TITLE

Women entrepreneurs in the informal economy of Nepal—Is formalization a burden or empowerment?

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**Background and Objectives**

Informal economy in emerging economy characterises over-representation of women, labour exploitation and high level of vulnerability (Ramani et al., 2013). Policies to reduce women’s vulnerability have emphasized the formalization of the informal economy. Such policies assume that integrating informal women entrepreneurs to the formal economy will give them the much needed visibility and recognition reducing their barriers to business expansion and contributing to equality and welfare, and eventually empowerment in the long run (ILO, 2009). Little is known, however, about the feasibility of formalizing the informal economy (Chen, 2007). On the contrary, literature has acknowledged various constraints to formalization, such as mobility restrictions and access to finance, networks and social norms (Bardasi et al., 2011; De Vita et al., 2014); and preferences for informality due to its flexibility to meet family needs (Bardasi et al., 2011). Formalization policies, as a result, are not clear as how they can enable women entrepreneurs to overcome the constraints and barriers to transition to the formal economy.

This research aims to further our understanding of formalization and business sustainability by exploring Nepali women entrepreneurs’ motivations to engage in the informal economy and their future aspirations about their business activities. Poor business environment, political instability and weak infrastructure have hindered private sector development and contributed to the proliferation of informal sector in Nepal (Afram and Del Pero, 2012). The female labour participation in the informal sector is highest (80.1%) among the South Asian countries (ILO, 2014). Nepal’s stratified society with unequal power relations and socially prescribed roles, behaviour and expectations for men and women (ILO, 2005) further influences engagement in entrepreneurial activities and choices made by women. For instance, women owned enterprises
are subsistence in nature, operate in highly clustered and saturated sectors, more concentrated in the microenterprise sector, and have low registration rate (5.4%) compared to men owned enterprises (47.1%) (ILO, 2005). Although active participation in the microenterprise development programme was considered a key development agenda for women empowerment the patriarchal social structure has created barriers in almost every stage of business operation (ILO, 2005).

**Literature Review**

Various features characterise women entrepreneurship in the informal economy, such as, operating in highly clustered, gendered and ‘saturated’ sectors, and lower inclination to formalization (Bardasi et al., 2011). Extant research on the topic has emphasized the lack of alternatives and the low levels of education and skills pushing women towards the informal economy, with cultural norms acting as barriers to transition to the formal economy (De Bruin and Dupuis, 1999; Chen, 2001; Williams, 2011). Similarly, flexibility to work from home, being active and looking after family, and life satisfaction with independence and income have pulled women towards the informal economy (Tipple, 2005).

These constraints and preferences, however, have several implications. First, for many women entrepreneurs the informal economy has been their livelihood and survival strategy (Acho-Chi, 2002). Second, remaining close to home and working from home puts a ‘double burden’ on women entrepreneurs (Mehrotra and Biggeri, 2005) with intergenerational and intragenerational inequality, such as, reduced welfare due to self-exploitation (Dasgupta, 2000) and limited time for childcare responsibility which often results in older siblings being involved in childcare and hence, deprived from educational opportunities (Acho-Chi, 2002). Third, women’s work is often devalued and considered less important compared to men (Howcroft and Richardson, 2008),
diminishing women’s entrepreneurial activities as an extension of their caring roles with limited opportunities or need to expand their business (Kantor, 2002). Fourth, working from home restricts their access to networks and increases their dependence on close networks leading to activities being heavily concentrated in saturated sectors with increased competition for space and customers (Mitra, 2005). Fifth, social roles and expectations about what women should do, and whom women should or should not interact with, limit their position with markets, customers and suppliers influencing their venture growth and expansion (Kantor, 2002; Mitra, 2005). To summarise, informal economy is a survival strategy for women entrepreneurs, and running their business activities and managing family has both costs and benefits. Within these trade-offs, one fundamental question is where does formalization fit, what does it contribute to women’s lives, and what impact it would have on women’s condition and position, i.e. empowerment?

**Methods**

The study adopts a qualitative approach and uses semi-structured interviews with 90 women entrepreneurs in three different regions - Kathmandu, Pokhara and Biratnagar (30 interviews per region). Kathmandu is the capital and also one of the main migration destinations for people from all areas of Nepal. Pokhara is the tourism capital of the western region with main economic activity based on the tourism sector. Biratnagar is the industrial capital serving as the main economic and service hub for the eastern region and also borders India. In each region, a stratified sampling strategy design was used for the selection of women entrepreneurs on the basis of two main factors: (i) choice of location and sector of activity in each region to ensure a wide representation of income-areas and enterprise dynamics, and (ii) mix of formal and informal women entrepreneurs. This allowed to capture the diversity of women’s life circumstances and a better understanding of the factors affecting women’s choices, motivations to engage in entrepreneurial activities and their future aspirations. Interviews were conducted during
December 2014 – March 2015 in Nepalese and subsequently translated into English and entered in NVIVO for data analysis purposes. Data were analysed using thematic analysis following a systematic process of coding and theme identification.

**Findings**

Our findings highlight various motivations and aspirations of Nepali women entrepreneurs operating in the informal sector. In line with previous literature, we found that for the majority of the respondents lack of alternatives was one of the main motivations to engage in entrepreneurial activities in the informal economy. The ‘lack of alternatives’ was mainly associated with their socio-economic conditions, such as being immigrant, lack of employment in the formal sector, divorced, uneducated, unskilled and poor. While lack of education and skills ‘pushed’ them, low requirement of financial capital to invest and applicability of existing skills and knowledge ‘pulled’ them to engage in activities in the informal sector. Interestingly, we also found that many respondents stressed ‘the need for independence’ as a motivation to engage in entrepreneurial activities. Their interpretation of independence was related to the desire to be active, to do something for financial independence, being worthwhile and avoid ‘being idle’.

Reasons to remain in the informal sector were mainly associated with characteristics such as new business, small in size, and business sustainability. Others highlighted various limitations, such as lack of benefits of being formal, high taxes, and lack of future aspirations. For some respondents formalization was not feasible, as it required managing larger suppliers, customers and accounts, needed interacting with men, and go against family expectations. For others, as they gained experience, they became more confident in taking decisions, and achievement of ‘success’ fulfilled their personal goals of ‘doing something’ or ‘being somebody’. In the process
as they earned income and employed other women in their neighbourhood, they gained support from their families too. This improved status was mobilised, in turn, to gain trust and respect, and to overcome constraints posed by cultural norms. This group of women envisaged formalisation as the next step to gaining visibility and legitimacy, which in the long run can lead to empowerment. However, those lacking aspirations, and engaging in entrepreneurial activities solely for survival, formalisation is a burden and costly exercise. For these women, their personal goals mismatch the aims of formalisation policies.

**Implications**

Earlier literature has focused on a ‘constraints and preferences’ framework highlighting various pull and push factors (Bardasi et al., 2011; Williams, 2011; De Vita et al., 2014). Our results add to these discussions highlighting two findings: i) women entrepreneurs with aspirations, personal goals, and the desire to be independent, as they grow individually (having a voice and a decision-making role within the household) and socially (gaining trust and respect in the community) along their business, they overcome the constraints and barriers to formalization. With increase in confidence, formalization becomes inherent to gain legitimacy and providing visibility, respect and empowerment; ii) for women without future aspirations about their life goals and entrepreneurial activities, formalization would have an adverse impact on their business sustainability and livelihoods. Differently from the existing literature that considers women as a homogenous group, purely motivated by poverty to engage in the informal economy, we provide evidence that women’s life aspirations mediate their choices in the informal economy. As Chen (2007) suggests, formalization has different meanings to different groups of people, thus, treating formalization as a ‘panacea’ has implications to business sustainability as well as survival.
REFERENCES


