantly in studies of South Africa and India.

Rational individualist approaches attempt to explain the “paradox of a relatively flexible labour market accompanied by a very large informal sector” by modelling firm behaviour rather than regulatory incentives (Maloney 2004:1195). Drawing on data from Mexico (Levenson and Maloney 1998), Latin America more widely (Maloney 2004; Perry et al. 2007), and Peru (Jäckle and Li 2006), studies contend that labour movements between the two sectors are not determined by regulatory incentives, but by decisions of individuals to maximize cash incomes and flexibility by opting out of taxation and costly social protection arrangements. Perry et al. (2007) highlight a logic of voluntary exit from the formal economy rather than exclusion, but recognize segmentation within informal labour markets in which informal wage workers face exploitation by informal entrepreneurs. Santiago Levy’s (2008) famous study of informal labour markets in Mexico argues that linkages between formal and informal labour markets are a product of perverse incentives created by distortions in formal social security arrangements. These studies all view the informal econ-

3 By contrast, drawing on a survey of 5,785 enterprises across six cities in West Africa, Böhme and Thiele (2012) emphasize the role of backward linkages in improving firm performance owing to their potential for externalization and technological diffusion into informal firms. However, issues of endogeneity and reverse causality in this study are not convincingly dealt with.
omy as an inherently low productivity sector, and informal sector expansion as a poverty trap and a drag on growth. Policy recommendations focus on simplified universal social protection measures that cover formal as well as informal workers, funded by measures to extend taxation to the informal economy. This is seen to overcome the perverse incentives that generate ongoing informalization in liberalized markets, which is blamed on the opportunistic behaviour of informal workers and entrepreneurs rather than of formal sector employers.

Jutting et al. (2008) casts interesting new light on this perspective through a comparison of labour market linkages in Mexico and China, to show that the costs and benefits of labour market linkages can be allocated in different ways. He argues that where linkages are based on opportunistic individual or household decisions to escape state taxes and regulations, as in Mexico, labour market linkages lead to informalization and low growth. Where linkages between the formal and informal economies are managed by the state, as in China, they can lead to increased economic competitiveness and growth. Jutting’s analysis suggests that extending selective state regulation and social protection into the informal economy can turn formal-informal labour market linkages into an engine of growth rather than a drag on growth.

The analyses of labour market linkages in South Africa and India tend to deepen a similar contrast between “poverty-driven” and “growth-enhancing” effects of formal-informal labour market linkages. In the South African literature, labour market linkages are seen as a source of poverty rather than growth, although the drivers are associated with the opportunism of formal rather than informal economic actors (Devey et al. 2006; Valodia 2001, 2008; see also Chen 2006). Literature on South African labour market linkages explicitly challenge the voluntary entry model propounded by Maloney, Levy and others, and examine how household choices intersect with formal regulatory practices in the process of informalization. Devey et al. (2006) and others (Altman 2008; Valodia and Devey 2010) use panel studies to demonstrate that workers do not so much “opt out” of the formal economy as circulate between the formal and informal economies in a process of “churning”, driven by economic insecurity rather than material gain. The authors consider the implications of different types of linkages, including churning, household straddling, and labour brokering, suggesting that formal sector employers, rather than informal operators, reap the real economic benefits of labour movements into the informal sector. Altman (2008) and Valodia (2001) consider how formal-informal linkages are influenced by South Africa’s high levels of protective labour regulation. Altman sees the effects of formal regulation as positive but inadequate to protecting informal workers. By contrast, Valodia (2001) shows that a range of exemptions and loopholes privilege formal sector competitiveness over labour protection, tending to facilitate rather than prevent labour informalization, and shifting the costs onto the weakest groups in society, particularly black women.

A study of Kenyan labour markets by the French development research organization, DIAL, similarly finds that expanding informal labour markets are driven by formal sector employment practices rather than by the dynamism or selfishness of informal operators, with the burden of precarious employment falling hardest on women and youth (Bocquier 2005). Despite a critical view of the rational actor approaches, the South African literature tends toward similar policy recommendations centred on extending basic levels of social protection to the informal economy. Seen as a zone of poverty rather than potential dynamism, the policy orientation to formal-informal linkages is centred on social welfare rather than growth concerns. It should be noted that South Africa and Kenya are among the few African countries with adequate labour market data for this kind of research; however, distinctive historical factors and unusually small informal economies (by African standards) limit the extent to which these findings can be generalized to African countries as a whole, and makes them particularly inappropriate to the realities of West and Central African informal economies (Mkandawire 2010).

A more positive structuralist perspective centred on India indicates that formal-informal labour market linkages in the context of liberalization and globalization are engines of growth rather than poverty traps. Concentrating on manufacturing and dynamic service sectors, Siggel (2010) argues that dynamic "win-win" linkages are created by flows of skilled labour into the informal economy. He shows that formal-informal subcontracting and rising exports generate expanding demand for skilled informal labour, enhancing
competitiveness without depressing informal wages as the sectoral level, though he notes that individuals may experience a fall in wages as they move from the formal to informal sector. A study by Arvin-Rad et al. (2010) challenges the conventional wisdom that technological assistance to the informal sector is growth-promoting. They show that where the formal economy includes foreign firms, a positive technological shock to the informal economy will turn the terms of trade against labour, leading to a contraction of the informal as well as the formal sectors.

A fascinating collection edited by Guha-Kasnobis and Kanbur, eds. (2006) entitled *Informal Labour Markets and Development* draws attention to the role of informal labour market structures, noting that labour markets are “interlinked in subtle and complicated ways”. The editors highlight the costs and benefits of interaction with informal labour markets, weighing the advantages of flexibility and informal safety nets against the increased vulnerability of informal labour. The editors urge that, rather than attempting to formalize labour markets, “Policy should aim to balance the pros and cons” by selectively combining formal and informal labour arrangements (Guha-Kasnobis and Kanbur, eds. 2006.6). The chapter by Marjit and Maiti (2006) demonstrates that in Indian manufacturing, liberalization and globalization have a positive effect on wages owing to the transfer of capital into the informal economy. However, the study also shows that increased flows of working capital into the informal economy have been accompanied by the conversion of independent artisans into tied labour, increasing rather than reducing their vulnerability and dependence. A section on informal labour markets analyzes cases from Asia, Africa and Latin America in an effort to increase the legibility of informal labour markets to formal economic theory, responding to a wider interest in reaping organizational efficiencies through increased formal sector engagement with informal labour markets.

Other Indian labour market studies dispute the contention that formal-informal linkages have a developmental impact in the context of competitive liberalized export economies. Considering the informal economy as a whole, rather than restricting themselves to the most dynamic sectors of manufacturing and high-end services, Sinha and Adams (2006) use quantitative methods to show that outsourcing and jobless growth in India has been accompanied by a decline in real wages in the informal economy, and urge a measure of state regulation to prevent excessive exploitation. More qualitative mapping of formal-informal labour linkages by Breman (1996, 2010), and Harriss-White and Guptu (2001) demonstrate that pervasive subcontracting, putting-out and casualization have intensified poverty and vulnerability, despite high levels of labour mobility. It is shown that linking informal labour markets into wider market forces transforms, rather than merely accesses, informal institutions of labour control, eroding paternalistic dimensions in favour of more exploitative tied labour and contracting relationships. Policy recommendations advocate more effective labour regulation and social protection as well as encouraging political organization among informal workers to defend their labour rights. A similar policy perspective is represented in the ILO (2002) “decent work” agenda, which views formal-informal linkages as “here to stay”, but advocates reducing the exploitative potential of linkages by extending a basic measure of labour protection and labour organization into the informal economy.

**Financial Market Linkages**

A third category of mapping literature relates to linkages between formal and informal financial markets, involving a flurry of literature in the late 1990s. Triggered by the recognition that liberalization has had little effect on the integration of financial markets, this literature draws on concepts from the New Institutional Economics to analyze the dynamics of segmented markets in the face of liberalization. One perspective emphasizes the potential for synergy between formal and informal financial markets in financing hard-to-reach groups. Studies of Nigeria (Soyibo 1997) and of four African countries (Steel et al. 1997) examine the effectiveness of informal financial institutions in reducing transaction costs and default risk in the context of fragmented markets. The authors argue that strengthening formal-informal linkages is more effective than formalization in extending finance to small business and rural producers.
A more critical perspective considers the limitations of formal-informal market linkages. Combining ethno- graphic insights with advances in economic modelling and game theory, Bose (1998) and Flora and Rey (1997) highlight the potentially perverse effects of attempts to use formal-informal linkages to increase credit to informal borrowers. They show that, owing to the use of monopolistic and interlocked markets to manage information problems and contract enforcement in informal financial systems, increased or subsidized credit from the formal sector may increase margins and reduce access to credit for informal borrowers. Aryeetey’s (2005) study of Sub-Saharan Africa urges greater attention to the needs of the real sector and the institutional realities of key informal financial agents. He highlights the limitations of informal financial institutions for improving credit to small business, and cites cases of effective institutional innovation in formal-informal lending arrangements. A study by Pagura and Kirsten (2006) of successful formal-informal financial linkages involving 11 countries across Asia, Africa and Latin America develops a typology to analyze a range of new institutional arrangements involving formal sector actors such as state development banks, private sector banks, insurance companies and money transfer companies, and less formal actors including self-help groups, NGOs, community banks, and savings and credit associations. Questioning the extent of synergy, the authors find that linkages tend to be top-down arrangements which contribute to improving the capacity of informal institutions to widen markets for financial services, but use contracting mechanisms that tend to shift the risks onto informal partners. They recommend greater experimentation with collaborative arrangements and new services, and recommend strengthening the capacity of informal institutions to negotiate more equitable partnerships.

A further stream in the formal-informal financial literature maps the links between global informal remittance networks (also known as money transfer systems or hawala) and the formal banking system. Observations in the mid-2000s that global remittance flows to developing countries were higher than aid or FDI flows, amounting to $300 billion annually, and that almost half of that amount was transmitted through informal systems (IFAD 2009), raised concerns about terrorism and criminality, but also signalled a new sphere of market opportunity. The core debate in this literature revolves around whether linkages between formal and informal money transfer systems are perceived as competitive or complementary. Competitive views argue that informal transfer systems are less efficient, lack transparency, and reduce the development impact of resources (IFAD 2009; Ratha 2005). Policy recommendations focus on how formal regulation and diverting informal resources into the formal financial system through the development of more flexible financial service providers – such as micro-finance institutions and mobile telephony – can bring financial services into “underserved” poor and rural areas. By contrast, complementary perspectives highlight the developmental role and potential synergies between informal remittance systems and formal institutions including post-conflict states, aid agencies, and the formal banking system (Pieke et al. 2007; Maimbo 2003; Maimbo and Passas 2005; Thompson 2011; Lindley 2010). Studies of informal remittance systems in Afghanistan (Maimbo 2003; Thompson 2011), Somalia (Lindley 2010), and in seven countries across Sub-Saharan Africa (Pieke et al. 2007) document their complex linkages with the formal banking system and formal economy, their low transaction costs, their superior accessibility to rural dwellers and the poor, and their value in financing development and survival in fragile regions of the world. Maimbo and Passas (2005) explore policy options for incorporation rather than top down formalization and criminalization of these systems, with a view to strengthening synergies between the formal and informal financial systems.

Global Value Chains

A vast literature has emerged to map formal-informal linkages in global value chains (GVCs), also referred to as global commodity chains (GCCs), and global production networks (GPNs). Although these terms are functionally equivalent, they involve slight differences of meaning. Global commodity chains involve a more explicit focus on structures of economic governance within the chain; global value chains highlight the distribution of value across various segments of the chain; and global production networks privilege the effects of local social and political regulatory processes in which global chains are embedded (Bair 2005; Henderson et al. 2002). In this review, the original term “global value chains” will be used as a default term, while “global commodity chains” and “global production networks” will be brought in according to usage in the material under review.
The core debate relating to formal-informal linkages relates to whether integration of informal firms or workers into GVCs is benign or exploitative. Specific attention to the role of informality in GCCs is a fairly recent development in the literature, dating from the turn of the millennium. A limited literature, arising largely from the USAID Growth-Oriented Micro-Enterprise Development Program (GMED), emphasizes the positive effects of formal-informal linkages in GVCs (Dunn and Villeda 2005; Grant and Oteng-Ababio 2012; Murphy 2007). A focus on informal manufacturing and crafts considers how integration of informal Guatemalan handicraft (Dunn and Villeda 2005) or Tanzanian furniture producers into GVCs will facilitate upgrading, raise incomes and improve access to markets. Similar concerns are represented within the context of the USAID's Growth-Oriented Microenterprise Development Program (GMED), with a particular focus on formal-informal linkages in agricultural supply chains. A literature review for USAID (Saperstein and Campbell 2008) argues that formal-informal linkages in GVCs can offer developmental opportunities in conflict zones by providing valuable mechanisms for collective learning, risk sharing, upgrading and institutional innovation. Attention is drawn to the role of global market linkages with informal producers, traders and money-transfer operators in fostering micro-enterprise development and creating or rebuilding market access. Policy recommendations focus on promoting informal enterprise growth through deeper integration into GVCs, through the formation of cooperatives and by drawing on linkages with corporate and NGO “partners” to provide business development services to facilitate upgrading.

Another positive view relates to the mapping of new global activities that transform waste into value such as e-waste recycling (Grant and Oteng-Ababio 2012; Tong and Wang 2004) and used-clothing (Abimbola 2011; Hansen 2004). These perspectives map the formal and informal actors involved in these new global activities and analyze their importance for job creation, micro-enterprise development, and technical as well as institutional innovation. This literature recognizes that incorporation into recycling and second-hand GVCs are second-best arrangements dictated by pressures of liberalization, unemployment and inequality, and note that the beneficial effects of formal-informal linkages are mitigated by negative pressures on the environment and on local industry. Recent work by Brooks on used clothing (2013) and used cars (2011) adopts the more critical perspective of global production networks (GPN) to map the positive as well as the negative dimension of these linkages, with a particular focus on the exploitative implications for informal labour.

As in Brooks’ work, a critical stream in the literature focuses on the exploitative and impoverishing effects of formal-informal linkages within GVCs (Carr and Chen 2002; UNIFEM 2005; Oxfam 2004; Nadvi 2004; Barrientos 2000; Barrientos, Dolan and Tallontire 2003; Ruthven 2010; Phillips 2011; Phillips et al. 2012). Mapping is used to challenge deliberate practices of “disguised employment”, in which globalized production systems use subcontracting, casualization or temporary employment to evade labour regulations and cut the costs of social protection (Carr and Chen 2002). Early trends in this literature documented the existence of “poverty nodes” (Nadvi 2004) within GVCs through linkages with vulnerable workers, including women (Chen et al. 2005; Carr and Chen 2002; Oxfam 2004), children and migrants. Authors document the working practices and wages in poverty nodes to analyze how the competitive logic of GVCs shifts profits up the chain while costs and risks are shifted down to informal workers. Barrientos et al. (2011) use an example from the Moroccan garment industry to demonstrate that “structurally embedded” constraints prevent the benefits of economic upgrading from being extended to informal workers owing to competitive tensions between quality and cost within GVCs. Instead, integration into GVCs is shown to generate a logic of “adverse incorporation” that intensifies rather than alleviates poverty and vulnerability within the informal economy (du Toit and Neves 2007). In dynamic informal economies such as India and Brazil, Phillips shows how “adverse incorporation” operates through subcontracting linkages that connect formal firms to a supply of vulnerable informal labour (Phillips 2011), while du Toit and Neves (2007) reveal its operation in South Africa’s undynamic informal economy through exploitative backward and consumption linkages with the formal economy.

There is a growing literature on the formal as well as the informal institutional processes through which linkages contribute to poverty and vulnerability within GVCs. On the one hand, studies document the impact of formal institutional initiatives – including codes and standards, and labour contractors – on the distribu-
tion of costs and benefits between formal and informal actors within GVCs (Barrientos et al. 2003; Ruthven 2010; Barrientos 2008). These formal structures are shown to drive or facilitate the shifting of informal labour beyond the reach of public or private labour and social protection measures. Ruthven’s (2010) study of metalware chains in Hyderabad, India shows how the contradiction between commercial and social practices within GVCs generate increasingly complex supply chains, pushing dirty or dangerous work into the informal economy according to a logic of “off-site, out of mind”. Barrientos (2008) documents the role of labour contractors in facilitating the evasion of state labour regulations as well as corporate codes and standards, intensifying labour informalization and vulnerability despite integration into formal production systems and global markets.

A more recent trend in the literature considers the role of informal social institutions in shaping the vulnerability of informal workers within GVCs. In a study of garment embellishment chains, Unni and Scaria (2009) suggest that social institutions tend to soften the role of global market forces, offering more flexible and supportive arrangements in national as opposed to export chains. By contrast, a study by Phillips et al. (2012) of child labour in the Delhi garment industry argues that social institutions mark out certain groups as vulnerable to exploitation, reinforcing rather than mitigating use of formal-informal linkages to put labour beyond reach of regulations and social protection.

The critical stream of mapping literature on GVCs concentrates on policy recommendations consonant with the ILO’s decent work agenda, including the extension of basic labour regulations and social protection into the informal economy, and the promotion of informal labour organization to strengthen advocacy for such measures (UNIFEM 2005). There is also an emphasis on bypassing indirect linkages involving middlemen or labour contractors for more direct access to global markets, or for greater regulation of such intermediaries (Carr and Chen 2002; Barrientos 2008).

Mapping Formal-Informal Linkages: Interim Conclusions

Both the analyses and the policy recommendations associated with the literature on mapping formal-informal linkages have changed dramatically over the past two decades, shaped by the effects of liberalization and globalization, and an institutionalist turn in the way linkages are analysed. The national focus of the early linkages literature has given way to a more global awareness of the impact of export markets and GVCs. Likewise, the early focus on the role of linkages in integrating the formal and informal economies has been replaced by notions of linkages as mechanisms for working with, or even profiting from, market fragmentation in liberalized economic environments. This has been accompanied by an increased emphasis on the formal and informal institutional mechanisms that shape the effects of formal-informal linkages, rather than viewing linkages simply in terms of economic connections and resource flows. Efforts are devoted to exposing and analyzing more complex structures involving global chains, multiple intermediaries, and disguised connections.

These changes have precipitated four important changes in policy approaches. These relate to the types of linkages that are regarded as developmental, the policy domains that are seen as primary, policy attitudes toward informal organizational arrangements, and the key agents of appropriate policies. With regard to desirable types of linkages, the linkage literature of the 1990s advocated the promotion of forward subcontracting or marketing linkages with the formal economy, but in the context of liberalization and globalization, forward linkages are viewed as potential mechanisms of exploitation as well as development. Secondly, there has been a shift from targeting policy on technical upgrading of informal firms to a focus on informal actors as labour, involving a greater focus on social protection and poverty alleviation. Thirdly, there is a greater trend toward promoting rather than suppressing informal organization, either to reduce transaction costs of managing fragmented markets, or to strengthen the ability of informal actors to lobby for favourable policy. Finally, the original emphasis on the role of the state in promoting constructive linkages between the formal and informal economies is being challenged by a growing emphasis on the involvement of the formal private sector in defining policy objectives for the promotion of linkages across the formal-informal divide.
Linkages as Mechanisms of Institutional Design

The second direction in the literature on formal-informal linkages involves a more strategic approach to formal-informal linkages as instruments of institutional design that facilitate the exploitation of complementarities between formal and informal institutions. Instead of focusing on mapping linkages, the emphasis is on tapping institutional resources between the formal and informal economies to fill institutional gaps. There are two broad streams in the tapping literature. The first revolves around the concept of co-production (Ostrom 1996), which views linkages across the public-private, or formal-informal, divide as effective means of reducing transaction costs of service and public goods provision in developing countries. While the vast majority of this literature focuses on initiatives to tap the informal economy for cheaper models of service provision, a critical dimension in the literature views linkages as means of tapping the formal economy for the benefit of the informal economy. The second stream in the tapping literature arises within the bottom of the pyramid tradition (Prahalad 2004), in which linkages are seen as mechanisms for integrating business into poverty alleviation by building ties with informal markets and institutions. Here, linkages are seen as first-best solutions to development problems.

Core debates in the literature on linkages as mechanisms of institutional design relate to whether linkages create synergies or reinforce inequalities between the formal and informal economies, what conditions are necessary to promote synergies, whether linkages offer first-best or second-best solutions to service provision and poverty alleviation, and whether linkages strengthen or weaken informal organizational forms.

Co-Production of Public Services

Co-production perspectives derive from the new institutionalist approach to formal-informal linkages as second best arrangements for filling institutional gaps in the formal economy (North 1990). An expanding literature has emerged to explore the role of formal-informal linkages in creating synergies and reducing the transactions costs in service and public goods provision in developing countries (Guha-Khasnobis et al. 2006; Joshi and Moore 2004; Booth 2011; Joshi and Ayee 2008; Medina 2007; van Ginneken 1999; Tokman 2007; Allen et al. 2006; Scheye 2009). A range of more critical perspectives, often focusing on particular public services, consider how unequal economic and power relations between formal and informal actors influence the distribution of linkage benefits, raising questions about the impact of linkages on risk, inequality, and citizenship (Miraftab 2004; Samson 2009; Zerah 2009; Roy 2010; Unni and Rani 2003; Lund and Nicholson 2004).

The pioneering edited collection by Guha-Khasnobis, Kanbur and Ostrom (2006), *Linking the Formal and Informal Economy: Concepts and Policies*, pulls together supportive and more critical co-production perspectives. The editors’ introductory chapter argues against “crowding out” the informal sector in development reforms. Linkages are seen as vital mechanisms for “unlocking the potential” of the poor by using informal institutions to fill gaps left by state and market failures. It urges a shift away from state-based policymaking toward multi-stakeholder partnerships involving a wider range of civil society and informal actors, thus extending the reach and reducing transaction costs of development interventions. The collection (see Guha-Khasnobis, Kanbur and Ostrom, 2006) includes contributions that encourage formal-informal linkages to diversify regulatory authority away from the state (Christiansen), to build on the capacities of informal economies in the design of large-scale development projects (Soderbaum), and to exploit the vast untapped potential of insurance markets among the poor through institutional innovations in micro-insurance (Guha-Khasnobis and Ahuja). More critical contributions by Hart (2006), Chen (2006) and Andersson and Pacheco (2006) suggest that synergy is only one of the possible outcomes of formal-informal linkages, which can also promote exclusion or corruption owing to differences in institutional structure or power relations. Chen argues that the key policy challenge is not just to promote linkages, but to promote more equitable linkages in which informal actors enjoy more of the benefits and fewer of the costs.

More mainstream co-production perspectives advocate the use of formal-informal linkages to harness informal institutional arrangements in the service of more pragmatic approaches to service provision for
the poor (Joshi and Moore 2004; Booth 2011). Strongly associated with research centres on taxation and service provision funded by the UK-based Department for International Development (DFID), these perspectives represent the use of formal-informal linkages as second-best solutions to the failures of state-based and privatized models of service provision in previous decades. There is an explicit recognition that co-produced services may suffer from problems of poor quality, corruption, human rights abuses and exclusion of the most marginal actors. Joshi and Moore (2004) and Joshi and Ayee (2008) consider the harnessing of informal occupational associations for tax collection in Africa and Latin America, allying the state with less than accountable organizations, but contend that they constitute the best available alternatives for public provision in weak states. Drawing on research from the DFID-funded African Politics and Power Programme, Booth advocates the use of informal arrangements to solve collective action problems in public goods provision, but emphasizes the need for overall coordination and regulation from above. The potential of formal-informal co-production in services and public goods provision has been developed through numerous case studies of solid waste management (Medina 2007; Moreno-Sanchez and Maldonado 2006; Nzeadibe 2009; Wilson et al. 2006; Van Horen 2004; Chi et al. 2011), water and sanitation (Allen et al. 2006; Jaglin 2006), housing and planning (D’Cruz and Mittin 2007; Briassoulis 1999; Owusu 2007), justice and security (Scheye 2009; Wojkowska 2006) and social protection (van Ginneken 1999; Tokman 2007). Research on solid waste management is the most extensive, and emphasizes the importance of integrating informal waste pickers into formal urban waste collection systems to exploit synergies in poverty alleviation, employment provision, recycling, and low cost services. A pioneer in waste picker research, Martin Medina (2000, 2007) argues that linkages between waste pickers and urban waste management systems contribute to sustainable development, while others emphasize the value of these linkages in fulfilling MDGs (Nzeadibe 2009; Wilson et al. 2006). In a study of slum areas in urban Sri Lanka, Van Horen (2004) argues that linkages with informal systems of solid-waste management can help to overcome the fragmentation of urban service provision created by privatization initiatives. Similarly, in research on water and sanitation, Allen et al. (2006) and Jaglin (2008) argue that while formal-informal linkages deliver lower quality services to the poor, they enhance rather than compromise their citizenship rights through affordable service provision. Studies by van Ginneken (1999) and Tokman (2007) on social protection also advocate a reduction in quality of benefits, coupled with a harnessing of informal institutions, to extend the reach of protection systems.

Across the co-production literature, there is an emphasis on the coordination of formal-informal linkages through multi-stakeholder arrangements involving state actors, the private sector, NGOs, civil society organizations and informal workers’ associations that collectively bridge institutional and resource gaps. The prevailing impression is one of automatic synergies through multi-stakeholder collaborations centred on splicing together complementary institutional capacities.

However, others point out that institutional friction, conflicts of interest and power differences mean that considerable investment is required to ensure co-production arrangements benefit, rather than exploit, informal actors. Wilson et al. (2006) draw on the case of Cairo’s Zabaleen waste pickers to point out that synergies require significant investment in technical upgrading and social development among informal operators, as well as in managing organizational divergences between waste pickers and formal sector service providers. Similarly, in the context of Brazil, Fergutz et al. (2011) trace the extensive material and institutional investments required by civil society and the state to create inclusive partnerships with informal waste pickers to allow a more equitable distribution of the benefits of co-production. They document an active process of inclusion involving NGOs and civil society groups, strengthening waste pickers associations through advocacy and capacity building, and state legislation, all of which promotes legal recognition, eligibility for employment benefits, and advantageous integration in formal waste management systems as contractors rather than cheap labour.

A more pessimistic literature highlights problems of exploitation, power relations and public accountability where co-production is driven by the desire to reduce transactions cost rather to redistribute resources toward the informal actors. Research by Miraftab (2004) and Samson (2007, 2009) on solid waste management in South Africa, and by Fahmi (2010) on the Zabaleen in Cairo, shows that the involvement of power-
ful private companies in solid waste management leads to the exploitation and marginalization of waste pickers and informal sanitation workers. Further, they reveal how rhetoric surrounding the empowerment of informal actors through incorporation into urban waste management systems tends to mask official objectives of cutting service provision costs through the exploitation of vulnerable labour. Zerah's (2009) work on formal-informal linkages in housing, water and sanitation in Mumbai reveal that the interests of the poor are also marginalized by NGOs, who function more as contracted agents of the State than as representatives of the poor. Studies of formal-informal linkages in urban planning by Bugra (1998) in Turkey, and Roy (2010) in India argue that the state, rather than private companies or NGOs, instrumentalizes formal-informal linkages in an effort to evade land-use regulations and public accountability. These various perspectives highlight the tendency of more powerful actors to exploit formal-informal linkages that advance their own interests at the expense of weaker informal actors and the public interest, unless active policy initiatives prevent this from happening – recalling Chen's (2006) observation that the key policy challenge of co-production is not to promote linkages, but to ensure that the distribution of benefits is more equitable.

Critical research on social protection and the informal economy contributes to this objective by actively exploring how formal-informal linkages could be used to tap the formal economy in the interest of informal actors (Lund and Nicholson 2003; Barrientos and Barrientos 2002; Unni and Rani 2003; Lund 2008; Biggeri and Merhotra 2002). A number of these scholars use value chain analysis to link policy solutions to an understanding of risks, vulnerabilities, needs and priorities of informal actors. Barrientos and Barrientos (2002) and Lund and Nicholson (2003) identify institutional constraints and existing forms of coverage for informal horticultural and garment workers in various countries in Asia, Africa and Latin America, and argue that partnerships among state, employer and community actors need to be leveraged through codes of conduct, and by strengthening informal workers associations and NGO advocacy. Lund (2008) and Biggeri and Merhotra (2002) urge more institutionalized mechanisms for drawing funding from corporate actors such as insurance companies and contracting firms, thus linking social protection to corporate profits rather than shifting the responsibility to the state. There is also an emphasis on a more bottom-up approach to institutional design, driven by the needs and interests of informal workers rather than by the private sector or state actors. Unni and Rani (2003), Lund (2008) and others emphasize the leading role of informal workers associations, such as SEWA, in institutional innovations that have made social protection for informal workers attractive to the private insurance industry. The creation of linkages that are funded from above and designed from below offer a genuine redistribution of benefits. However, the involvement of powerful private sector actors, and the suggestion that the risks be underwritten by the state, also open up new avenues to capture the benefits of linkages from above, through efforts to turn social protection for the informal economy into a market opportunity at the bottom of the pyramid (see Frota's 2008 work on linking social protection with micro-credit systems, and Guha-Khasnobis and Ahuja's [2006] on innovations in micro-insurance).

**Bottom of the Pyramid Approaches**

The bottom of the pyramid (hereafter BoP) literature approaches linkages as first-best solutions to market and state failures that have excluded the poor from integration into the global economy. Arising from the article and later book entitled, *The Fortune at the Bottom of the Pyramid* (Prahalad and Hart 2002; Prahalad 2004), there has been an explosion of BoP literature on the use of linkages across the formal-informal divide, emanating from business schools (Kasturi Rangan et al. 2007; Hart and London 2005; London and Hart 2011; Yunus 2010), and increasingly from international development and donor organizations (World Bank 2007; UNDP 2008; Helmore 2009; Oxfam America et al. 2011). This literature views BoP business ventures as creating bridges across the formal-informal divide to create synergies between global markets and social goals. As BoP gurus London and Hart (2011:10) explain, “BoP ventures thus seek to combine the best of both worlds – the resources and technological capacity of the formal economy and the indigenous knowledge, human face and local embeddedness of the informal sector.”

Rather than viewing linkages as second-best compromises, BoP literature focuses on the strategic advantages of such linkages. Formal-informal linkages are seen as providing access to the market potential of
expanding informal economies, as well offering new solutions to failing aid-based development models that crowd out markets and reduce the poor to recipients of charity (Prahalad and Hart 2002; World Bank 2007).

London and Hart (2011), and UNDP (2008) detail the two core strategies of linkage-building. The first involves unlocking the “untapped potential” of the poor by “leveraging” informal networks to gain access to informal assets, labour, market knowledge, and regulatory capacities (see also De Soto 2000). In return, the poor are integrated into global markets not just as consumers, but as producers, distributors and entrepreneurs. Integration of the poor as producers and distributors involves using multi-stakeholder partnerships to share the costs and risks of creating this new market infrastructure. This concept of reciprocal integration through formal-informal linkages is accompanied by a more strategic focus on how current relations between the formal and informal economies need to be restructured into forms of “value creation” – that is, profits.

A growing range of literature has emerged to explore the structure and strategic potential of formal-informal linkages, largely focused on specific case studies. One stream in the literature focuses on the role of NGOs and other non-traditional partners of global corporations in filling “institutional voids” that prevent global capital from connecting with informal markets (Webb et al. 2010; Perez-Altman and Sandilands 2008; Anderson et al. 2010). NGOs are viewed as key to bridging gaps between formal and informal markets, owing to their communal embeddedness and local knowledge and legitimacy, which allow them to secure local cooperation, mobilize labour, and manage the financial and supply arrangements necessary to connect global firms to informal actors and markets. Perez-Altman and Sandilands (2008) argue for the involvement of a wider range of stakeholders including the state, donors, and local firms as well as NGOs, to facilitate and fund connections with poor producers who are excluded by corporate codes and standards. In more remote or conflict-prone areas where states and NGOs are absent, Anderson et al. (2010) encourage forming links with traditional leaders or local mafias to manage risk in the informal institutional environment.

A second stream in the BoP literature concentrates on strategies of “leveraging” informal networks by selectively incorporating some and eliminating others (Karamchandani et al. 2011; Henriques and Herr 2008; Metzger et al. 2010; Anderson et al. 2010; Katsuri Rangan et al. 2011; World Bank 2007). On the demand side, Katsuri Rangan et al. (2011), and the World Bank’s (2007) report The Next Four Billion, draw attention to the segmented character of BoP markets, creating consumer and labour profiles of each segment to guide strategies of business engagement. Kasturi Rangan et al. (2011) divides BoP markets into “low income”, “subsistence” and “extreme poverty”, while the World Bank (2007) uses six income segments. Both draw attention to market value in the middle and upper segments of the BoP, but view the “extreme poor” as un-promising from a market perspective, unless they are recipients of relief from donor or government sources. On the supply side, studies focus on the role of BoP initiatives in connecting informal operators to global markets by restructuring, rather than simply creating, value chains. Spencer (2008) notes a tendency of BoP ventures to crowd out local firms, but says it will be a short-term effect. By contrast, Metzger et al. (2010) advocates a restructuring of local value chains by actively eliminating informal market intermediaries and replacing them with NGOs. Literature on “micro-franchising” explores mechanisms for leveraging the labour of “survival entrepreneurs”, and considers the role of NGOs and local government as managing intermediaries (Henriques and Herr 2008; Christensen et al. 2010). An Oxfam report on BoP initiatives undertaken by Unilever-Indonesia confirms a tendency toward deeper informalization of production labour, while extending the value chain deeper into informal supply and distribution activities. Despite evidence of some improvement in the incomes of informal actors, these deeper formal-informal links were found to involve the elimination of layers of middlemen, and a concentration of financing and price-setting power in corporate hands, weakening the bargaining power of informal suppliers and micro-distributors. In short, BoP linkages focus on incorporating the poor as consumers, producers and distributors by restructuring value chains in ways that leverage labour, demand and social access, while eliminating intermediaries and unprofitable consumers.

A third stream argues for a need to move beyond a case-based approach to a broader theorization of BoP models (Mendoza and Thelen 2008; Sanchez and Ricart 2010; London et al. 2010; Rivera-Santos and Rufin 2010). Typologies are developed for the analysis of optimal BoP approaches, for analysing increas-
ing integration and regulatory control of informal markets, and for theorizing networks in BoP environments. Theorization focuses on optimizing penetration and value “creation” in BoP markets. Key processes derived from these various analyses are the importance of incorporating non-traditional partners such as NGOs, private sector actors, local government officials and even local mafias to fill institutional gaps and absorb risk, the importance of cultivating social legitimacy through social embeddedness and corporate social responsibility activities, the need to induce systemic change in the institutional environment to facilitate access and value creation, and the need to develop mechanisms to “discipline” informal partners.

An emerging critical literature on BoP looks beyond the strategic considerations of corporate actors to consider the ethics and effects of corporate efforts to harness the networks of the poor. A special edition of the journal *Africa*, edited by Elizabeth Hull and Deborah James (2012), focuses on the contradictions created by the development of formal-informal linkages in the South African economy. The articles raise interesting questions about who is tapping whom by considering the varied effects of formal-informal linkages in different contexts. Formal-informal linkages are seen to be driven by popular agency in Bolt’s (2012) study of cross-border migrant labour, by poverty and precariousness in the context of micro-lending strategies (James 2012), and by formal sector exploitation in micro-insurance markets (Bahre 2012). Building on earlier work by James (2011), this special issue draws attention to the role of brokers as bridges and translators between the formal and the informal, knitting together incompatible systems in a variety of ways. A more resolutely critical literature considers the problematic effects of harnessing the networks of the poor for corporate profit, focusing on labour exploitation, technologies of power and dispossession, and the interests served by putting corporate interests at the centre of development practice (Dolan and Scott 2009; Cross and Street 2006; Elyachar 2005, 2012; Roy 2012; Bateman 2010, 2011). In an incisive analysis of the Hindustan-Unilever “Health in Your Hands” campaign, Cross and Street (2006) argue that BoP initiatives restructure formal-informal linkages around the interests of global capitalism, while further dispossessing the poor. BoP formal-informal linkages displace artisanal soap producers, exploit rather than empower informal distributors, and harness donor and state funds for corporate marketing campaigns disguised as poverty alleviation. Detailed research on micro-credit networks in Bolivia (MacLean 2010) and Avon micro-distribution networks in the Brazilian Amazon and South African townships (Dolan and Scott 2009; Chelekis and Mudambi 2010) reveal a tension between the rhetoric of gender empowerment and evidence of the stresses and vulnerability created by appropriating the social networks of poor women to generate profits for corporate capital. Elyachar (2005, 2012) and Roy (2012) represent formal-informal linkages in BoP ventures as a continuation of neo-liberal strategies by using informal linkages as a new infrastructure for extending the reach of global capitalism. In her insightful study of informal artisans in Cairo, Elyachar (2005) examines the power struggles through which global corporate interests attempt to extract value from the social networks of the poor, using NGOs as brokers to enforce financial discipline – a process she describes as a new form of “accumulation by dispossession” (2005:188/9). Roy’s (2012) analysis of the destructive effects of micro-credit dubs these initiatives “bottom billion capitalism”, claiming that formal-informal linkages are used to mine, rather than to create, a fortune at the bottom of the pyramid.

**Linkages as Mechanisms of Institutional Design: Interim Conclusions**

A common feature of the literature on institutional design is a view of formal-informal linkages as a strategic measure for filling institutional gaps resulting from state or market failures. This literature represents linkages as a means of tapping or unlocking the potential of the informal economy by integrating their entrepreneurial energies, assets, and networks into wider development processes to extend the reach and reduce transaction costs of functioning markets and public goods provision. The co-production and the bottom of the pyramid literature have divergent views on whether linkages are first-best or second-best solutions to development problems, relating to views about the inferior governance capacities of informal institutions versus the superior governance prospects of extending the reach of global markets. However, both perspectives advocate similar policy approaches of encouraging formal-informal linkages where these offer possibilities for reducing transaction cost, bringing assets and property into the formal economy, or extending the reach of basic provision or global market access. Here, increasing the legibility of the informal economy to formal sector actors is a matter of key interest, particularly in the BoP community. Both
co-production and BoP literatures also advocate the use of some form of multi-stakeholder partnership, rather than dyadic linkages between formal and informal actors; these partnerships would use NGOs, local government and civil society organizations to bridge institutional and training gaps, and state, donor or private sector actors to bridge resource needs.

While the mainstream literature tends to represent linkages as unproblematic connections among formal and informal stakeholders, more critical perspectives raise questions about the role of institutional divergence, conflicts of interest, and power in shaping how linkages are created, and whose interests they serve. Linkages are seen to raise significant policy challenges beyond the question of how to create and manage them. Central among these challenges are policies that ensure a more equitable distribution of benefits from formal-informal linkages; equitable distribution relates to who designs linkage strategies (from above or from below), for whose benefit (tapping the informal economy or redistribution), and what specific policies and partners can ensure synergistic rather than exploitative linkages. Both the critical social protection and BoP literature draw attention to capacities of the informal economy to play a leading role in institutional innovation, despite the prevailing contention in the BoP literature that innovation can only come from above. The role of SEWA in devising hybrid formal-informal innovations in insurance for informal actors, and of informal trading and service provision networks in devising low-cost systems of extending markets, services and even global money transfers into areas neglected by the state, are cases in point. These observations turn the core policy orientation of the institutional design literature on its head by highlighting alternative forms of institutional design in which formal-informal linkages are used for institutional inclusion of the marginalized, rather than to reduce risk and transaction costs for the benefit of the formal economy.

Finally, the critical literature on institutional design draws attention to the role of power and policy, rather than assuming that institutional complementarities will automatically produce synergies through which both sides benefit. Here the critical co-production literature, particularly the literature on waste picking, has been the most advanced in exploring the policy specifics. There is a strong emphasis on the need for NGOs and civil organizations to strengthen informal occupational organizations and to engage in advocacy, as opposed to the kinds of “partnerships” in which NGOs act as agents of the state or of global capital. Attention is also drawn to the role of the state, not just to engage in or facilitate the outsourcing of public functions to the informal economy, but to use legal instruments to ensure that informal actors are incorporated into service provision or market development on advantageous terms, as recognized (even assisted) cooperatives, as protected labour, or as preferred contractors, rather than as unprotected labour or low-end subcontractors. In short, an awareness of power relations reveals that formal-informal linkages can move in different institutional directions: synergy or adverse incorporation. The literature on governance that follows provides the tools to move beyond case studies toward an analysis of the power relations and institutional processes that shape these different trajectories.

**Governance Implications of Formal-Informal Linkages**

The literature on the implications for formal-informal linkages for wider governance processes emanates from a range of sources, principally legal pluralist perspectives, political sociology/anthropology, and political economy. Rather than emphasizing the exploitation of complementarities, the governance literature examines the positive as well as negative effects of such linkages on wider regulatory processes. Instead of simply availing the formal regulatory system of a cheap reservoir of institutional forms to resolve market failures, there is a recognition that formal-informal linkages are a two-edged sword. In addition to their role in outsourcing formal regulatory responsibilities, they also invest informal institutions and actors with greater regulatory power, often with unpredictable consequences. Concepts of bricolage, hybrid governance, and synergy are explored, with a view to better understanding the regulatory transformation created by linkages across the institutional divide (see Appendix). This literature moves beyond the focus on institutional design to examine the actual and varied effects of such linkages in concrete historical and contemporary situations. Legal pluralist perspectives focus on the incursion of informal institutions into formal regulatory
processes “from below” (Cleaver 2002; Nkurunziza 2008; Lund 2006; Roitman 2004), while literature on state-society synergy and hybrid governance focuses on the role of formal-informal linkages in processes of state-building (Evans 1996; Tendler and Amorim 1996; Brautigam et al. 2008; Raeymaekers 2010).

Legal Pluralist Perspectives

The legal pluralist literature explores the actual processes of formal-informal linkages through the concepts of bricolage and hybridity. Detailed empirical research by Cleaver (2002, 2012) and Maganga (2002) on natural resource management in Tanzania makes the point that formal-informal linkages are nothing new, but have always been part of processes of institutional change. They explore the role of hybridity and “borrowing” between institutional forms in vesting formal institutions with local legitimacy, as well as in strengthening the regulatory authority of informal practices. However, both authors note the realities of divergent institutional norms, and the role of power and interests in shaping the regulatory outcomes of linkages. Cleaver (2002) also draws attention to the role of the “bricoleur”, indicating that bricolage is an authoritative process that is shaped by the interests of the authority figures involved. Work on urban land management in Kampala (Nkurunziza’s 2007, 2008) and in various African cities (Rakodi 2006) highlights the pervasiveness of formal-informal linkages in contexts in which formal rules are incompatible with local realities. Nkurunziza demonstrates how informal land transactions, surveyed off the books by formal surveyors, and approved for a bribe by local councillors help to resolve the contradictions between formal requirements and local needs. While emphasizing the complementarities, Nkurunziza also hints at the vulnerabilities of informal actors dependent on locally legitimate but illegal practices, and on the whims and greed of local officials. Comparing land management systems across five African cities, Rakodi also favours processes of hybridization of formal and informal practices, but notes that trajectories of contestation and non-compliance also emerge in some urban contexts, with more problematic consequences.

A contrasting perspective views hybridity between formal and informal institutions as a form of regulatory contamination from below, particularly in African societies. Formal-informal linkages are described in disapproving terms as “twilight institutions” (Lund 2006), “military-commercial networks” (Roitman 2004) and “the criminalization of the state” (Bayart et al. 1999), and pluralization of authority is regarded as destructive of bureaucratic authority and good governance (Reno 2000). Others draw attention to the instrumentalization of linkages by the state as a means of breaching public norms “through the back door”. Buur’s (2010) study of vigilantism in South Africa considers the leakage of publicly unacceptable practices, such as beatings and torture, into formal policing through the incorporation of vigilante groups, raising questions about the implications of outsourcing formal services to informal community organizations.

State-Society Synergy Perspectives

Research on synergy takes a view from above rather than below, and recognizes that synergy is not the only possible outcome of complementary formal-informal linkages. Peter Evans’ famous article on state-society synergy argues that synergistic formal-informal linkages depend less on the nature of informal institutions and networks than on the nature and actions of the state. He explains that a strong, capable and democratic state is key to providing the institutional and material support to translate parochial informal loyalties into organizations suitable for public service. Where strong states are lacking, “clientelistic capture is the natural consequence of tight public-private ties...”(Evans 1996:1129). Similar arguments have been made in the context of East Asia by Cheng and Gereffi (1994), and in an excellent edited collection by Deyo, Doner and Hershberg (2001), both demonstrating empirically that East Asia’s dynamic and developmental informal economies are not an automatic consequence of cultural assets or institutional complementarities, but depend on supportive investment and linkages with strong states.  

5 The article “Mixed Embeddedness” by Kloosterman et al. (1999) makes a similar point in the case of ethnic entrepreneurship in the Netherlands, showing that a lack of constructive linkages with the state produces weak informal economies despite strong internal linkages.
ever, Huang’s (2011) insightful work on the Chinese informal economy challenges notions of synergistic East Asian economies. He examines the distribution of costs and benefits within the Chinese economy to argue that growth synergies are not necessarily social welfare synergies. China’s strategy of harnessing the informal economy for development has led to institutional exclusion rather than integration of informal systems of rights, saddling China with a vast informal economy and growing pressures of unrest and environmental degradation. A key implication of this literature is that formal-informal synergy demands redistributive investment and institutional integration rather than simply using linkages with the informal economy to reduce transaction costs.

While the literature on synergy views strong states as key for forming developmental linkages across the formal-informal divide, a more recent literature on hybrid governance and “taxation and state-building” contends that weak states provide a basis for formal-informal linkages to generate positive governance transformations. Drawing on a Tillyan rather than a Weberian view of the state, or on Mancur Olson’s (1993) notion of the “stationary bandit”, proponents of this view argue that weak or predatory forms of order and authority can build governance and accountability through engagement in taxation and service provision (Fjeldstad and Moore 2008; Reno 2009). Research on informal cross-border trade networks and war economies in East and West Africa (Titeca and de Herdt 2010; Titeca 2011; Raeymaekers 2010; Reno 2009) argue that dynamic and sometimes violent informal economic networks can restore governance and accountability by taking up regulatory and service provision activities abandoned by the state. The socio-cultural embeddedness of cross-border trading networks, combined with linkages to global markets and ties to local government and local armed groups, turn war economies into stabilizing multi-stakeholder networks filling gaps in formal regulatory systems – a kind of macro-institutional co-production.

In more stable weak-state contexts, a number of scholars have explored the idea that taxing the informal economy could reverse declining state capacity by creating pressures and resources for accountability and service provision (Prichard 2009; Joshi and Ayee 2008; Fjeldstad and Moore 2008). Various reforms of revenue collection are explored, including outsourcing tax collection to informal enterprise associations or to the private sector. These various approaches to hybrid governance or taxation and state-building encourage governance transformations in weak states based on forming extractive linkages between the formal and informal economy, while the analysis of how the informal economy will benefit remains much more vague. Some authors have countered the view that such linkages will build formal-informal accountability and service provision by drawing attention to ongoing problems of state incapacity, informal powerlessness and vulnerability to political capture and global private sector agendas (Meagher 2012; Mkandawire 2010; Carroll 2011).

**Typologies of Governance Transformations Across the Formal-Informal Divide**

Such a range of contrasting views of the regulatory consequences of formal-informal linkages, from above as well as from below, suggest that different outcomes may arise in different contexts. The result has been a growing literature on typologies, which explore different ways in which states and informal institutions come together to create different effects on governance. Promising typologies have been developed by Helmke and Levitsky (2004) on Latin America, by Gryzynala-Busse (2010) in post-Communist states. Focusing on weakened post-Communist states, Gryzynala-Busse classifies the distinctive effects of formal-informal linkages on wider governance trajectories into four dimensions: replacement, undermining, support, and competition. In the Latin American context, Helmke and Levitsky create a typology based on the interaction between effective and ineffective formal institutions, and convergent and divergent informal institutions, also creating four rather similar governance outcomes: complementary, accommodating, substitutive and competing. In both cases, the focus is on whether formal and informal institutions are mutually reinforcing (synergistic) or disruptive, or whether informal institutions simply fill institutional gaps or create cliental opportunities. These typological approaches offer new opportunities to move beyond essentialist debates to a more nuanced understanding of the governance effects of formal-informal linkages.
Governance Perspectives: Interim Conclusions

In contrast to the mapping and institutional design perspectives, governance perspectives on formal-informal linkages are more focused on institutional process than on policy. Their value lies in the provision of analytical tools to examine the wider regulatory and distributive effects of formal-informal linkages in different contexts. A few key observations emerge from this literature. The first is to highlight the long history of formal-informal hybridization in processes of institutional change, and to draw attention to the role of power and institutional process in determining how benefits are distributed. Secondly, governance approaches draw attention to the issue of divergent norms and practices in formal and informal regulatory systems, and offers various perspectives on the implications of vesting informal systems with greater regulatory authority, or of shifting regulatory responsibilities out of the formal economy. A third observation of this literature is that variations both in the nature of informal institutions and of formal institutions can lead to a wide variation of governance outcomes resulting from linkages. Synergy is only one possible result of formal-informal linkages; others include various forms of clientelism and adverse incorporation, or even regulatory disorder. While the literature on typologies suggests that outcomes can be predicted with more careful analysis, the more historically embedded legal pluralist literature makes it clear that outcomes can be unpredictable even with careful institutional design, owing to cross-cutting identities and power relationships in formal as well as informal institutions (Cleaver 2002).

From the perspective of policy considerations, core issues relate to synergy and normative divergence. With regard to synergistic arrangements, using formal-informal linkages to compensate for state incapacity is likely to be problematic. Synergistic linkages are associated with stable states because they demand significant investment in scaling up and normative integration of promising informal arrangements, rather than offering a ready-made mechanism for filling institutional gaps and reducing the transactions costs. From the perspective of normative divergence, linkages across the formal-informal divide do not only fill regulatory gaps, they also invest informal institutions with greater regulatory authority, suggesting that care must be taken about the kinds of informal regulatory systems that are spliced into formal governance arrangements. Communal resource management systems, vigilante groups and informal labour gangs may all fill institutional gaps and reduce transaction costs, but they bring very different institutional baggage with them into the ambit of formally sanctioned practices.
Politics of Formal-Informal Linkages

Our final category of literature looks at formal-informal linkages as sites of struggle rather than as mechanisms of filling institutional gaps or shifting regulatory authority. Rather than simply functioning as channels for the distribution of power and benefits across the formal-informal divide, linkages are viewed as mechanisms for contesting existing distributorial arrangements. India and South Africa constitute the empirical epicentres of this literature, owing to impressive advances in the unionization of informal workers, while other African countries also figure prominently in view of high levels of informalization and growing government interest in forming organizational linkages. The literature on the politics of linkages is dominated by political scientists with a focus on labour organization and social movements, and by critical perspectives in geography and urban planning. Three main streams of literature are involved: literature on collective organization in the informal economy (Heller 1996; Cross 1998; Gallin 2002; Lindell 2010a; Lund and Skinner 2004), critical literature on urban planning in developing countries (Watson 2009; Miraftab 2009; Mosiane 2011), and an emerging literature on the politics of multi-stakeholder networks (Forsyth 2005; Lindell and Appelblad 2009; Roy 2009).

Formal-Informal Linkages and Collective Organization

A burgeoning literature on collective organization in the informal economy explores the potential of linkages across the formal-informal divide as mechanisms of “popular empowerment”. One set of perspectives focuses on the issue of direct unionization of informal workers, “from above” and “from below”. In research on a number of countries, advocates of unionization from above focus on the need for inclusion in existing labour unions to gain protection of labour rights (ILO 1999), and to liberate informal workers from informal forms of labour organization perceived as backward, exploitative and demobilizing (Heller 1996; Harriss-White and Gooptu 2001; Barchiesi 2010). Advocates of unionization “from below” analyze the experiences of SEWA in India and SEWU in South Africa. They highlight the need for informal workers to form their own formal labour unions owing to differences in needs and strategies of organizing informal workers, and difficulties faced in representing them within formal union structures (Devika et al. 2011; Devenish and Skinner 2004).

An alternative literature considers the benefits of a wider range of political linkages emerging between informal occupational associations and supportive formal sector actors, ranging from alliances with labour unions, local government and global as well as local NGOs (Lindell 2010a, 2010b; ILO 2002). Advocates of alliances between informal associations and labour unions draw attention to the political limitations of direct incorporation. Several authors raise concerns about the tendency of unions to use informal actors to swell their ranks while subordinating the informal workers’ concerns to those of formal sector labour. Also highlighted are the divergent interests between unions dominated by male formal-sector workers, and informal associations that are often female-dominated and involve employers rather than workers (Gallin 2002; Jimu 2010; Andrae and Beckman 2010). Looking beyond unions, attention has focused on the benefits of alliances between informal associations and local government to create political space for negotiation over labour and citizenship rights (Lund and Skinner 2004; Brown et al. 2010). Still others document the advantages of formal-informal linkages with global NGOs that assist in generating funds, awareness and political leverage to strengthen informal workers’ organizations (Carr et al. 2000; Scheld 2010; Mitullah 2010. While collective organization across the formal-informal divide is predominantly viewed as a means of popular empowerment, a limited literature draws attention to some of the downsides of formal-informal political linkages, emphasizing the weakness of informal organizations and the risks of political capture by powerful interests from above as well as from below (Cross 1998; Shefner 2006).
Urban Planning and Formal-Informal Contestation

The central premise of the radical urban planning literature is that, in the contemporary policy environment of neo-liberal market reforms, governance transformations depend on contestation rather than synergy. This literature views formal-informal linkages as “zones of contestation” in which conflicting economic rationalities are brought into confrontation with each other. Drawing on Foucauldian notions of governmentality and the repoliticization of institutional arrangements, Miraftab (2009), Watson (2009) and others highlight the role of formal-informal linkages as mechanisms of disrupting domineering relationships embedded in formal urban planning and neo-liberal governance. Informal economic practices of the urban poor intrude into the formalities of planning and market rationality, challenging exclusion by disturbing the logics of formalization and efficiency. Focusing on class rather than identity-based differences, Watson emphasizes the conflict between techno-managerial and market-driven rationalities operating in formal urban governance, and the rationalities of survival operating within the informal economy. She highlights the uneven and unpredictable consequences of these struggles, which can lead to compromise, institutional innovation or the imposition of new costs on the poor.

In a study of a South African city, Mosiane (2011) emphasizes the class conflict between liberal market and livelihood interests in post-apartheid South Africa. He traces the tendency of local business and political lobbies to hijack inclusive policies for their own benefit, while further marginalizing informal actors. Mosiane (2011:49) concludes that, “interactions between the formal entrepreneurs, policymakers and participants in the informal sector have turned on contested access to markets and control of trading sites, rather than on building the collaborative relationships necessary for generating positive socioeconomic effects.” The author emphasizes the need for “regulatory and material support from the state as a guarantor of economic rights” if any actual empowerment is to result from linkages with the formal economy.

The Politics of Multi-Stakeholder Networks

An emerging literature on the politics of multi-stakeholder networks explores the dynamics of the complex linkages involved in contemporary efforts to integrate informal actors into formal institutional systems (Forsyth 2005; Lindell and Appelblad 2009; Lince 2011; Roy 2009). An illuminating article by Tim Forsyth (2005) explores multi-stakeholder partnerships in solid waste management in India and the Philippines. He notes a tendency to use discourses of collaboration and consultation to mask the cooption of agenda-setting by powerful business and NGO partners – resulting in agendas that privilege international and corporate concerns over those of local livelihoods and public accountability. Similarly, studies of the privatization of markets in Kampala (Lindell and Appelblad 2009) and the regularization of markets and fisheries in Jinja (Lince 2011) found that nominal inclusion of informal occupational associations in multi-stakeholder networks was rendered meaningless by the associations’ lack of social, political and economic resources for genuine participation. Both studies show how inclusion in multi-stakeholder networks deepens, rather than mitigates, processes of exclusion and adverse incorporation. As Lince (2011:91) aptly put it, “Having a place to speak at the table ... is not the same as having a place to eat at the table.” Teasing out the power relations and techniques of governance occurring inside apparently inclusive multi-stakeholder networks offers valuable insights into new forms of cooption and contestation within emerging forms of formal-informal linkages.

Politics of Formal-Informal Linkages: Interim Conclusions

Three broad observations arise from literature on the politics of formal-informal linkages. The first is that in the neo-liberal era, synergistic formal-informal linkages are increasingly unlikely to occur on their own. Intensifying market pressures mean that redistributive investment and institutional support
for informal actors is more likely to be a product of active contestation from below rather than syner-
gistic initiatives from above. The second observation is that, while alliances with formal sector organi-
izations can strengthen informal political voice, even linkages with traditional allies, such as unions or
NGOs, are not necessarily sources of empowerment. Divergent interests between formal and informal
organizations, and the realities of poverty and powerlessness within the informal economy, mean that
informal organizations remain vulnerable to cooption and capture, even from their allies. A third obser-
vation relates to the growing variety and multiple scales of formal-informal political linkages involving
not only labour unions, but also NGOs, local government and multi-stakeholder networks operating at
the local, national and even global scale. These make effective collective organization of informal ac-
tors increasingly complex, and suggest that informal organizations may not always be in control of the
political networks in which they are involved.

The core policy consideration arising from these observations is that political linkages across the
formal-informal divide are not necessarily conducive to empowerment. While they can enhance infor-
mal political voice, the rise of complex multi-stakeholder networks can also turn these linkages into
techniques of governance and subordination. Understanding the specific power relations and politics
within these networks is crucial to understanding whether they reduce or deepen conditions of adverse
incorporation.
Conclusions

There is a rich profusion of research on linkages across the formal-informal divide, moving in a range of empirical and theoretical directions. The literature has been reviewed under four categories: linkages mapping, institutional design, governance effects, and the politics of formal-informal linkages, stylized by the approach to linkages as: mapping, tapping, vesting and contesting. Having summarized interim policy implications at the end of each section, the task now is to pull these together into an overall set of policy implications, to identify research gaps and relevant concepts for addressing them, and to outline a framework for further research.

Policy Implications

The policy implications of this review of literature start from what Martha Chen (2006) identifies as the core policy challenge of ensuring a more equitable distribution of benefits between the formal and informal economy. However, as this review shows, formal-informal linkages operate both to worsen and to improve the distribution of costs and benefits between the formal and informal economies. Rather than reiterating policy considerations made at the end of each section in this review, I will draw out broad areas of policy concern. These relate to: differentiating the policy needs of entrepreneurial and survivalist informal actors; promoting dynamic policies to encourage synergistic linkages; the management of multi-stakeholder networks; and policy diagnostics for the governance implications of co-production and hybrid governance arrangements.

a) Effective formal-informal linkages need to recognize the differential policy needs of informal enterprises and informal labour (entrepreneurial and survivalist informal actors). A tendency to privilege social protection over enterprise development policies tends to treat informal actors uniformly as labour rather than recognizing that some have a capacity for economic autonomy. This is just as problematic as the earlier policy stance that treated all informal actors as entrepreneurs, when this was clearly not the case for many. A more nuanced view of the informal economy is needed in order to recognize the distinct support needs of informal labour (and survivalist firms) and informal entrepreneurs. The focus on extending social protection across the informal economy risks trapping informal entrepreneurs in relations of dependency. Instead, advocating their distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., could serve to build a capacity for autonomous development, rather than reducing them to skilled labour in exploitative formal sector outsourcing arrangements.

b) There is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed to how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations.

c) There is a clear need for greater policy attention to the differences in power and interests of the various stakeholders in multi-stakeholder networks. A tendency to regard the formal sector as composed of the state and private sector tends to blur distinctive interests of the private sector, particularly in globalized market conditions. Unlike the relationship between the informal economy and the state, the global private sector remains a “roving” rather than a “stationary” bandit. Similarly, NGOs cannot always be assumed to
be allies of the informal economy – they are just as often agents of the state or of international economic interests. Bringing NGOs and the private sector into formal-informal linkages in order to fill funding or institutional gaps introduces potentially conflicting interests and power inequalities under the guise of complementarities that require more explicit policy consideration. This is particularly marked in the current role of NGOs in BoP arrangements with international corporations, where NGOs operate increasingly as agents of multinational firms seeking to harness the informal economy for formal sector profit.

d) Developing formal-informal linkages as mechanisms of institutional reform requires a clearer set of diagnostic tools to assess the potential governance effects of various formal and informal partners. There is a pressing need to consider the institutional baggage that comes with various co-production or hybrid governance arrangements, as well as giving proper consideration to the capacity of the state to manage some of the downsides to second best arrangements with informal sector partners. Effectively evaluating and managing the governance impacts of various co-production or hybrid governance arrangements requires the development of a clear set of policy diagnostics. These are essential if the use of informal arrangements in institutional design is to move beyond risky and potentially destructive experimentation, leaving a social wreckage of failed projects in its wake.

Research Gaps

The literature on formal-informal linkages maps out useful new perspectives for policy thinking regarding the informal economy, but also highlights a few research gaps. These relate to gaps in existing research on structural, equity, governance, and institutional issues.

From a structural perspective, there is a need for more research into the penetration of global firms deeper into the distributive end of the value chain within developing countries. Does the elimination of trader middlemen through BoP arrangements remove exploitative elements from the value chain, or does it eliminate higher income informal opportunities that are more accessible and accountable to the poor than BoP lead firms? How does the global penetration of informal distributive value chains affect income distribution and opportunities for accumulation within the informal economy? A second structural issue that constitutes an important research gap is the question of “brokers” (James 2011). There is a need for more systematic research on the gatekeepers who operate at the interface of the formal-informal divide. These would include labour contractors, on which there is a growing body of research, as well as micro-insurance and micro-credit agents, informal associations, NGOs as brokers for BoP initiatives, and community leaders or strongmen as community brokers. Whose interests do these brokers serve? What is the effect of brokers on the distribution of gains? What factors shift brokers toward more or less synergistic influences on linkages? These are issues that will become important in understanding how formal-informal linkages work.

With regard to equity, there is a serious lack of literature on the effects of BoP, co-production and informal taxation on income distribution between the formal and informal economies. What does co-production do to processes of job creation and income generation within poor communities? How does the elimination of informal middlemen affect the availability of income-generating opportunities, and what are the multiplier effects? How does taxing the informal economy to pay for social benefits reshape the distribution of resources within society? In addition to mapping or documenting the development of these types of formal-informal arrangement, there is a pressing need for more research on their distributive effects.

From the perspective of governance and political voice, two key research gaps relate to the divergent governance outcomes of formal-informal linkages, and to the institutional and political dynamics of multi-stakeholder networks. On governance outcomes, there is a dearth of comparative research on this issue, leading to a lack of analysis of the factors that lead to positive as opposed to negative governance outcomes, both between regions or countries, and between successful and unsuccessful arrangements in the same area.
With regard to multi-stakeholder networks, there is a smattering of literature on their internal political dynamics and effect on informal political voice, but this literature is very limited and scattered across diverse disciplines. There is a need for more systematic research on this issue.

At the institutional level, there is a gap in research on the role of the informal economy in institutional innovation underpinning formal-informal linkages. The claim in much of the institutional design literature is that these innovations come from above, while the empirical evidence shows that these innovations are often pioneered in the informal economy, and taken over by the formal economy. Feedback arrangements in M-Pesa\(^6\) and in micro-franchising arrangements are cases in point, as are efforts of insurance companies to study the institutional arrangements used by funeral societies in South Africa. There is a need for a more explicit documentation of the institutional innovations that are coming from the informal economy, particularly in the areas of micro-credit, micro-insurance, micro-franchising and tax collection.

Related to this is a gap in the literature on obstacles that keep the informal sector from capitalizing on its own institutional innovations. While the private sector seems able to exploit new opportunities created by innovations in formal-informal linkages, there is a lack of detailed literature on the legal constraints and other obstacles that prevent informal workers’ unions – such as SEWA, or Latin American unions that have incorporated informal actors – from also taking advantage of these institutional innovations in order to retain a greater share of the profits for the empowerment of their members.

**Framework for Future Research**

The final task of this literature review is to suggest a framework for future research on formal-informal linkages, drawing on the policy issues and research gaps identified above. The proposed framework involves five programmes: mapping BoP value chains; creating synergy in co-production arrangements; social protection for growth; taxation and governance; and the dynamics of multi-stakeholder networks. A basic outline of the programmes will be presented here, with a possibility for fuller development in future.

**a) Mapping BoP value chains:** Future research would focus on mapping the changing patterns of formal-informal linkages in BoP initiatives, with a particular focus on micro-franchising, micro-distribution, and mobile phone-based services. This research would map the restructuring of the low end of the value chains, paying particular attention to the role of brokers, the informal activities displaced by the initiative, the impact on opportunities for advancement of informal actors, and the impact on income distribution.

**b) Catalyzing Synergy in Co-Production Arrangements:** This research programme would consider the factors that turn formal-informal institutional complementarities in service provision into synergistic rather than exploitative arrangements. It will focus on the characteristics of informal organization, formal participants, regulatory context, and legal and policy initiatives. While solid waste management has been extensively studied (a synthesis of existing research would be sufficient), key activities for future research are water/sanitation, housing, and power (electricity). Emphasis will be placed on comparative work between countries.

**c) Social Policy for Growth:** This programme would focus on two key issues. The first is to explore the social policy needs of informal labour/survivalist activities relative to more dynamic activities such as informal manufacturers or skilled service providers (e.g. mechanics, butchers, hairdressers). This would involve an exploration of the priorities and effects of social protection programmes on welfare and livelihoods in labour/survivalist and dynamic informal activities. It could also involve comparative work on social protection programmes in labour/survivalist-dominated and entrepreneur-dominated informal economies in different countries or regions.

The second focus of this programme would be to examine the prospects for informal workers’ unions/associations to become social protection providers, rather than merely recipients. The research would focus on the legal, organizational, skill-based and other constraints that limit the ability of large informal

\(^6\) M-Pesa is a mobile-phone based money transfer and micro-financing service run by Safaricom and Vodacom in Kenya.
associations such as SEWA to become social protection providers, underwritten by the state, rather than simply acting as brokers that carry out supply and fee collection activities for large private firms.

d) Taxation, Governance and Redistribution: This programme would focus on the organization, distributive consequences and governance effects of efforts to tax the informal economy. It would focus on a number of different taxation initiatives, including those linking up with informal associations for collection, those outsourcing collection to private firms, and those creating independent arms of the revenue services to collect taxes, with a view to building up a typology of taxation programmes and distributive/governance effects. The research would focus on the actors involved, the distributive effects within the informal economy and at the level of the wider economy, and the impact on accountability and service provision.

e) The Politics of Multi-Stakeholder Networks: This programme will examine the effect of inclusion in multi-stakeholder networks on the political voice of informal actors and associations. It will focus on the organization, power relations, normative impact, and distributive effects of multi-stakeholder networks involving informal associations. In terms of the empirical context, the research could focus on multi-stakeholder networks in solid waste management, in the privatization of markets, and in micro-distribution arrangements, ideally with a cross-regional comparative element.

Further development of this framework can adjust the activities and countries of focus as appropriate, in order to devise the most effective way of advancing both the understanding of formal-informal linkages, and policy approaches capable of ensuring a more equitable distribution of benefits across the formal-informal divide.
Appendix: Definitions of Key Concepts

This Appendix provides definitions of key concepts not traditionally associated with the study of the informal economy, but that have become important in recent literature on formal-informal linkages.

Bottom of the Pyramid/Base of the Pyramid: This term was coined by C.K. Prahalad (2004) to refer to markets of the poor in developing countries, characterized by very low margins, but high volumes owing to the vast numbers of poor. The term has been taken up by business schools and international capital to highlight the potential profitability of informal markets, and to encourage a range of business innovations to allow international corporations to reap the profits available in markets previously considered inaccessible and unprofitable.

Bricolage: This refers to institutional improvisation in which eclectic practices are cobbled together to fill institutional gaps or to reconfigure existing institutional arrangements. The concept draws on the work of Mary Douglas, particularly her famous book *How Institutions Think* (1986). Douglas considers the tendency of actors to draw on pre-existing institutional forms to fill gaps or make adjustments in inadequate institutional arrangements. She notes that “the bricoleur uses everything there is to make transformations within a stock repertoire of furnishings” (1986:66). More recently, this concept has been used to refer to the interpenetration of formal and informal institutions, particularly in the work of Frances Cleaver (2002) and Christian Lund (2006).

Co-production: This term is associated with the work of Elinor Ostrom (1996), and refers to the use of inputs from actors in different spheres (public as well as private, or formal as well as informal) to produce goods and services. It has become particularly prominent in contemporary research on reforms in service provision that combine inputs from the formal and informal economies in order to increase popular inclusion and reduce costs. Joshi and Moore (2004: 40) argue that co-production requires the “provision of public services ... through a regular long-term relationship between state agencies and organised groups of citizens”, emphasizing that contributions of labour and other resources from citizens must be institutionalized rather than voluntary.

Hybrid Governance/Hybridity: A term with multiple meanings, but increasingly associated in recent years with the use of non-state/informal institutions to fill gaps in state provision, particularly with respect to services such as justice, security and local governance. Related terms, such as “hybrid political orders” and “mediated states”, refer to similar situations of informal institutions, including militias or communal authorities, cooperating with state institutions for the provision of order in unstable regions within weak or failing states (see Raeymaekers 2010; Meagher 2012). “Hybrid governance” tends to emphasize goals of economic efficiency and popular embeddedness as key to effective local institutional arrangements, while masking issues of power, divergent local interests, and external influence in the selection and mobilization of informal institutional arrangements.

Multi-Stakeholder Networks: This term relates to the collaboration of a range of actors in governance processes by linking local or regional government, the private sector, civil society groups, and sometimes associations of informal economic actors in networks designed to address issues of service provision and other matters of urban governance. The prevailing emphasis on complementarity, social inclusion, and legitimacy tends to mask deeper issues of power and adverse incorporation of informal actors, which are beginning to be explored in an emerging literature (Forsyth 2005; Lindell and Appelblad 2009).

Synergy: Associated with the work of Peter Evans (1996), this term refers to the developmental multiplier effects of collaboration between state and society, or between formal and informal arrangements. Evans stipulated that synergy requires a combination of complementarity and embeddedness between state and society; both complementary capacities and relations of trust and mutual interest must coincide in order to produce the mutual gains associated with synergy. However, recent uses of the term have tended to emphasize complementarity, while assuming that joint interests and mutual gains would naturally follow.
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