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Policy Brief

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Overview

Women entrepreneurs in the informal economy need business engagements with other women (and men) that offer 'spaces' for dialogue to learn and build business capabilities. While formalization of entrepreneurial activity is favourable under some circumstances, it can be detrimental under others, necessitating a case-by-case evaluation. Many top-down actions for women's empowerment in the informal sector are only effective in gender-neutral economic development programmes. In this Policy Brief, we argue that although policy interventions may be favourable, they are neither necessary nor sufficient for change, as successful women role models are often the best agents for sweeping change.

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Women in the Informal Economy: Experiments in Governance from Emerging Countries

Following the definition by the International Labour Organization (ILO), 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). During the past three decades, in most developing countries, growth of employment in the formal sector has stagnated or at best shown a gradual ascent while the informal economy has increased significantly (Bacchetta, Ernst, and Bustamante, 2009). For instance, in India the informal economy accounts for about 93 per cent of total employment, in Mexico about 62 per cent, and in South Africa about 34 per cent (Chen, 2005). The informal sector also reigns in the high-income countries. Schneider (2002) estimates that the percentage of the gross national income attributable to the informal sector is 27 per cent in Italy, 18.3 per cent in Finland, 16.3 per cent in Germany, 15.3 per cent in France, 8.8 per cent in the United States and 3 per cent in Canada. Indeed, the informal sector acts as a niche to absorb a part of the retrenched formal sector workers in developed countries and the bulk of workers in developing countries (Bacchetta, Ernst, and Bustamante, 2009).

On the other hand, contrary to the formal sector, women are over-represented (i.e. making up more than 50 per cent) in the informal sector in developing countries (Chen, 2001). The informal sector is the primary source of employment for salaried women, in the form of self-employment (selling directly to consumer), contract labour (producing for another organization regularly), casual labour (working on and off for other organizations) or contributing family members. The most prevalent forms of work are as street vendors or home-based producers (i.e. without leaving the confines of a home for production). However, despite women being over-represented in the informal sector, gender disparities are still 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

livelihood possibilities of women in the informal economy? An examination of the economics and manage-

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within the informal sector, women earn on average a lower wage than men, with the gender-wage-gap being greater than in the formal sector; (iii) women are more visible 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.

Why is it that even though the informal economy offers a lower wage than the formal sector, without any of the typical advantages of the formal sector such as regular labour contract, health insurance, workers' benefits, pension schemes etc. women are more attracted to it? For 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). As a result, women workers in the informal sector are easily hired, fired, cheapened and exploited.

What is the role of government policy or regulation then in promoting the

ment literature by the present authors reveals that few authors offer any kind of recommendations for policy makers, and those who do so make very general ones (Ramani et al., 2013). Indeed, until 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 insight, 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).

This new stream of literature has been influenced by experiments in governance such as government-financed training programmes to enhance women's financial literacy, the promotion of women's presence in ministries, management boards of firms that improve women's participation in decision making (Bushell, 2008) and regulations that enable women to own properties, land and capital to enhance their credit worthiness and access to finance (Amine and Staub, 2009). These changes have also been triggered by social entrepreneurs and social movements. For instance, in Latin America, the national domestic workers movement has suc-

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ceeded in obtaining a recognized status for live-in maids as external workers. This legal recognition has led to their inclusion in the current labour legislation, through which they have acquired specific rights including the minimum wage, paid vacations, pension, maternity leave and severance pay (see Bill passed in Bolivia 2003, Blofield, 2012).

This policy brief can be taken as a contribution to the second stream of literature, which explores options for improving the status of women as workers and entrepreneurs in the informal economy, while recognizing that a profound change in existing social norms that restrict women's physical mobility, their access to education, and their social networks is not possible in the short run. The remainder of this brief presents the main findings of our working paper (2013-18) that addresses this question. This can also be found in the online archive of UNU-MERIT.

State initiatives in place

Governments in developing countries are experimenting with new regulation, policies and public investment to give women a voice in decision making, facilitate life-work balance, and access resources to start new businesses. All these different actions have 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. The main types of women-focused actions are summarized in Fig.1.

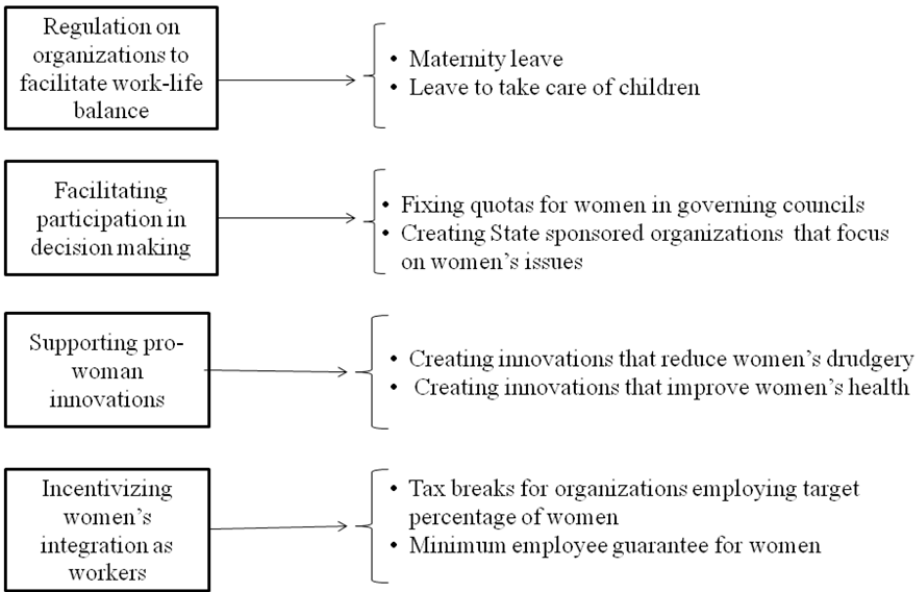

Fig. 1. Women-focused State actions

The standard rationale for formalization vs. reality

The informal economy is largely represented by people excluded from formal economic systems. Current international policy and much of mainstream economics and management literature advocates 'formalization' through a variety of strategies to promote inclusive growth. The debate about whether or not to formalize the informal economy seems to stem from a linear view of the inter-linkages between the formal and informal economy as shown in Fig.2.

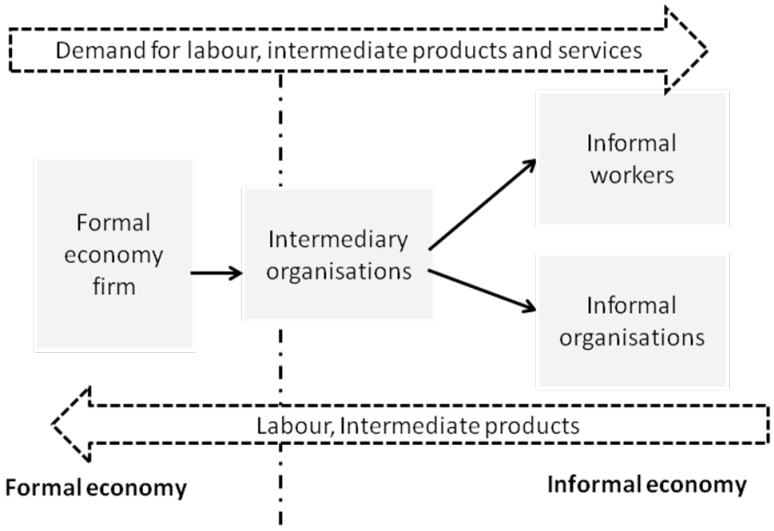

Fig.2. Linear models of linkages between formal and informal economies

Indeed, the existing economics literature offers little in terms of arguments for or against formalization of the informal economy, because for the most part they are based on a linear view of the linkages between the formal and informal economy. However, our research on the reasons for the over-representation of women in the informal economy reveals that women are attracted to the informal economy mainly because it is more compatible with women's needs and existing patriarchal social norms and women create entrepreneurial ventures in the informal economy more out of necessity than to seize opportunities.

Given the reality of factors that draw women to the informal economy, in terms of best practices, in restrictive societies opening up spaces for dialogue creates a closed-loop flow of knowledge and skills transfer as shown in Fig.3.

Under the closed-loop model, there is scope for 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 (Walter et al., 1998; Weingart et al., 2003). 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, mentorship and training through intermediaries can perform two distinct functions: (i) empower women as workers and entrepreneurs; (ii) create business engagements that are compatible with local (patriarchal) social norms.

The corridors of conversation can be created through partnerships with intermediate organizations like NGOs and women's groups. Also training workshops and educational support can be facilitated via these intermediaries and women's groups. Engagements that provide scope for an informal work environment suited to the local social norms, with the help of 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

"both formal and informal economy organizations can be promoted through increasing inclusion of women"

new distribution channels; women will gain access to a protected, regulated, customized working or training environment; and governments will save time and money and focus on their primary function, namely to ensure an appropriate and favourable regulatory framework for these ventures to take off. A new perspective of business to business relationship formation in BoP settings can also be gained from such initiatives.

An example of a conversation corridor is provided by the case study of Avon. Scott et al. (2012) explain that Avon uses women in South Africa to sell their beauty products, through providing training which 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 noteworthy because, by drawing on former informal workers and transforming some into women entrepreneurs in the formal economy, it promotes formalization. Avon succeeded because it replicated some of the advantages offered to women by the informal economy. Women could

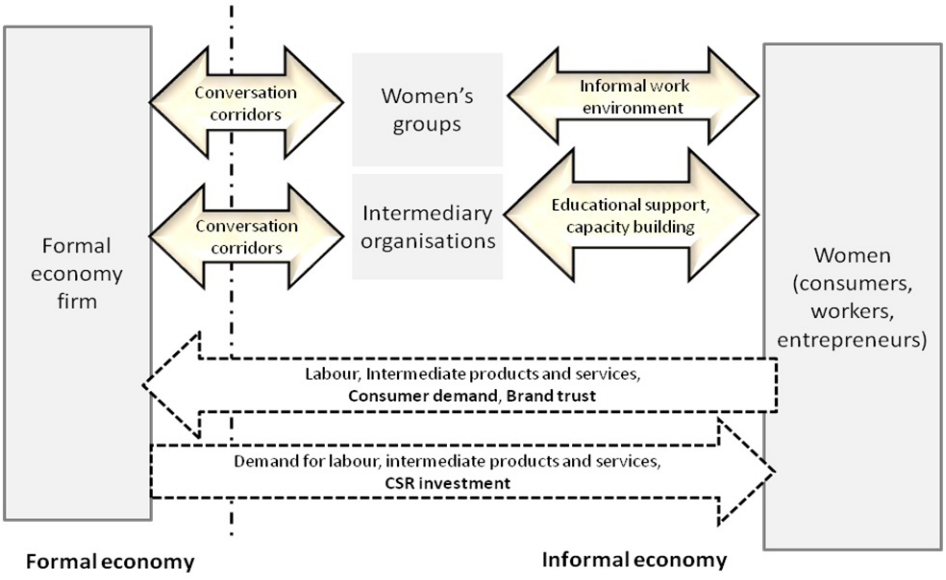

Fig.3. Closed-loop model of linkages between formal and informal economies

join Avon without needing much formal education or financial resources. They were assured that their household duties would not suffer and their participation would not conflict with social norms via the creation of spaces of dialogue.

specific and gender specific constraints of all stake holders. Thus, policy makers would do well to recognize that women-focused programmes must be supported by mechanisms, say public-private partnerships that provide accompaniment to the women target groups.

"bottom-up initiatives for gender empowerment are more effective only if there is a continuum of gendered spaces"

Conclusion

Our research indicates that many of the top-down actions for women's empowerment are either less effective than desired or more effective when 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 – as successful women role models, visible through the 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

Acknowledgements

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INSIDE:

Policy Brief

Women in the Informal Economy

This brief examines a range of governance experiments from emerging countries: covering both top-down and bottom-up initiatives for women's empowerment in the informal economy. It also considers ways to improve the sustainability of women-owned businesses in the informal sector.

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