



Private Enterprise Development in Low-Income Countries

Transitioning into the Formal – Women Entrepreneurs in the Informal Economy of Nepal

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This qualitative study aims to understand how and why different groups of informal women entrepreneurs in Nepal engage with, or make the transition to the formal sector

Introduction

The prevalence of large informal economies in developing countries is a persistent development challenge. In Nepal, the informal economy employs 2.14 million people, accounting for 70% of the economically active population¹. A higher proportion of women (77.5%) are employed in this sector. Women also mainly operate micro-enterprises and the registration of the female-owned and operated micro-enterprises is much lower (5.4%) than those run by men (47.1%)².

Motivations for women's involvement in the informal economy have often focused on poverty, on how women are excluded from formal labour markets, and on women's role in sustaining their families' livelihood. However, there has been less work on the other constraints, such as social norms, and how these constraints vary along several socio-spatial dimensions. This is reflected in the way that much of the literature of formalization tends to focus on strengthening formal mechanisms.



Our departure for this study, therefore, is to consider the contextual nature of the informal sector, and to show how constraints on women's entrepreneurial involvement and success operate through social norms and practices in very specific socio-cultural contexts, beyond traditional macro-level explanations.

Methodology

We adopted a qualitative approach for this study, and conducted semi-structured interviews with 90 women entrepreneurs in three different regions – Kathmandu, Pokhara and Biratnagar, with 30 interviews per region. As the capital, Kathmandu is one of the main destinations for people from all areas of Nepal, including rural and remote zones. Pokhara's economic activity is based on the tourism sector (hotels, restaurants, guides and crafts), while Biratnagar borders India and serves as the main economic hub for the eastern region (Figure 2). In each region we identified five distinctive locations – town centre, peri-urban area, newly developed area, travel junction, and residential area – with significant informal activities. In each location, we interviewed six female entrepreneurs working in a range of sectors including trade, services, farming, clothing retail and handicraft production. We chose to include a mix of informal and formal women entrepreneurs in our study – in each region, 70% were informal entrepreneurs and 30% formal.

The interview questions covered a range of issues related to women entrepreneurs' engagement in the informal economy, including motivations for setting up the business; challenges and risks faced in the

¹ CBS, 2009

² ILO, 2005

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process; links with customers and suppliers; and other economic or institutional factors that affected women's choices.

Most respondents in our sample fell into the 31-40 age bracket (49%), belonged to higher caste (51%), were migrants (64%), had higher secondary education (36%), were married (90%), operated in the services sector (43%), and had been running their activities for less than five years (38%).

Findings

Our research revealed a number of interesting findings about the motivation and experiences of female entrepreneurs in diverse regions, locations and sectors in Nepal.

Motivation - although many respondents (39%) engaged in entrepreneurial activities for lack of other alternatives, large numbers yet (37%), were attracted by a desire to be active and financially independent rather than staying at home. Some respondents reported other motivating factors, such as social networks and family commitments. Among the three regions, financial independence from men was more frequently cited in the case of Kathmandu, reflecting the higher participation of women in employment in the city.

Risks and Challenges – most women considered the nature of their products (i.e. perishability or damage) as the most common risk or challenge faced (41%). Family responsibilities, credit constraints, and lack of skills or knowledge were also frequently cited in women's accounts, independently of region or sector of activity. Business experience and skill accumulation over time were said to mitigate some of these risks by increasing women's confidence and capability. For instance, women's fears of not being able to fulfil customer demand at the start-up stage lessened with their increased experience and expertise over time, allowing them to provide good service and retain customers through loyalty.

Business skills and experience also supported them in gaining their family's trust, market reputation and community recognition. Many respondents mentioned having to deal with discouragement from their households and wider communities as articulated in an emphasis on their lack of basic skills; the perceived suitability of certain activities for women; or the acceptability of women engaging with any membership organisations that would support entrepreneurship due to gender prejudices. However, their persistence and their ability to 'earn a living' not only helped in improving attitudes towards them, but also in becoming more resilient to the constraints of their environment.

Family and social capital played a key role as a source of support and information. The most popular form of family assistance was the provision of 'free labour' – half of the respondents reported family members helping out in a variety of ways, either with childcare or domestic work, or within the business itself. This 'free labour' varied from occasional or seasonal to regular assistance. Family and social capital helped to gain new suppliers, business connections and new customers, as well as helping to alleviate capital and or skills constraints. For example, 23% of the respondents gained financial assistance from their family, free of interest and other conditions placed by formal institutions and non-formal lenders. Others, especially in Kathmandu and Pokhara considered their home location to serve economic interests (saving on rent).



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Formalization was more likely in sectors such as trade and services, and for businesses at a medium or established stage of operation. Various factors were said to facilitate the formalization decision, including business requirements, supporting households and social networks, access to loans, and fear of penalty. For instance, certain entrepreneurial activities such as packaged food, pharmacy or training centres require formalization. In other cases, suppliers or customers operating in the formal sector demand their service providers and users to be formal as well. The demand to provide VAT and tax receipts pushes other businesses along the supply chain towards formalization.

Socio-spatial contextual differences in relation to demographic composition, particularly of caste, migrant status, as well as of social ties and business infrastructure affected the range of activities women were involved in. Many respondents experienced negative response from their community when their activity was deemed to be inappropriate for their caste (e.g. tailoring is considered a low caste occupation), and the time dedicated to a business was also affected by caste status as certain castes have greater social obligations. Further, 64% of respondents were migrants to their regions with the greatest proportion of migrants in Biratnagar and Kathmandu, and the greatest proportion of natives in Pokhara with implications about the use of social capital and networks. In Biratnagar, social capital played a crucial role in providing information and also supporting respondents to business formalization. In Pokhara, fear of penalty, access to loans, and nature of business were the main reasons for business formalization. In Kathmandu, demand from suppliers and clients played an important role for business formalization.



Overall, these findings reveal that the decision to remain in the informal sector is often a strategic choice by women entrepreneurs, as it enables them to accumulate business experience, increase their social capital, join certain groups and organisations, reduce costs and wait for a suitable time to enter the formal sector.

Moving Forward...

Decisions to operate in the formal or informal economy are complex and depend on a range of social, personal and regional factors. Further research could focus on how information asymmetries that arise from the marginalised positions women hold in social networks as a result of family responsibilities, migratory patterns or education affect women's entrepreneurial experiences, including business skills, confidence, links to customers and suppliers.