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Is formalization the only solution for business sustainability?**

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**Women Entrepreneurs in the Informal Economy:
Is formalization the only solution for business sustainability?**

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Abstract: The existing marketing, strategy and economics literature have little to offer by way of recommendations to promote entrepreneurship in the informal economy, except to advocate that multinationals, local firms, state and public agencies should work together to bring the informal economy into the fold of the formal economy. In contrast, this paper argues that the business sustainability of women entrepreneurs in the informal economy depends upon their engagements or business partnerships with other women (and men) and women-focussed intermediaries. More than formalization, women entrepreneurs need ‘spaces’ for dialogue with other women (and men) to learn and build business capabilities. Both the State and firms wanting to penetrate the informal economy can create such spaces through partnerships with NGOs and women-focussed organizations. While formalization of entrepreneurial activity is favourable under some circumstances, it can be detrimental under others – necessitating a case by case evaluation rather than a general rule. In order to ensure the business sustainability of women’s ventures in the informal economy, any sort of formalization must occur through a gradual process accompanied by intermediaries. These results are formulated through the compilation and analysis of the existing literature and the study of six detailed case studies of women entrepreneurs from developing countries validated by extensive interviews. The results are then used to propose a closed model of linkages between formal and informal economies which has novel organizational implications for firms competing to establish consumer bases and business partnerships in the Base of Pyramid (BoP) markets of developing countries.

Keywords: Informal economy, entrepreneurship, gender, business sustainability

JEL classifications: L26 = Entrepreneurship, B54 = Feminist Economics, E26 = Informal Economy

Women Entrepreneurs in the Informal Economy: Is formalization the only solution for business sustainability?

1. Introduction

The informal economy refers to organizations in the informal sector (i.e. those not registered with a local authority and not paying taxes); and the activities of firms in the formal sector that employ informal workers, (i.e. workers without a formal work contract and without any formal safety net)¹. Western donor agencies and international organizations, including the World Bank², the OECD³, or USAID⁴ have been advocating the formalization of such informal niches, for they view them as segments where marginalized populations are working simply because of the lack of a better alternative – and they assume that being incorporated into a formal organization would improve the lives of such informal workers. However, this premise remains to be proved, though it is extremely appealing. Addressing this issue is particularly important for women’s welfare, because women are over-represented in the informal economy (Chen, 2001) and there are concerns that the business sustainability of their entrepreneurial ventures could be adversely affected by formalization. Therefore, the present research aims to provide some insight on this debate by exploring answers to the central question: What would be the impact of formalization on the business sustainability of women’s ventures in the informal economy?

According to the World Bank⁵: “The informal sector covers a wide range of labour market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behaviour of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulations.” Since the informal sector is viewed as comprising people shirking regulations, or eking out an existence, it is supposed that it would be welfare enhancing for society as a whole to bring it into the fold of the formal sector. “The fundamental challenge posed by the informal economy is how to integrate it into the formal economy. It is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for exposed groups in the informal economy should be financed by society as a whole.” (Becker, SIDA, 2004; p.4)

This view is also adopted by management science scholars calling upon firms to explore ways to better serve the poor at the ‘Bottom/Base Of the income Pyramid’ (or BoP) communities⁶ living on a few dollars a day in the global income pyramid (Prahalad and Hart,

¹Definition proposed by the International Labour Organization (ILO)
http://wiego.org/sites/wiego.org/files/resources/files/ILO_Statistical%20Update_Employment_Informal_Economy.pdf

²<http://lnweb90.worldbank.org/eca/eca.nsf/Sectors/ECSPE/2E4EDE543787A0C085256A940073F4E4?OpenDocument> 14-09-2012

³ <http://www.oecd.org/dac/povertyreduction/36563594.pdf> 14-09-2012

⁴ <http://www.oecd.org/dac/povertyreduction/38452590.pdf> 14-09-2012

⁵ <http://lnweb90.worldbank.org/eca/eca.nsf/Sectors/ECSPE/2E4EDE543787A0C085256A940073F4E4?OpenDocument>

⁶ The term ‘bottom/base of the income pyramid’ or BOP is often used referring to households whose working members earn less than \$3,000 USD per year, in PPP terms. The BOP is not a single homogeneous segment but

2002). Firms are exhorted to contribute to poverty alleviation and in the process also capture profits (estimated at \$5 trillion), by rising to the challenge of serving the BoP communities (Prahalad, 2005). Since BoP communities typically operate in the informal economy, such a strategy implies further penetration of the informal economy by formal sector organizations, and it is assumed that such inroads will generate positive externalities and increase social welfare. “This market is currently served by the unorganised sector that is often inefficient and controlled by local monopolies such as money lenders and middlemen. The challenge is to convert the unorganised and fragmented markets to an organised private sector market.” (Prahalad, 2012). These arguments tend to be driven by the perception that BoP communities present potential business opportunities to the formal and private sector as customers, employees, distributors, and intermediaries⁷.

At the same time, curiously contradicting themselves, Western donor agencies also voice the opinion that the informal economy is useful and therefore must not be hurt, even while attempting to transform it into a formal niche. “Over the last decades, it has become clear that the informal economy has a significant job and income generation potential. Therefore, appropriate policy frameworks and strategies aimed at the informal economy must be developed, without hampering the potential of the informal economy for job creation and economic growth. The main challenge is thus to develop innovative and supportive policies that recognise the contributions of the informal economy and its workforce”. (Becker, SIDA, 2004; p.3)

In the meantime, some point out that State regulation or any attempt to recreate the informal economy as a ‘mirror reflection’ of the formal economy risks exterminating the synergy and stifling the creativity of the informal sector while bringing the growth of the informal sector to ‘a grinding halt’. Hence, they assert that attempts to formalize the informal sector should be eased as the exercise would be cumbersome and fraught with uncertainties (Maiti, Sen, 2010; p.2). Such lack of consensus raises two important questions: Is it always necessary to transform an activity of the informal economy into a formal one? Does formalization always improve equity and the welfare of all stakeholders?

These questions are particularly important with respect to women, because contrary to the formal sector, women are over-represented (i.e. make up for more than 50 per cent) in the informal sector in developing countries (Chen, 2001). Moreover, they are also important with respect to the formal economy, because rather than being divorced, the formal and informal economies are linked in complex and intimate ways. Branded products are retailed and consumed in the informal economy. Informal workers man the supply chain networks of registered firms and contribute to increasing profit through their supply of cheap labour. Intermediary organizations like banks, non-governmental organizations (NGOs), welfare organizations, researchers and students from universities and public laboratories, interact regularly with informal economy entrepreneurs and workers. Finally, informal economy entrepreneurs help both the formal economy and the informal economy through creating employment buffers to absorb unemployed labour in times of economic stress and crises.

a set of distinct socio-economic segments sharing the common feature of low household income. The nature of the BOP as a market is also likely to be specific to the sector concerned (see UNDP 2008 for examples).

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<http://www.accenture.com/SiteCollectionDocuments/PDF/AccentureIndiasQuestforInclusiveGrowth.pdf>

In the above context, the present works aim to make a contribution to two streams of literature, namely on ‘business sustainability and BoP markets’ and ‘gender and entrepreneurship’.

First, it has been proposed by scholars that the informal economy, which houses most of the BoP markets, can yield fortunes (estimated at \$5 trillion) to large firms if penetrated successfully (Prahalad, 2005; Prahalad and Hart, 2002). Such new perspectives are gaining in importance as the markets, especially in consumer durables, get saturated in the North. Indeed, following these seminal works, firms have been made aware that in order to tap new opportunities in the informal economy in terms of customer base and business partnerships, firms must explore and develop new strategies for informal economy penetration. Here ‘sustainability’ has been evoked as a core value that their business model must satisfy to manage a triple bottom line of social, environmental and financial objectives and risks (Elkington, 1999). However, ‘business sustainability’ in the formal and informal economies is very distinct, for in the latter, even business survival involves a daily struggle in over-crowded markets and neither environmental nor social risks form the core of their concerns. In the above context, our article proposes a model of linkages between informal and formal economy organizations to promote the business sustainability of both. Furthermore, we show that the creation of a continuum of informal spaces for conversations with accompaniment is a necessary pathway to carve out such cooperation.

Second, till about the new millennium, most of the gender literature on the economic participation of women consisted of feminist critiques of patriarchy and capitalism. It described how women are victimized and exploited by men, markets and the forces of international capitalism. While this literature is still growing and continuing to provide fresh insights, a new stream of literature is also emerging. The latter takes ‘patriarchy’ and ‘capitalism’ as societal parameters that cannot be wished away in the short run and focuses on exploring new strategies for women’s empowerment given local constraints which may be diverse and of differing magnitudes (Scott et al., 2012; Hughes et al., 2012). Our paper may be considered as an addition to this latter stream of literature.

The issues raised in the present work have been addressed using multiple data sources. First, standard databases of management and economics literature were examined. Second, all the intermediate and final reports of a set of research grantees of the International Development Research Centre (IDRC) who had worked on projects related to women in the informal economy were thoroughly analysed. This led to an in-depth understanding of the policy and institutional experiments in these countries that aimed to help women entrepreneurs and workers in the informal economy. Third, our findings were validated through in-depth interviews with the concerned IDRC grantees. Via such an iterated confrontation process involving literature survey, our conceptual framework and the interviews with the grantees, a grounded theory was built on the ways that the State and other intermediaries can help women in the informal economy (Glaser and Strauss, 1967; Eisenhardt 1989).

The remainder of this paper is organized as follows. Section 2 introduces the background and framework of our analysis. Section 3 contains our results from the meta analysis of the literature. Section 4 presents the results of the analysis of IDRC reports and the interviews with the IDRC grantees. Section 5 discusses the results and presents the closed loop model of linkages between formal and informal economies. Finally section 6 concludes.

2. Background, framework of analysis and compilation of corpus

2.1. On women entrepreneurs in the informal economy

The informal economy is very large in developing countries because their formal economies are less well developed and unable to absorb their available working population. For instance, in India the informal economy accounts for 93 per cent of total employment, in Mexico about 62 per cent and in South Africa about 34 per cent (Chen 2005) and it has been growing more quickly than the formal economy worldwide (ILO-WTO 2009). Given the sluggish employment generation by the formal economy, informal petty entrepreneurship is the easiest and sometimes only way for households to generate revenues for themselves.

Despite women being over-represented in the informal sector, gender disparities are rampant. Chen (2001) infers from existing data that: (i) fewer women than men 'hire' labour; i.e. women are employees rather than employers; (ii) wages are lower in the informal sector as compared to the formal sector; and within the informal sector, women earn a lower wage than men on average, with the gender-wage-gap being greater than in the formal sector; (iii) women are more present in the 'lower-value-added' activities of the informal economy; (iv) the most invisible informal workers, namely the home-based producers contribute the most to global trade as they form a significant share of the workforce in key export industries involving manual tasks or labour intensive operations; and (v) the outsourcing of goods and services of the formal sector to the informal economy is increasing.

We define an entrepreneur as anyone who is working for themselves and retains profits or anyone who owns an enterprise with workers. In an exhaustive literature survey of entrepreneurship by women, Carter, Marlow and Bennet (2012) highlight that as in their developed country counterparts, in developing countries, women's ventures tend to be younger, smaller and created with fewer resources. However, unlike in developed countries, women entrepreneurs are more likely to be in the informal economy in developing countries. They usually operate from their homes, have low earnings and compete in overcrowded sectors. Production is based on very scarce financial, human and physical resources. They are also low-skilled and isolated from professional networks that characterize firms in the formal economy. More often than not, women are present as entrepreneurs in the informal economy, not out of a personal ambition to generate wealth, but because they have no other choice given the poverty level of the household. Innovation and entrepreneurship usually go hand in hand as new market creation requires novelty in terms of a product, process or business model, but our knowledge and understanding of innovation processes in the informal economy, especially by women remains extremely limited.

Why is it that even though the informal sector offers a lower wage than the formal sector, without any of the typical advantages of the formal sector such as a regular labour contract, health insurance, workers' benefits, pension schemes etc. that women are more attracted to it? According to Chen (2001) it is mainly because, "...women are less able than men to compete in labour, capital and product markets because they have relatively low levels of education and skills or are less likely to own property or have market know-how" and "...women's time and mobility are constrained by social and cultural norms that assign the responsibility for social reproduction to women and discourage investment in women's education and training" (p.7). Women might also be over-represented as entrepreneurs because of the disincentives associated with the formal sector as highlighted by De Soto (1986) already in the 1980s. Excessive government regulation, government corruption, costly

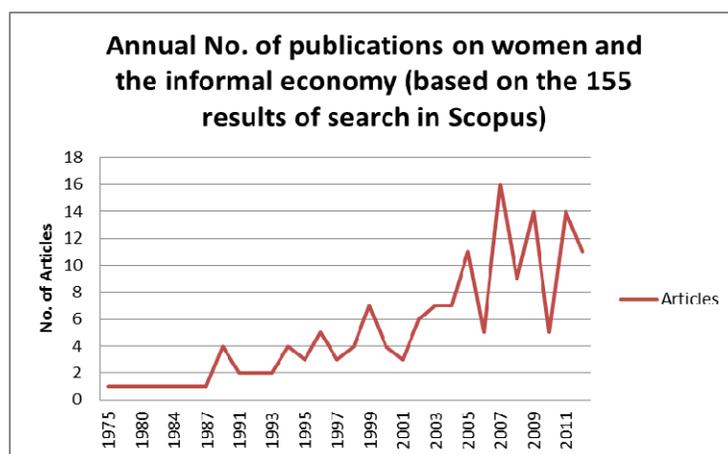
and time-taking bureaucracy, high tax rates and lack of time flexibility in the formal sector might just be pushing women into the informal economy.

Given that women in developing countries seem to be involved in informal entrepreneurial ventures by default rather than anything else, the question is whether they would still prefer to do so if they had the opportunity to have formal employment. To answer this question and possibly refine the above result, we carried out a meta-analysis of the literature on women entrepreneurs in the informal economy followed by an analysis of the IDRC grantee reports and ending with in-depth interviews with the report authors.

3. Meta-analysis of the literature

3.1. Compilation of the corpus

Two databases were consulted: Scopus, the “largest abstract and citation database of peer-reviewed literature”⁸; and Econlit – the standard database of economics and related social sciences and management literature. Our first search used the research equation: (“women” OR “woman” OR “gender” OR “female”) AND (“informal” AND “economy”) OR (“informal” AND “sector”) in title, abstract or keywords in two databases. As per the criteria described above, our search yielded 155 results in SCOPUS and the evolution of publications over time is illustrated in Figure 1.



*Note that the number for 2011 might be incomplete as registration in databases take time.

Fig. 1. Publication count in Scopus on women and informal economy

As can be noted there seems to be three phases of interest on the topic. A ‘low interest’ phase till the mid-1980’s, followed by a ‘medium or higher interest’ phase from 1990 to 2000 with a clear take-off on academic work in the new millennium. This heightened interest can be explained by the near-wide adoption of liberalization and the increasing globalization from the 1990’s. As Western multinationals enter developing and emerging countries, they increasingly outsource their production and distribution activities to local firms, who also partner with informal organizations. As the number of business partners from the informal economy increases on the supply and distribution chains, and consumer bases are built in Base of Pyramid markets, market networks between formal and informal economies increase – and this phenomenon has been closely followed by academics. Since the last phase marks a

⁸ <http://www.info.sciverse.com/scopus/about> 23-09-2012

context so distinct from the earlier ones, both in terms of academic production and growth of the informal economy, we shifted our focus to the years 2000-2012. The results of the second round of filtering are presented in Table 1.

Table 1
Number of articles between 2000-2012.*

<i>Data base*</i>	<i>Just on informal economy</i>	<i>On women in the informal economy</i>	<i>On women in informal economy who are either involved in innovation or entrepreneurship</i>	<i>Share (percentage) of third and fourth column in the first ;peer-reviewed literature on the informal economy</i>
Scopus** (All fields)	6371	1818	648	28.54%; 10.17%
Scopus (title, abstract, key words)	1051	112	13	10.66%; 1.24%
Econlit (All fields)	8361	530	32	6.34%; 0.38%

*Percentages in 4th column are the number of articles in third column as a percentage of articles in second and third column respectively.

**Search applied to articles in “Business, Economics and Management” streams

The numbers in table 1 speak for themselves and clearly show that within the subject area of the informal economy, the study of the role of gender and women’s involvement with innovation and entrepreneurship is extremely limited. However, the above figures are particularly disturbing because women are over-represented as compared to men in the informal economy.

Further refinement of the corpus yielded 41 articles on women involved in innovation/entrepreneurship in the informal economy. However none of these articles provided specific answers to our questions viz. Is it in the interest of all stakeholders, especially women entrepreneurs to formalize the informal economy? If so, how should such change be brought about? Finally we retained 28 articles which were at least informative on the above questions.

Even though the research focus intended to target women entrepreneurs working in the informal economy, only nine articles discussed women entrepreneurship and that too outside of the informal economy context⁹. Nonetheless, the rest discussed case studies where women were mostly involved in informal work as self-employed entrepreneurs (16), working for a firm that is not registered with local authorities (5) and in one instance working for a firm that had no formal wage contract with some of its employees. A majority of authors are of the view that, as opposed to men, women are above all engaged in the informal economy out of necessity rather than opportunism.

In terms of innovation generation by women, despite the fact that we intentionally selected all articles that could potentially present cases of innovation generation by women, only three articles mentioned them and all three were in terms of “service provision

⁹ This could have been the case because though the terms like ‘informal’ or ‘informal’ appeared in the abstract leading to its selection in our database, a careful reading revealed that the article did not treat our research questions.

innovations” rather than new products. They described how women entrepreneurs identified unmet market demands and created new informal ventures to serve their customers (e.g. supplying to flower shops in addition to pedestrians in Ukraine (Williams, Round, 2009); opening up a temporary food stand at campuses during examination periods in Ghana (Adom, K. and Williams, C.C., 2012); setting up mobile “call centres” by the road in Nigeria (Anugwom, E.E., 2011).

None of the articles bring up the debate about formalization of the informal economy explicitly. However, about a third of the articles (i.e. 11 articles) seem to endorse the view that without changing social norms, policies, regulations (e.g. hereditary law reform to enable women to have property that may serve as collateral; access to credit schemes) and without providing inclusive education for women, formalization may lower the income generation capacity of women’s ventures (Williams, Round, 2009; Boyd, 2005; Amine-Staub, 2009). Chen (2002) adds that with formalization women in the informal economy risk to lose an important competitive advantage in a world characterized by global assembly lines where firms engage in a ruthless gamble of competitiveness through cost reduction – namely cheap labour. By being in the informal economy, distinct from the formal one, women are able to leverage self labour to bring down the final price of the product and be competitive with respect to the formal enterprise products. However, if the informal sector organizations were formalized, unless compliance to minimum wage laws was strictly monitored and enforced, which is not the case at the moment, women might be in a worse off exploited situation. Thus, the authors seem to be of the view that under existing patriarchal societal norms coupled with competitive markets, the formalization of the informal economy is more likely to lower the profitability of informal economy ventures through increasing their fixed costs and eliminating some of their comparative advantages.

In order to delve further we then turned to the complementary question: why are women attracted to the informal economy in the first place? A detailed meta-analysis yielded Table 2 summarizing the answers offered by the articles in our corpus.

Table 2
Why women are more present in the informal economy?

Factors	Examples	Frequency of citations	% of total citations
Societal norms that constrain women	<ul style="list-style-type: none"> - Constraints on when, where and how far a female can move outside of home; - Norms on when and how long a female should be educated; - With whom of the opposite gender females can interact with and under what circumstances; - What social networks a female can have outside of family network 	15	31.25%
Disadvantage of women themselves	<ul style="list-style-type: none"> -Lack of financial literacy; -Lack of education and skills; -Lack of confidence; -Lack of or limited ownership of land and access to raw materials 	14	29.17%

Factors that make the formal economy less attractive to women	-High cost of new firm creation; -Efforts to comply with bureaucracy -Inflexible working conditions and hours incompatible with fulfilling family duties -High costs of administration and compliance to regulation	11	22.92%
Factors that make entry into the formal economy more difficult for women entrepreneurs	-General absence or scarcity of venture capital and business angels (in addition to women's general barrier to access credit because of social discrimination or lack of collateral) -Lack of knowledge and information about the nature of demand to be satisfied -Need for permanent office sites to expand sales and distribution - Lack of legal protection or counselling for micro-enterprises - Negative discrimination practised against women	8	16.67%
Total number of citations		48	100.00%

The results of Table 2 and the prior discussions on what the literature has to say on the issue lead to our first result.

Result 1: Women are pushed to be workers or entrepreneurs in the informal economy because of:

- *Patriarchal social customs and norms.*
- *The high entry barriers and disincentives posed by participation in the formal economy;*
- *Resource constraints (lack of education, skills, finance, social networks) of women themselves.*

As Table 2 reveals, the first and foremost set of constraining factors for women workers and entrepreneurs are inherited social norms that are unfavourable to women. These norms give rise not only to disadvantages to women themselves, but also to discrimination against women in the market.

The traditional role of women as caretakers of children restricts the time they can invest in income generation. Norms (societal, religious or other) also determine the mobility of women and with whom they may interact. This places women entrepreneurs at a disadvantage because interaction within social networks is crucial for the success of entrepreneurial ventures. Social networks enable entrepreneurs to build up their market and expand their businesses and open new doors for gaining access to funding. Yueh's (2009) study on 9000 entrepreneurs (not exclusively on women) in urban China finds for example that one of the most determinant factors of a successful entrepreneurial venture is the existence of a social network that not only eases credit constraints but provides access to supply and distribution channels or even a channel to obtain the necessary licences to operate.

Second, social norms might stultify the functioning of standard institutions as Bushell (2008) illustrates through a case study in Nepal. Following the adoption of reforms in

inheritance law that enabled women to own land, a Nepalese woman who wished to launch a start-up went to a bank to take out a loan but was refused. The bank agent agreed to make a loan only if her husband came to sign the necessary documents. Indeed, women's access to resources need not be sufficient for entrepreneurship if patriarchal sanctions block the way.

Third, women entrepreneurs may find it difficult to set businesses in the formal economy because they are typically involved in break-even petty enterprises and often do not generate sufficient income to cover the typical costs of administration that the functioning of a formal enterprise requires. However, if barriers to education and qualification are removed and other problems related to women's restricted mobility are solved, then the rate of entry of women's ventures into the formal economy might increase (Chen, 2002).

Two case studies discussed in our corpus of articles are particularly interesting. The first concerns an informal economy organization that is partially operating in the formal economy. The second is about an established multinational that is facilitating the creation of entrepreneurial ventures by women.

Datta and Gailey (2012) analyse the evolution of Lijjat, a unique social entrepreneurial venture was created in 1959 to provide self-employment opportunities for poor urban women in India to produce and sell "papad", a savory snack. It currently employs 42000 women in 17 states of India. Lijjat is a cooperative whose membership is restricted to women, irrespective of religion or caste and whose organization with decision-making based on consensus.

What made Lijjat's unique success happen? First, Lijjat provided job opportunities for unskilled women. Second, the production model was compatible with the social norms of the prevailing patriarchal society. The snacks were produced in women's homes or close to them (thanks to rapid branch expansion). Therefore, women did not need to leave their homes to work. Women could make papads in their spare time, thereby not posing a problem for taking care of their familial responsibilities by enabling them. Women were paid the day after they supplied a batch of papads thereby receiving near-immediate compensation for their efforts. . Third, Lijjat provided socio-compatible spaces of dialogue. Experienced women acted as inspectors and mentors engaging in visual inspection and dialogue to ensure continuous product quality as well as exchange of ideas on the production process and beyond work. Thus, with these three elements, Lijjat managed to empower women – without protests issuing from the men. Indeed, many women reported that their husbands did not raise objections to this kind of employment because of the possibility to work from home and exclusively with other women.

Some Western multinationals have also developed remarkable new business models to penetrate emerging markets using women, and at the same time, empower them through creating spaces for learning – providing refreshing counter-examples to the often held view that large firms, capitalism and globalization – all serve to lower women's welfare. For instance, Scott et al. (2012) explain how Avon uses women in South Africa to sell their beauty products, through providing training that builds their capabilities, which in turn empowers them. A woman becomes an Avon team member with a modest registration fee. She is then made part of a 'team', a network with other women supervised and guided by 'mentors' who are also women. Thereafter, she is trained and provided with Avon beauty goods to sell, for which she gets a commission on the basis of the volume of sales. Mentors

also ensure that women vendors constantly set targets for themselves and help them to improve and gain self-esteem. In the process, women learn to be entrepreneurs – and many branch off to create their own ventures.

The Avon case is very noteworthy because it reveals how a large company can promote formalization of the informal economy. By drawing upon former informal workers and transforming at least some of them into women entrepreneurs in the formal economy it promotes formalization. Avon succeeded because it replicated some of the advantages offered by the informal economy to women. For instance, women could join Avon without needing much formal education or financial resources. They were assured that their household duties would not suffer and their participation in Avon would not conflict with social norms through the creation of spaces of dialogue that assured them. This leads us to note that with respect to women, large firms can best promote formalization by including in their penetration strategies, schemes for the capacity building of women and women’s ventures.

4. IDRC grantee reports and interview results

In 2008, the International Development Research Centre (IDRC) initiated a project on entrepreneurship and innovation by and for women in the informal economy¹⁰. Eight projects dealing with the situation of women from low-income communities working in the informal economy in developing countries were selected, on the basis of the clarity and pertinence of questions addressed, and the viability of the methodology. Table 3 summarizes their main findings.

Table3
Salient results of selected IDRC grantee projects.

Country	Informal economy niche/processes in which the role of women is examined	How the challenges of women in this niche can be addressed?	Helpful policy initiatives evoked
India	Habitat sector in India.	<ul style="list-style-type: none"> i) Intermediaries can play a very crucial role in creating awareness and by making the information reach women workers. ii) If awareness is created appropriation of value by informal workers can increase 	<ul style="list-style-type: none"> - Compulsory education - Rural Employment Guarantee Scheme
Palestine	Innovation processes within integrated water resources management.	<ul style="list-style-type: none"> (i) women’s needs, priorities, and capabilities have to be taken into consideration in the policy design and implementation of water projects (as water projects are important in a country where agriculture occupies the primary sector); (ii) Innovation by women with regard to water awareness, use, re-uses, treatment, and transport techniques must be identified and scaled up. 	<ul style="list-style-type: none"> - Fixing quotas for women in governance councils

¹⁰ To generate knowledge at the grass-roots level, it initiated a research competition on “Gender and Innovation to understand (i) the involvement and influence of women in innovation processes; and (ii) the impacts (real or perceived) of specific innovations is on the lives of women – in the context of socio-economic development.

Uganda	Innovations from traditional knowledge	(i) Through facilitating the creation of innovation that empowers women. (ii) Through diffusion of innovations using women.	- Incubators for women's ventures - Public institutions that work to create innovation to improve women's welfare
Vietnam	Technology governance and policy processes in agro-based industries	(i) Women must have opportunities to express their opinions within organizations (ii) Women must be supported to work and raise families	- Guaranteeing maternity leave - Supporting time taken out for child care - Fixing quotas for women in governance councils - State sponsored councils for women's welfare
Zambia	Diffusion of a simple manual irrigation scheduling tool being tailored specifically for female farmers?	(i) Through facilitating the creation of innovation that empowers women while increasing the income generation capacity of the household. (ii) Through generating data at household level that demonstrates how an innovation can increase the income generation capacity of a household.	- Public institutions that work to create innovation to improve women's welfare and status

Thus, there seem to be essentially three types of governance designs that help women's empowerment and livelihoods in the informal economy (which can also be used in the formal economy) namely: (i) regulation (e.g. maternity leave, paid vacation, severance leave, minimum wage); (ii) facilitating participation in societal decision making (e.g. fixing quotas for women in governing councils and ensuring that the selection process is fair in terms of reaching women who are not positioned in power or dictated by male members); and (iii) creating new intermediary organizations (e.g. incubators).

What about the effectiveness of these governance initiatives on women in the informal economy? What are the determinants of their impact? We posed these queries to the IDRC grantees and had further in-depth discussions on the observations recorded in their reports. The analysis of the transcripts of the extensive interviews combined with the findings of their reports led us to formulate four results on the determinants of impact of policy initiatives as follows.

4.1. *What's good for all - is good for women!*

Result 2: Policies that promote economic development with respect to both men and women such as compulsory education and income guaranteeing programmes – may have as much or even a greater impact on innovation and entrepreneurship by and for women in the informal economy than 'women-focused' policy initiatives.

We illustrate this result with the case of Vietnam, where some women-focused policy measures have been introduced. For instance, there is regulation responding to the gender-specific constraint of having monthly periods, whereby menstruating women can take half a day off when they are tired. And women raising new families or new mothers can work one hour less for until the newborn is a year old without any change in the salary¹¹. But, women do not want to 'declare' having periods in order to have a half a day off and many women do not make use of the one less hour option. Another example is provided by firms. In Vietnam, firms are incentivized to employ women by availing of lower corporate taxes according to the

¹¹ Also in Palestine

proportion of women employed. Organizations which have a greater percentage of women workers pay lower corporate taxes and can avail of bank loans at lower interest rates (to implement 'The Law on Gender Equality' of Vietnam passed in 2001). However, most firms are not responding to this incentive system. They prefer to employ fewer women rather than avail of attractive bank loans.

The provision of universal education, on the other hand, has been noted to have empowered women greatly. Education has increased the confidence of Vietnamese women working in both the formal and informal 'parts' of the agribusiness sector. They can and do influence innovation generation and policy - though not in formal recognized ways but in informal ways at all levels. This can be through taking initiatives, by proposing ideas, by creating awareness or by discussing. Through conversations women continuously bring about a change in the technology process and working conditions.

4.2. Make policies effective by enabling conversations on how to make them effective

Result 3: Whatever the policy (generic or gender specific), initiatives that create or support a continuum of spaces for conversations (rather than formal dialogues or discourses) from concept to market, help innovation and entrepreneurship by and for women in the formal or informal economy.

In many developing countries, spaces for conversation between women are absent. In this case, women may be isolated and their ideas may have no conduit for impact. Then the State is called upon as the actor to fill this vacuum. For example, in water-scarce Palestine, it has been observed that women are not less innovative than their male counterparts when it comes to integrated water resource management but their innovations relate to awareness and water conservation practices rather than technical solutions. However, most of these innovations go unnoticed because they do not have an immediate financial impact and because they are usually applied in an informal economy context where agricultural activities carried out by women remain as a family business. In short, there are no spaces for the flow of conversations from the family level to the community level to finally reach the higher echelons of policy makers. Our interviewees in Palestine suggest that gendered spaces for conversations or women's discursive spaces can be created through organized training to solve this problem. Workshops can create a platform for women and a common pool of information at the community level on best practises. Currently, women's views on good water management practices have mainly been compiled in response to foreign donor request – for instance, when donors insist on the inclusion of women in a project as a condition for receiving a grant. In order to make that a mainstream routine a national action plan that provides both appropriate legal framework and incentives are necessary.

Sometimes State initiatives can create spaces for conversation unintentionally. In a radical break from the past, in India, the 'Mahatma Gandhi National Rural Employment Guarantee Act' of 2005 heralded the introduction of India's first national social security scheme targeting the rural poor. Adult members, both women and men, of every rural household are ensured one hundred days of employment in every financial year as unskilled manual labour in public works at minimum wages fixed by the government. An unexpected outcome of this act is that it is helping social welfare enhancing intermediaries like non-governmental organizations (NGO) and social entrepreneurs change outdated beliefs and behaviours that restrain and constrain the efforts of women as entrepreneurs or workers in the informal economy. For instance, when women come in groups to the Panchayats or village

councils under the 100-days work schemes, social workers are able to interact with them. Starting with questions on how the women are faring with working outside of the home, social workers expose them to other opportunities by which they can become self-reliant through learning skills without putting at risk attendance of their household duties. Successful women from other villages, recruited as ‘change makers’ by the NGOs, explain to their peers that by learning skills and developing a livelihood, they have been able to contribute to household savings, pay for their children’s education, earn respect from the husband and in-laws, and over time enjoy a definite increase in bargaining power in the family. Thus, though there is a debate on the efficiency of the implementation of these laws, it has definitely had a positive impact in terms of triggering conversations

4.3. But pro-women innovations are best diffused only if they are also useful for households!

Result 4: Pro-women innovations are more successfully adopted if the returns from innovation adoption are positive with respect to the entire household, including the men, rather than being useful only to the women.

In Zambia, 76 per cent of the working women are engaged in agriculture. The ‘Drip Planner Chart’ is a micro-irrigation tool that was developed through collaboration with Wageningen University (Netherlands) and benefitted from a wide range of complementary skills. It requires households to gather data on water and take measurements in order to ensure efficient micro-irrigation. It is a tool that provides an easy, simple and cheap way to assess crop water requirements and irrigation scheduling, to enable farmers to produce year round, take advantage of the higher off-season prices and substantially increase their income. Moreover, it was developed as an ‘innovation’ that could lower the daily drudgery of women and thereby enhance women’s empowerment.

The chart was introduced in rural Zambia in ‘patriarchal’ zones where women’s autonomy or decision making power was least, and by agricultural extension service teams that mainly consisted of men. Conversations occurred only between the men of the extension service and the men of the beneficiary households - women were not included. Now, the men of the household mainly saw it as investment that could reduce ‘women’s drudgery’ without substantially increasing household income, for while the IDRC grantee had data on increased production at the laboratory scale, there had been no experimentation on household farms. Therefore, the innovation was adopted only by few households where men felt that the lowering of drudgery of their women folk was worth the money spent. The lesson offered is that if the entire diffusion process of an innovation occurs through conversations between men and if the decision to adopt (or not adopt) the concerned innovation is also by men, then any innovation with the potential to help women is likely to be adopted only if it is beneficial to the entire household (rather than only to women).

4.4. More than policies – real life success stories work!

Result 5: More than good policies, successful role models in the form of “local heroines” who create employment and bring economic prosperity and rejuvenation into their communities catalyse change through emulation.

While in the Zambia, the innovation to lower the drudgery of women was poorly adopted, the moves in India to give a voice to women in village councils through a quota system still function only in name in many places (e.g. husbands participate in meetings in the place of their elected wives) and the impact of women's welfare organizations in Vietnam vary greatly depending upon the commitment of their leaders, 'successful role models' and 'successful business models' need little State support for emulation or imitation. This premise is amply illustrated by the emergence of the oyster mushroom cottage industry in south-west Uganda.

In 1990, the Ugandan Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) introduced oyster mushroom production in south-west Uganda where the weather is cool and most conducive to mushroom farming. The Mushroom Training and Resource Centre (MTRC) is a registered community based organization in south-west Uganda that has been very active in diffusing this technology in Kabale. With the help of the MTRC, local producers realized that mushroom could be grown on composted heaps of cattle manure and other agricultural wastes such as sorghum, millet, beans, peas and wheat. This allowed for the domestication of mushroom farming and made producers less dependent on seasonal and spontaneous spawning in the wild, making the business a lucrative one. Thus, from zero producers, there are now more than 400 mushroom producers in the Kabale district with most of them being women selling directly to consumers and supermarkets. Indeed, the success of oyster mushrooms has triggered the search for other home-based income-generating activities for women, which will permit women to attend to their household chores and domestic care activities while earning a livelihood. Finally, this case well illustrates how modern knowledge systems and local research centres can provide solutions to pressing local social needs while creating livelihoods and new markets.

5. Discussion of results and organizational implications

Large firms in the formal economy, and especially international firms, which are striving to increase their market presence in developing countries, are encroaching upon the informal economy more and more. They are trying to build a consumer base in BoP markets, employ informal workers and have business relationships with informal economy organizations. Women are predominant in all three niches.

We propose that the debate about whether or not to formalize the informal economy organizations stems from a linear view of the inter-linkages between the formal and informal economy as shown in the figure 2.

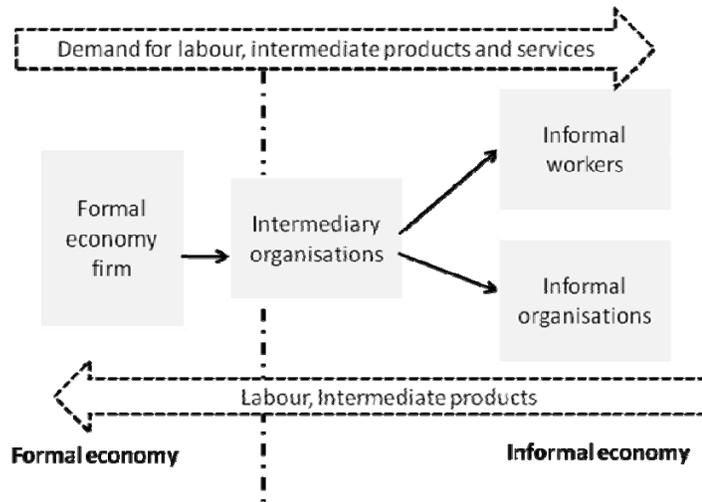


Fig.2. Linear models of linkages between formal and informal economies

In contrast, the preceding sections showed that in restrictive societies opening up spaces for dialogue creates a closed-loop flow of knowledge and skills transfer as shown in figure 3. Under the closed loop model, there is capability building through iterative cycles that ultimately leads to business success. Learning and knowledge are central to business sustainability of women entrepreneurs. The knowledge of women is often tacit and experiential being disseminated through ‘peer-to-peer learning and doing’ as women prefer democratic and consultative working processes. Therefore, entrepreneurship and innovation by and for women can be boosted by providing a continuum of spaces for useful conversations in informal, non-intimidating, non-hierarchical settings that permits women to explore, experiment, and discuss their way to business success. The construction of a unique environment adapted to local women’s needs provide spaces wherein women can gain access to resources, engage in dialogue, develop confidence and learn about successful women role models. Furthermore, accompaniment of participants through mentorship and training programmes can ensure that these initiatives are compatible with local patriarchal social norms.

Large firms wishing to use women informal labour or have business relations with women entrepreneurs can take particular note of the above. Members of the informal economy are customarily a proof for an extraordinary entrepreneurial energy fuelled by desire to improve living conditions. It is this energy that governments and firms have to tap by finding ways to collaborate. Firms and public agencies that invest to create structured social spaces for women in the informal economy designed to fit local needs will gain more than access to labour or intermediate goods and services. They will earn a brand loyalty and if the branded products of the large firm are affordable, large firms will be able to create a consumer base. This may in turn induce the firms to go beyond being a purchaser of labour and commodities, towards making impact investments that improve the quality of lives of their informal economy stakeholders.

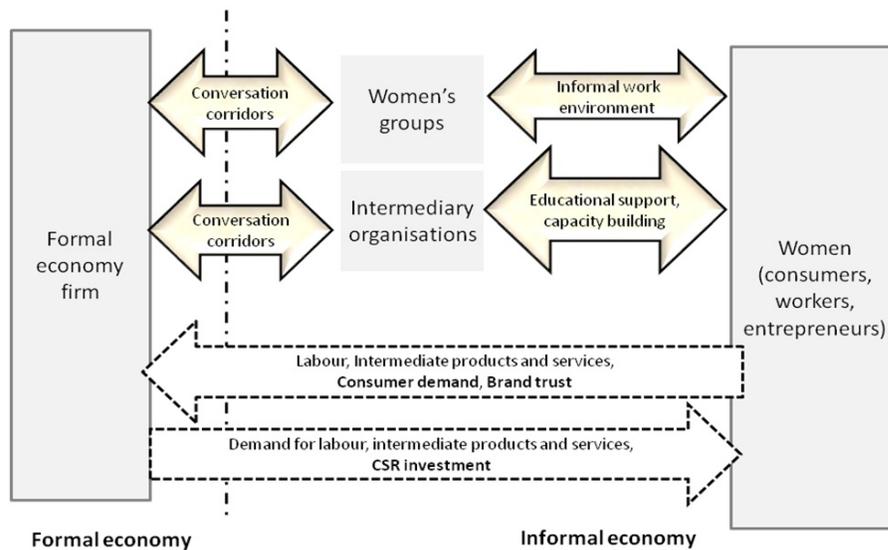


Fig.3. Closed-loop model of linkages between formal and informal economies

The corridors of conversation can be created through partnerships with intermediate organizations like NGOs and women’ groups via training workshops and educational support. Also providing an informal work environment suited to the local social norms with the help of existing or newly created women self help groups will help deal with situations that constrain many women employees. Thus, more than formalization, business sustainability of both formal and informal economy organizations can be promoted through increasing inclusion of women via accompaniment in conversation corridors. Then, all stakeholders are likely to gain: companies will get access to a cheap labour force and access to new distribution channels, women will gain access to a protected and regulated working environment, training and employment, governments will save time and money and restrict themselves to their primary function namely ensuring an appropriate and favourable regulatory framework for these ventures to take off. A new perspective of business to business relationship formation in BoP settings will be gained from such initiatives.

6. Concluding Remarks

The informal economy is largely represented by people excluded from formal economic systems. Current international policy and much of mainstream management literature advocates ‘formalization’ through a variety of strategies in order to promote inclusive growth. The objective of this paper was to examine if promotion of growth via formalization was compatible with the preservation of the business sustainability of entrepreneurial ventures in the informal economy and women’s welfare in it as workers and entrepreneurs. Recognition of the important role that women play, the differences with respect to men and the distinct needs of women that are not necessarily translated into planning practice, motivated the search for the answers.

A meta-analysis of literature and an examination of transcripts of women’s experiences in five emerging countries: India, Palestine, Uganda, Vietnam and Zambia, revealed that women were over-represented in the informal economy, because it is more

compatible with women's needs and existing patriarchal social norms though women create entrepreneurial ventures in the informal economy more out of necessity than to seize opportunities. However, the literature offered little in terms of arguments *for* or *against* formalization of the informal economy, because for the most part they were based on a linear view of the linkages between the formal and informal economy.

Then extensive interviews with the authors of country studies highlighted the role and impact of new regulation, policies and public investment that are being tried out to give women voices in decision making, facilitate life-work balance and access resources to start new businesses. All these different actions had one common goal in addition to a variety of specific ones, namely to change the historically inherited social norms and societal expectations about women that constrain their economic lives as consumers, workers and producers.

Moreover, the interview findings led to a major revision of the linear model of linkages. The interviews indicated that many of the above top-down actions for women's empowerment are either less effective than desired or more effective when they are encapsulated in gender-neutral economic development programmes, perhaps because then they clash less with prevailing patriarchy. On the other hand, bottom-up initiatives for gender empowerment are more effective only if there is a continuum of gendered spaces (or women-only spaces) facilitating discussion and exchange of ideas and experiences to bring about transformative change. Contrary to top-down policies, bottom-up initiatives need gendered spaces in order to ensure the security of informal and non-intimidating spaces of dialogue to women bound and isolated by patriarchal traditional norms. Even well intentioned interventions are neither necessary nor sufficient for change – for successful women role models made visible in conversation spaces provoke emulation and imitation and are often the best agents of sweeping change. Thus, rather than a linear model of linkages, companies and policy makers would do well to recognize the advantages of constructing a closed-loop model of interactions with women in the informal economy. Indeed, its application has a greater potential to offer solutions to tackle the environment specific and gender specific constraints of all stake holders. As a consequence the closed-loop model has novel organizational implications for firms competing to catch up in the BoP markets of developing countries.

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