



**Paper series: MUVA's contributions to knowledge in the field of female entrepreneurship**

# **Female entrepreneurship and informality in low- and middle-income countries: what have we learned so far?**

**Paper No. 1**

**Authors:** Evert-jan Quak and Iana Barenboim

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For further information, please contact [info@muvamoz.co.mz](mailto:info@muvamoz.co.mz)

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## About this report

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## Summary

The informal economy is typically depicted as a policy problem, with many governments criminalising entrepreneurial endeavours in the informal sector and ignoring the importance of the sector for the economy and for the livelihoods depending on them. Although these businesses face many challenges, enterprise development projects that include entrepreneurs in the informal sector see opportunities and the relevance of these businesses for the local economy and livelihoods. Mozambique-based female economic empowerment social incubator MUVA has developed two female entrepreneurship projects that do exactly that. They seek to maximise opportunities for women entrepreneurs, while addressing specific challenges through a process of personal transformation. This paper looks at the MUVA experience and what knowledge it has contributed to debates on female entrepreneurship and informality.<sup>1</sup>

The literature on female entrepreneurship and informality shows that gender inequality very much shapes the choice between formal and informal work. Women remain informal entrepreneurs primarily because of the way the formal economy is organised and because of prevailing social norms around reproduction, codes of behaviour and practices in these sociocultural contexts. Women are often disadvantaged in terms of having lesser skills, education, and work experience, as well as access to and control of assets such as property, financial services, social capital, networks, mobility, and aspirations. Once informal, women entrepreneurs face many constraints that keep them in the informal sector, often operating within smaller, less productive, and less profitable businesses than their male counterparts, with very little element of choice to improve their position.

Although having a business could give them opportunities for empowerment, the reality is that they often remain vulnerable to harassment and discrimination. The literature that focuses on informal female entrepreneurship is clear that criminalising the informal sector impacts negatively on women's livelihoods, incomes, and wellbeing, while recognition is needed to improve the quality of and returns on work in the informal economy. If, as a result, they move closer to the formal economy, the value to formalise could increase.

In Mozambique, MUVA supported these entrepreneurial women by tackling gendered inequalities in two entrepreneurship projects designed for specific target groups: MUVA+ for urban market sellers and the Acceleration Project for Micro and Small Businesses (PAM) for small urban businesses. Although the training content and approaches were very different for each project, both focused on women's collective experiences, their needs, and challenges from a gender perspective. This approach resulted in higher self-confidence and wider recognition of gender constraints. Both projects also resulted in positive business outcomes such as increased sales, reduced costs and improved profits. These outcomes (although from a small sample) add to evidence that clearly shows that the more specific and targeted training is, the more likely it is to improve business outcomes for small businesses in the informal sector. Thus, the success of business training programmes within the informal sector depends not so much on their content as on the extent to which they meet participants' specific needs in context (a balance between soft skills and hard skills).

Evidence from MUVA also confirms the limited value of formalisation for most of these women-led businesses. Formalisation should be perceived as a complex and dynamic process, whereby individuals try to balance costs and benefits, which play out differently for men and women. Any policy that forces formality – for example, through penalties, enforcement or delinking business between formal enterprises and informal ones – will hit

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<sup>1</sup> For more information on the work of MUVA+ and PAM on economic empowerment, agency strengthening, and job creation, see Thorpe, Barenboim and Come (2022); Ault, Quak and Guimarães (2022), and Quak, Barenboim and Guimarães (2022), respectively.

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women entrepreneurs hardest as they are overrepresented in the informal economy, are small business owners and face gender-specific constraints. In this context, the MUVA approach not to push for formalisation but to build skills needed to improve the way these women do business might or might not result in the decision to register a business – which for the outcome of the MUVA projects does not matter. In countries such as Mozambique, where the government seeks to formalise informal businesses instead of investing in them, the MUVA experience and evidence are important to redirect policy and interventions for the benefit of these groups of women entrepreneurs.

## Key Messages

- **The MUVA experience shows the importance of designing enterprise development programmes in the informal sector for target groups, because of the sector's heterogeneity.** Women entrepreneurs have different motivations and capacities that shape their personal opportunities and challenges. Therefore, a human-centred approach – such as in the MUVA+ and PAM projects – that recognises the personal transformation and development of the participants generates the best outcomes.
- **The MUVA experience shows that 'formalising' a business is a process in which entrepreneurs gain step-by-step skills of book-keeping, opening bank accounts, and separating personal and business accounts, among many others, whether they register their business or not.** It is not making the formal sector more attractive that counts for most informal businesses but improving the circumstances of doing business in the informal sector. In particular, women-led enterprises often do not see formalisation as a benefit to their companies due to gendered constraints and the small size of their business. So, they do not formalise.
- **Initiatives such as MUVA have started to push the debate on female entrepreneurship in the informal sector in Mozambique into a different dialogue space. But much more work is needed to generate public policy-relevant support for the target groups.** Individual development approaches need to be accompanied by policy, programmes and projects that address structural challenges that women entrepreneurs face daily, such as sociocultural and economic barriers, and harassment and discrimination.

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# I. Introduction

## Purpose

The informal economy is typically depicted as a policy problem: unplanned, unregulated, uncontrolled, messy, and inefficient, juxtaposed with ordered, regulated, efficient notions of economic organisation. Yet, a growing body of literature combined with experiences from entrepreneurship development programmes make it clear that the informal sector is not as chaotic, beyond the law or unorganised as perceived. Rather, it operates on the basis of logics that reference official rules and regulations, but that do not necessarily abide by these, instead constantly renegotiating them (Chioldelli and Moroni 2014; Esposito and Chioldelli 2020).

In low- and middle-income countries (LMICs) many women economically participate as informally employed workers and informal entrepreneurs. This paper focuses on the informal entrepreneurs. Women-led enterprises – and self-employed women – are overrepresented in the informal economy, particularly among smaller enterprises. Being a woman entrepreneur in the informal economy is often the result of limited opportunities in the formal economy, a combination of work with care functions, limited access to education, and lack of business skills and experience. On top of that, many gendered constraints (e.g., legal, market, sociocultural) keep women in the informal economy (Xheneti, Madden and Thapa Karki 2019). It is important to note that women are a heterogeneous group with multiple identities, which Marlow and Martinez Dy (2018) refer to as ‘gender as a multiplicity’. Factors other than gender, such as age, ethnicity, education and business experience, influence women’s preferences for involvement in the informal sector, as well as business growth, expansion, and formalisation (Babbitt, Worrall and Cherney 2015; Kasseeah and Tandrayen-Ragoobur 2014).

The purpose of this paper is to understand female entrepreneurship in the context of informality and the value of formalisation to improve their livelihoods and income in the context of LMICs. Mozambique-based female economic empowerment social incubator MUVA is used as a case study to show how experiences and knowledge from development projects contribute to debates on female entrepreneurship and informality.

## Definitions and key trends

The informal economy has been described as ‘a process of income generation characterised by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated’ (Castells and Portes 1989: 12). It refers to a ‘diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state’ (Chen 2012: 8). Thus, enterprises operating in the informal sector are not only officially registered, but consequently do not pay official taxes, nor do they receive state support or subsidies that other businesses may be eligible for. The International Labour Organization’s definition of informal sector workers includes employees, employers, and self-employed workers (ILO 2013).

More than 2 billion people worldwide are active in the informal economy, 61 per cent of the global employed population, most of whom live in LMICs (ILO 2018). It has been said that 90 per cent of micro-, small, and medium enterprises (MSMEs) worldwide operate informally (Qiang and Ghossein 2020). Although operating outside formal institutions, in LMICs the sector contributes substantially to economic growth. Medina and Schneider (2019) estimated that the informal economy contributes the most to GDP in Latin America and sub-Saharan Africa, at 38 per cent and 39 per cent of GDP respectively.

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The informal economy includes a large proportion of women entrepreneurs, often in vulnerable forms of self-employment. Although the exact number is difficult to quantify, it is estimated that women operating MSMEs in the informal economic sector make up more than 30 per cent of the world labour force (World Economic Forum 2018). This share is much higher in low-income countries, where 92 per cent of women's employment is in the informal sector, compared to 87 per cent for men. When looking at non-agricultural employment, this is 78 per cent and 70 per cent respectively (Bonnet, Vanek and Chen 2019). Rural women, those with less education, women with young children and migrant women are more likely to be in informal and particularly vulnerable work (ILO 2018). Most women who work in the informal sector (72 per cent) are either self-employed or work in small family businesses (Bonnet, Vanek and Chen 2019).<sup>2</sup>

For a long time, it was thought that informality would decline through economic growth. However, in LMICs in the past two decades – even with the drive towards formalisation – informality has persisted, due to a combination of underemployment related to the failure of the formal economy to expand and create full employment, and a weakening of the concept and advantages of formality, often related to increased flexibilisation (e.g., generation of temporary, casual, and part-time jobs in the formal economy) (Bromley and Wilson 2018). Therefore, it is now better understood that the informal sector is not just a form of 'parasitism' on the formal sector: they are interrelated in a complex way (Latouche 1993; Peterson 2010; Bromley and Wilson 2018).

## Mozambique and the MUVA case

This paper will draw on the literature and the lessons learned from MUVA. MUVA aims to increase female economic empowerment through targeted and tailored human-centred approaches. It recognises the persistent barriers that limit access to decent work for women, including starting and growing a business. MUVA developed two female entrepreneurship projects in Mozambique that will be further assessed in this paper: MUVA+, for urban vegetable and fruit market sellers; and the Acceleration Project for Micro and Small Businesses (PAM) for small businesses with growth potential.

Most participants in both projects worked in the informal sector. Recent research by the World Bank based on firm-level data in the three largest cities of Mozambique shows that informal enterprises are more likely to be owned by women (Aga *et al.* 2021).<sup>3</sup> Almost half of informal firms are majority-owned by women, while just under a quarter of formal firms are. Informal retail firms are more likely to be majority-owned by women (52%, against 45% for manufacturing and 38% for services) (Aga *et al.* 2021). Importantly, the research separates four categories of informal enterprises based on their performance (high or low) and resemblance to formal enterprises (high or low). Whereas for three categories there was not a major difference between women's and men's ownership, in the category of high resemblance with formal enterprises and low performance almost 80 per cent were women-led enterprises. These enterprises have some employees and the (female) owner is most likely to have secondary and tertiary education, but nevertheless their productivity is below par (*ibid.*).

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<sup>2</sup> Family businesses account for between a quarter to more than a third of women's informal employment in the regions of Asia, sub-Saharan Africa (excluding Southern Africa) and the Middle East and North Africa, but a far lower percentage of men's employment (Bonnet, Vanek and Chen 2019). Self-employment accounts for 62 per cent of informal employment in South Asia and 53 per cent of informal employment in sub-Saharan Africa (excluding Southern Africa). In all sub-regions, except sub-Saharan Africa, self-employment is a larger source of informal employment for men than for women (*ibid.*)

<sup>3</sup> About 80 per cent of the Mozambican labour force works in the informal sector, mostly in agriculture and informal self-employment. Very few workers are employed formally: social security only covers 6 per cent of the labour force. Source: World Bank (2018).

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To increase understanding of female entrepreneurship in the informal economy and what interventions work better under specific circumstances, this paper is organised as follows. The first section reviews the literature on informality and female entrepreneurship, and explains different perceptions, characteristics, and drivers of and constraints to informal female entrepreneurship. The middle section focuses on MUVA's experience of the two entrepreneurship projects<sup>4</sup> and puts them in the context of the literature. The last section is from the perspective of MUVA and evidence from the literature on what interventions and policy could support female entrepreneurship the best in the context of informality.

## 2. Female entrepreneurship and informality: what we know from the literature

### Perceptions about female entrepreneurship and informality

There exist two main theoretical perspectives for understanding the existence of the informal economy. The first is a structural approach – also called the marginalisation approach – which explains involvement in the informal economy as a survival strategy, because the formal economy cannot provide enough jobs (Williams and Nadin 2010). The second is the neoliberal approach, which considers the informal economy as the result of overregulation and dysfunctional institutions. In other words, the structural approach sees informal entrepreneurship from the perspective of deprivation. The neoliberal approach sees informal entrepreneurship as voluntary, to avoid costs, time, and the complexities of formal registration (Williams 2014).

In a dualist debate in which informality is a choice or an obligation,<sup>5</sup> and with compelling evidence about the existence of a causal link between informality and poverty (Webster *et al.* 2016; Eroğlu 2017; Canelas 2019), this raises the question of why people would choose to be poor. Therefore, more recent studies explain the informal sector as a heterogeneous structure, in which informality can be an opportunity for some at a specific time, while for others it is a strategy of last resort (Günther and Launov 2012; Harati 2013; Canelas 2019). In the entrepreneurship literature, this is often referred to as being in business for 'necessity' or 'opportunity' (Fairlie and Fossen 2018).

Rocha and Latapí (2008) criticise the voluntary explanation of informality because gender inequality very much shapes the choice between formal and informal work. From this perspective, which is rooted in feminist economics, women face gendered structural barriers that exclude them from capital accumulation and entry to formality (Peterson 2013). Thus, women remain informal entrepreneurs primarily because of the way the formal economy is organised (Peterson 2013; Coles, Macdonald, and Delaney 2018). A purely economic explanation is not enough, because of prevailing social norms around reproduction, codes of behaviour and practices in these sociocultural contexts.

The 'intersection' of gender and informality is significant, with women entrepreneurs overrepresented in economically vulnerable, insecure, and informal work. This intersectionality 'provides us with the theoretical tools required to interrogate the ways in which conditions of

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<sup>4</sup> Through an assessment of the anonymised data from baseline and endline surveys, and assessment of anonymised in-depth interviews with participants that were conducted previously as part of MUVA's evaluation process.

<sup>5</sup> Perry *et al.* (2007) explains the difference between voluntary and forced entry into the informal economy as 'exclusion' and 'exit'



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informality are feminised, racialised, codified, legitimised, normalised and consequently, invisibilised' (ibid. 2018: 95). A shift towards formalisation through softer regulation, accessible institutions and streamlining of business regulation, therefore, lacks sensitivity towards the 'deeply rooted cultural values concerning gender, the constraints that shape women's motivations and choices, and their implications at the macro (policymaking) level, at the meso (organisational) level as well as at the micro-level of local practice' (Xheneti, Madden and Thapa Karki 2019: 5). However, despite a recent increase in the number of studies that explain the intersection of gender and informality for understanding female entrepreneurship in the informal sector (e.g., incorporating feminist economics into the mainstream), Western and male norms on formality dominate interventions and policies (ibid.).

## Characteristics of informality: why a gender perspective is important

While informal enterprises are defined as unregulated, from an economic perspective their main characteristics are their low productivity and small size. According to Bonnet, Vanek and Chen, informal enterprises in low-income countries can be characterised as:

single-person operations or family firms/farms; very few are owned or operated by employers with hired workers. Typically, they operate at a low level of organisation, on a small scale and with little or no division between labour and capital as factors of production.

(Bonnet, Vanek and Chen, 2019: 2)

Aga *et al.* (2021) confirm this in the Mozambique context. Compared to formal microenterprises, informal firms sell about 14 times less, make 17 times lower profits and are 2–3 times less productive. Aga *et al.* (2021) explain almost two-thirds of these performance gaps by differences in firm characteristics: informal firms are smaller and have limited skills, adopt fewer good business practices, use less capital and fewer production inputs, and are less likely to have access to finance.

These characteristics of informality need to be understood through a gender lens. Women's enterprises tend to be smaller in size, provide less employment growth, are less productive and less profitable, and have limited access to resources and innovations, when comparing men with women in the same industries (Minniti and Naudé 2010; Klapper and Parker 2011; Miles 2017; ICRW 2019). On average, female-owned businesses earn 23 per cent less in profits than their male counterparts, even after accounting for core differences between businesses. In many countries, women-led enterprises are more active in the retail and trading sectors than in manufacturing activities, with lower skills and capital requirements, although the exact pattern can vary considerably between countries (Bardasi, Sabarwal and Terrell 2011; Akram-Lodhi and Van Staveren 2003). Thus, they are trapped in low-profit and unproductive enterprises, often in vulnerable and precarious positions, with very little element of choice or chance to increase their position or income (Holmes and Scott 2016; Ulrichs 2016; Kabeer 2017; Stuart, Samman, and Hunt 2018; Hearle, Baden and Kalsi 2019).

Amin and Huang (2014) show the size of the enterprise matters. Based on data from informal enterprises in 11 African countries, they conclude that compared with small informal enterprises, large informal enterprises have more educated owners, show a greater willingness to register as formal enterprises, and are more likely to use banks and microfinance institutions to finance day-to-day operations. Their data are not disaggregated on gender; but, if women entrepreneurs in LMICs can be associated with smaller enterprises, these results confirm their more vulnerable position. Adding gender

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perspectives to these discussions could therefore enrich our understanding of the importance of enterprise size in the informal sector.<sup>6</sup>

Informal enterprises are often assumed to be under-taxed or to evade paying taxes, suggesting a competitive advantage over formal counterparts. But as Gallien, Moore and van den Boogaard (2021: 3) mention, this argument 'often both over-estimates the income of many of the people involved, and under-estimates the taxes that they are already paying'. There is a growing body of research that shows that informal enterprises already pay a wide range of indirect taxes, nuisance taxes, user fees and informal taxes (Van den Boogaard, Prichard, and Jibao 2019), while they have no advantages that often accompany formality, such as access to social safety nets (Ulrichs 2016; Baremirwe Bekoreire, Maloba Were and Okecho 2018). Bringing a gender lens to this discussion is relevant, as well, because informal women entrepreneurs could be more vulnerable to paying such taxes and fees as they often operate in more visible trading at markets and are unclear on their tax obligations, which means that they often fall prey to unfair payments and harassment by officials (Oxfam 2019).

Finally, informal enterprises are characterised by their frequent lack of voice and agency as they operate outside the control of legal regulation and institutions and have limited or no access to support and social protection measures (Ulrichs 2016). However, associations and cooperatives of informal workers are on the rise, including associations for women entrepreneurs, improving their visibility and recognitions, which could improve their voice and agency. Self-help groups can give them options for saving and borrowing activities in their cooperatives (Chen, Bonner and Carré 2015; Gammage, Kabeer and van der Meulen Rodgers 2016). However, despite such advantages, it is also clear that self-organisation without affiliation with trade unions or other formal governance structures limits the structural improvement of their situation (Chen, Bonner and Carré 2015; Eaton, Schurman and Chen 2017). More studies are needed to understand gendered constraints to increase the voice of informal women workers within trade unions (Serrano and Certeza 2014; Yilmaz 2014).

## **Drivers and constraints underpinning female entrepreneurship**

Several interconnected drivers explain why women entrepreneurs in the informal sector work more often at a higher vulnerability level. A review by Hearle, Baden and Kalsi (2019) highlights key drivers of informality for women entrepreneurs:

- Gender-based discrimination and 'occupational segmentation' in the labour market, which means women are excluded from many formal jobs.
- Unequal responsibilities for unpaid care and domestic work, which make women time-poor as they undertake a disproportionate amount of unpaid work, limiting their options to work in the formal economy.
- Women are often disadvantaged in terms of having lesser skills, education, and work experience, as well as access to and control of assets such as property, financial services, social capital, networks, mobility, and aspirations.

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<sup>6</sup> The views on the relation between size of the informal enterprise and its productivity are more inconclusive. Benjamin and Mbaye (2012) found for West Africa that large informal enterprises have higher productivity than small informal enterprises. However, Amin and Islam (2015) argue that such a conclusion is not always correct. They show for seven African countries that larger informal enterprises have lower labour productivity compared to smaller ones. They explain this with higher costs of transformation for large informal enterprises than small informal enterprises or evading paying taxes, for example. Both outcomes suggest different outcomes for women entrepreneurs (as they own smaller enterprises), so adding gender perspectives in these discussions could enrich our understanding on productivity in the informal sector.

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- New gendered patterns of informality driven by wider trends such as technological innovation (including mobile and digital technologies, and artificial intelligence), labour market deregulation and globalisation of value chains.

Lack of experience and contacts in higher-skilled sectors and modern technologies can lead to women's exclusion from more productive sectors (Klapper and Parker 2011; OECD 2017) and contribute to women becoming entrepreneurs owing to an inability to secure better-paid formal employment. This is often referred to as the result of lack of means to invest in productivity improvements, which also relates to other factors including low education, low profits (limited ability to save and invest) and lack of access to finance (Klapper and Parker 2011). Even now, girls have gained better access to primary education and high fertility rates still directly impact on their productive years of labour (Bloom *et al.* 2009). The literature suggests that women experience a 'penalty' for having children as combining care with their business activities keeps them in unproductive informal work relations, often in family enterprises (Wajzman 2016; Ulrichs 2016). However, research shows that girls' secondary education strongly correlates with a decrease in how many children a girl will have (Pradhan and Canning 2015).

Drivers to formalise or not are based on perceptions of rewards and constraints. On the one hand, being registered and paying taxes can provide the legitimacy needed to access formal markets and credit, which in turn leads to business expansion, investment and, consequently, economic development (Hearle, Baden, and Kalsi 2019). On the other hand, formalisation represents a costly exposure to bureaucratic state agencies, procedures and compliance with standards that are neither trusted nor perceived to offer much in return (De Castro, Khavul and Bruton 2014). In India, Viswanathan *et al.* (2014) explain women's limited efforts to formalise or expand businesses due to fears of social exclusion and loss of trust that could result from being seen as an aspirational entrepreneur. Lince (2011: 89) points to the 'risky' consequences of business formalisation in Uganda, whereby those who register their enterprises may experience 'greater loss of control over livelihood options than those encountered in the informal sector'.

Once informal, women entrepreneurs face many constraints, such as gendered constraints to registering their business. This is due in some cases to legal barriers to women registering businesses in their own name; but more often women face social norms that limit their ability to act as independent entrepreneurs, as well as gendered discrimination and harassment by officials. Furthermore, they often lack awareness of business registration procedures, and access to skills and knowledge to navigate these procedures (Hearle, Baden and Kalsi 2019). Other barriers include lack of required documentation, financial costs, and mobility constraints, particularly if women are required to travel. Lack of formal business registration is thought to influence women's credit history and ability to borrow, restricting enterprise growth and access to business development services (Miles 2017).

Access to formal credit is presented as an advantage of business formalisation. Informality curtails access to finance due to lack of formal accounts, a reliable credit history or legal rights to land (Hearle, Baden and Kalsi 2019). Women often have less access to appropriate collateral, particularly in environments where they have weak ownership rights or household income is controlled by men (Klapper and Parker 2011; OECD 2017; World Bank 2008). Additionally, unconscious bias and structural exclusion of women from business networks also undermine access to capital (Hearle, Baden and Kalsi 2019). This can lead women to rely on informal sources of finance, making them vulnerable to additional changes in payback conditions. Not restricted to informal women entrepreneurs, women may also be less able to travel to financial institutions to obtain formal financing for their business (Chamlou 2008; OECD 2017) and have limited access to digital financial technologies compared to men in low-income countries (Kende and Quast 2016).

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Women entrepreneurs' lack of access to finance, training and workspace indicates that women's absence from the formal economy reflects a lack of opportunities and abundance of gendered constraints. However, there is also the effect of socially embedded expectations about the kind of work that women do, which in turn impacts on their choices to start and develop their businesses (Chant 2014). Some scholars note that the association of female entrepreneurship with feminine skills such as weaving, sewing, and cooking within support programmes. Policy has contributed to keeping these women in survivalist enterprises based on perceived female identities (in terms of low capitalisation and profit opportunity, market saturation, and spatial and cultural constraints). As businesses grow, women's skills and abilities acquired from their domestic labour are no longer useful in meeting the requirements of business development (Bardasi, Sabarwal and Terrell 2011).

This has led to what Chant (2014) describes as the feminisation of responsibility for reproductive labour, where men remain positively associated with productive labour. 'Women appear to remain in [the informal economy] by making highly strategic choices, often by downplaying the significance of their work or by manipulating gender stereotypes to get access to work otherwise restricted for them' (Xheneti, Madden and Thapa Karki 2019: 10). Thus, engaging in economic enterprise does little to alter household income or address underlying gender inequities.

## **Risks and opportunities related to informal women's entrepreneurship**

Women entrepreneurs often face many risks. The risks are heightened because women have less choice or agency than men over what work they do. However, women operating a business in the informal sector might have some opportunities, related to improved income, working more independently and increased flexibility, particularly for home-based work for women that combines work with care (Kasseeah and Tandrayen-Ragoobur 2014). Where informality involves validation by local institutions, women entrepreneurs might also gain legitimacy. This legitimacy can be greater than what they would get from formal registration, paying fees to a distant national government (Xheneti, Madden and Thapa Karki 2019). Engaging with local agencies helps local entrepreneurs to access markets through proximate networks of customers and intermediaries, for example. Informal enterprises can be a vehicle to increase economic independence and women's participation in economic decision-making.<sup>7</sup>

The risks informal women entrepreneurs face relate to their integrity, wellbeing, and rights due to major constraints of recognition, and gender-based violence and harassment. The arbitrary exercise of power and influence by intermediaries and other state and business actors means women working in the informal sector are vulnerable and risk discrimination. For example, intermediaries who control access to markets or market pitches sometimes influence market prices by making it more difficult for women to enter into or expand their economic activities. There is also convincing evidence from LMICs that women suffer more from corruption due to existing imbalances in the power dynamics between men and women (Fuentes Téllez 2018). Often seen as easy targets for physical and sexual harassment, women frequently pay large sums to avoid extended dealings with corrupt officials, particularly when working in the informal sector (ICRW 2019).

More female-owned enterprises see corruption as a very severe obstacle to doing business, with bribes and informal payments affecting female entrepreneurs more than male ones. Even when women pay the same amount, their lower average revenue means that their

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<sup>7</sup> This is what female entrepreneurship programmes mostly aim for: using the enterprise as a vehicle to build further skills and networks to secure better livelihoods in the absence of waged jobs in the formal economy. However, programmes cannot assume positive outcomes if structural risks are not taken into account.

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businesses are more negatively impacted by these transactions (ibid.). For example, in many LMICs street vendors (often women) experience arbitrary arrest, harassment and confiscation of their wares (Mlambo 2021; Racaud, Kago and Owuor 2018), impacting on their wellbeing and livelihoods (Chen 2016). Paying informal taxes, charges, and fees, often to local authorities at their workplace, also increases the probability of harassment (Resnick 2018). There is no arbitration in cases of disputes, leaving women vulnerable to extortion and changes. Furthermore, unofficial tax exemptions are used as a means of political or social inclusion or exclusion (Titeca and Kimanuka 2012; Meagher 2013; Prichard and van den Boogaard 2015).

The same can be said for repaying informal debts, which are often the result of sales revenues being insufficient to pay back charges and fines (ITF 2017). Informal finance arrangements are not recorded by the state and do not comply with official regulatory laws. Again, women may be sexually harassed by male lenders:

women often face a trade-off between financial costs and the consequences for their own reputations as women. The gender of debt is therefore a source of discrimination but also of permanent arbitration by women: sometimes it is better to borrow at very high cost if this may help protect one's reputation.

(Guérin 2014: S47)

### 3. MUVA and female entrepreneurship and informality

#### MUVA's approach to informal female entrepreneurship

One of MUVA's pillars for women's economic empowerment is providing support for informal women entrepreneurs. As a response to the heterogeneity of women entrepreneurs in the informal sector, MUVA designed two projects to respond to differences between the target groups. It used a human-centred development approach to address specific challenges these groups faced. One project was MUVA+ for informal self-employed sellers of vegetables and fruits in the Maputo market.<sup>8</sup> The participants selected for the project made less profit and experienced more losses in a sector that already has very small profit margins and highly volatile incomes. They were excluded from formal business support measures (e.g., subsidies) and social protection. MUVA also ran PAM, which supported women entrepreneurs selling goods and services in deprived neighbourhoods of Maputo city and province, who had opportunities to grow their business but lacked access to markets and skills.<sup>9</sup> PAM did not focus on informal entrepreneurs; it was an accelerator project for micro- and small enterprises that could either be formal or informal.

Arguably, the two groups could have been separated, with MUVA+ participants described as 'survivalists' and PAM participants as 'entrepreneurs by choice'. However, the MUVA experience clearly shows the shortcomings of having done so. MUVA+ women might arguably have been the poorest market sellers; but they showed the motivation and ambition to stay and improve their business. Before they started the entrepreneurship training, when MUVA+ participants were asked about their aspirations and motivations only a quarter said

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<sup>8</sup> Information and data from MUVA+ are derived from several evaluation reports, including evaluation reports for each cycle, and from assessing the anonymised data of baseline and endline surveys and interviews with participants.

<sup>9</sup> Information and data from PAM are derived from the completion report (2021), from the evaluation reports of the three cycles, and from assessing the anonymised data from baseline and endline surveys and interviews with participants.

they were self-employed because of limited choices and would prefer other work if available. The large majority saw themselves as independent entrepreneurs who enjoyed their work and earned money for their families independently. The baseline study also showed that a large group of around 40 per cent described themselves as only being in business to meet their families' needs, while nearly half of them were in business with the ambition to maximise profits. However, most of the participating entrepreneurs in PAM said that they did not start their business out of financial necessity, but rather because of an economic opportunity; but this did not mean that they made more profits or faced fewer constraints. These responses show the limitations of a dualist debate about female entrepreneurship and informality, and the need to understand informality as a complex interrelation between market failures and exclusion.

Although the content of the projects differed (see Table 1), both offered a human-centred approach, with a combination of soft and hard skills and a strong focus on gender equality. Importantly, what both MUVA+ and PAM had in common was that they did not emphasise formalisation as an end goal. Empowering women entrepreneurs and improving their livelihoods and incomes was the primary objective; formalisation was a personal choice and instrument to further advance their business at a certain time.

**Table 1. Contents of the two MUVA female entrepreneurship projects**

MUVA+	PAM
<p>The project lasted a total of 18 weeks. It provided participating women entrepreneurs with a 9-week course that worked on soft skills for entrepreneurship and business management (such as business skills and basic accounting), as well as self-efficacy and personal initiative.</p> <p>This is combined with 9 weeks of tailored 1-to-1 mentorship with trained facilitators; and access to new opportunities, such as opening a bank account or other financial services.</p>	<p>The project lasted 4 months, incorporating 3 intensive boot camps, 2 business research cycles, individual sessions with mentors, and a seminar series to meet experts. Most of this was done online due to the Covid-19 pandemic.</p> <p>The bootcamps focused on branding, online presence, product improvement, improving entrepreneur-client relations and finance skills. A human-centred development approach was used to identify and understand gender constraints and find tailored solutions.</p>

### Characteristics of MUVA's entrepreneurship project participants

Although participants in both projects were small scale and could be characterised by low productivity and profitability in line with the literature as mentioned above, MUVA+ participants worked in a more vulnerable and often precarious position. By selling vegetables and fruits in the market they were subject to strong seasonality effects, with different prices throughout the year, which made their sales, costs, and profits highly volatile. The majority were from households that lived on less than US\$2.50 a day. The main factors holding these women back in growing their businesses were fear of change, risk-averseness, lack of control of their money and lack of a clear vision of how they could develop their businesses.<sup>10</sup>

This is very different from PAM participants, who started from the position of seeing a business opportunity and were more willing to take risks to improve the business. An important feature of PAM participants is that they were young (around 25 years old); the majority (63%) were enrolled in or had already finished a tertiary level of schooling; and most of them maintained a basic record of bookkeeping. MUVA+ participants were older (42 years

<sup>10</sup> They say they have no loans for business investments (e.g., to buy food products) and therefore only buy smaller amounts. They work individually, not coordinating bulk food product purchases with others. The majority (83%) do not trust others, who they are afraid could take advantage. But at the same time, when it is about non-financial issues, they feel that they get some support from others at the market when they need it.

old on average), less educated (around 70% of participants had not completed primary school) and most had no book-keeping records in place (see Table 2).

**Table 2. Key characteristics of MUVA’s entrepreneurship projects**

MUVA+	PAM
130 participants in 3 cycles	60 participants in 3 cycles
100% informal enterprises	66% were not registered
Average age: 42 years	Average age: 25 years
70% did not finish primary school	63% had finished or were still in tertiary education
80% did not have written book-keeping records at baseline	82% had basic (written) book-keeping records in place at baseline

All MUVA+ participants worked in the informal economy. For PAM, around two-thirds of participating businesses were not registered at the start of the project; some women mentioned they had tried to register their business, but without success as they did not have the time or money to go through procedures and requirements (e.g., quality standards). This is in line with the constraints to register a business as discussed in the literature above. In total, five entrepreneurs registered their businesses when they participated in the project, but it was not clear from the evaluations if they already wanted to register and the project gave them the extra push, as one of the webinars was about business formalisation.

The MUVA+ project’s participants were all small urban food traders (traditionally a woman’s occupation), who used the training to increase their knowledge of diversification, seek changes and become less risk averse. The PAM project’s participants were more diverse, with some working in traditional women’s businesses, such as hair salons, but many in more innovative businesses that were less gender specific, such as print shops. MUVA did not push women into traditional business roles but used the project to let them reflect on their business and relations with their clients and seek changes and opportunities where possible.

In interviews, both MUVA+ and PAM participants mentioned that working in the informal sector did not restrict them from earning an income. Some PAM participants mentioned they left a job in the formal economy to start their business as it gave them more independence and flexibility. However, the participants also expressed concerns about discrimination and harassment against them as independent businesswomen in the informal economy. It was part of the projects’ approach to let the women reflect on such risks and opportunities.

## **MUVA’s contributions to empowering informal women entrepreneurs**

With the caveat of small samples and seasonality of sales, evaluation of the MUVA+ approach shows that including mentorship and offering support in opening a bank account has the potential to result in positive business outcomes such as increasing sales, reducing costs and improving profits. One piece of research found that, compared with a control group of market sellers, MUVA+ participants’ profits increased significantly after the project ended (over a six-month period).<sup>11</sup> While the control group increased its profits by around 50 per cent, participants in the two cycles more than doubled their profits and participants in one cycle even nearly tripled their profits. One of the main differences was that the women actively started to look for opportunities to sell other products with higher profit margins. This

<sup>11</sup> Information was derived from the MUVA+ evaluation report titled *Evaluating the effectiveness of self-efficacy for business training for market sellers in Mozambique: A mixed-methods evaluation of MUVA+*.

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suggests that this group of vulnerable women entrepreneurs can improve their business performance and livelihoods within the informal sector if they receive the right support.

PAM is targeted more at women who have a business that is closer to the formal sector. The endline evaluations of PAM show that 68 per cent of the participants stated that their business improved after participating in the project and 58 per cent that the number of clients increased compared to baseline. The gender perspective of the project was important to build the self-confidence the women entrepreneurs needed, and to recognise gender constraints and find ways to solve them. By the end of the course, 42 per cent of women entrepreneurs started to take gender into account when considering their products and services, in terms of considering the different needs of their clients. At baseline, 80 per cent said they had not considered gender in the past.

Interestingly, the first cohort of PAM participants did not immediately equate being strong and capable women who have families, children and domestic work with other female employees also being able to succeed in the same way, especially with their support. In response, the second cohort received an extra module on gender perspectives within their own business and supporting their female employees. The case studies from cycle 2 showed a change in perceptions of the role of entrepreneur as a model for other women. At baseline, entrepreneurs saw that the impact on themselves as beneficiaries was a way to impact other women through their services or products. During the project, entrepreneurs built their self-esteem as successful businesswomen, and started seeing themselves and their businesses as empowering others, either as role models or by showing that self-employment and entrepreneurship were a path for empowerment and a way of providing job opportunities for other women.<sup>12</sup>

## 4. What interventions work and what should be prioritised?

### Enterprise development support

The MUVA experience shows that both MUVA+ (business training and mentoring) and PAM (business accelerator), as enterprise development support projects that did not offer direct financial support in the form of grants or loans, improved entrepreneurial behaviours and outcomes through developing a better understanding of participants' own personal barriers and potential as business owners. For example, during a focus group meeting with 20 MUVA+ participants, participants identified a shared problem of the 'business not making enough money' without knowing where to begin or how to solve this. This is a 'wicked' problem, where the causes are not immediately apparent, and various causal factors are likely to interact or overlap. The traders were made aware that the causes and sub-causes were the lack of clients, due to a lack of product diversification. Based on an understanding of this problem, MUVA used participatory learning techniques to teach diversification strategies and creative behaviour. The training focused not only on the technical side, but on the human side, especially the internal barriers the women faced in taking further steps.

While generalised statements regarding enterprise development support are always complicated, as contextual factors strongly contribute to results and implementation weakness could negatively affect otherwise promising outcomes (McKenzie, Puerto and Odhiambo 2019), the evidence from the literature on enterprise development support backs

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<sup>12</sup> For more information on the work of MUVA+ and PAM on economic empowerment, agency strengthening, and job creation, see Thorpe, Barenboim and Come (2022); Ault, Quak and Guimarães (2022), and Quak, Barenboim and Guimarães (2022), respectively.



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the MUVA approach. In general, the more specific and targeted the training, the more likely it is to improve business outcomes (Grimm and Paffhausen 2015). This is also the conclusion of Aga *et al.* (2021) in the context of Mozambique, where business training and skills are the best interventions for informal enterprises that have a high resemblance with formal business and low performance, and informal enterprises that have a low resemblance and high performance. However, providing a package of entrepreneurial training and finance is more effective for young people and women in particular (Cho and Honorati 2013). Furthermore, an individualistic approach including a role model narrative could obscure gender barriers and reproduce prevailing gender stereotypes (Byrne, Fattoum and Diaz Garcia 2019).

Some studies have suggested that skills training can work well for women entrepreneurs, although importance is placed on the type of training. According to research by Cho and Honorati (2013), either intensive short trainings or substantially extended trainings in particular have the best business outcomes over time. There also seems to be evidence that use of psychology-based training programmes that develop key behaviours associated with a proactive entrepreneurial mindset deliver more lasting improvements for small business owners than more traditional business trainings (Campos *et al.* 2017). The success of training programmes depends not so much on their content as on the extent to which they meet participants' specific needs in context (Langevang and Gough 2012). The MUVA approach is an example that shows the importance of a human-centred approach towards women entrepreneurs in the informal sector as they improved business performance and earned higher profits and incomes after they attended a training project. The key change was that business owners began keeping more reliable opening hours and/or diversifying their range of products, which made them more attractive to customers and allowed overall sales to grow.<sup>13</sup>

Business incubation and acceleration projects have a more intensive and tailored approach to supporting businesses compared to trainings and have often been successful. However, they are more expensive and include an extensive business competition element, which is important in explaining these positive results (Quak and Flynn 2019). While selecting enterprises via competition ensures high-calibre enterprises take part in a project, it reduces the impact of the support, as it mainly involves a smaller group of more highly educated women, which excludes most women (Mamburu 2017).

## **Business environment reforms and gender**

The individual approach of enterprise development support has its limitations, because women operate their enterprises in a business environment that often does not work for them. The Donor Committee for Enterprise Development has indicated nine business environment reform (BER) functions, such as: simplifying business registration and licensing procedures; improving tax policies and administration; enabling better access to finance; improving labour laws and administration; improving access to market information; and simplifying and speeding up access to commercial courts (Miles 2017). Each of these functions has three components: policy and legal framework, regulatory and administrative framework, and institutional arrangements.

The view that BERs are gender neutral has been disputed, with compelling evidence that women experience the business environment very differently from men (despite there being no legal discrimination between the two in most countries), with potentially different BER outcomes for men and women (Aidis 2017; Saha *et al.* 2021). In response, gender-sensitive BERs have been proposed, which refer to 'changes in policy, legal, institutional, and

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<sup>13</sup> This is in line with McKenzie Puerto, and Odhiambo (2019) who analysed a large-scale women's entrepreneurship programme in rural Kenya.

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regulatory conditions that govern business activities in ways that account for the dynamics of socially constructed relationships between men and women' (Miles 2017: 4). However, Hetherington (2016) shows that there is limited evidence that BERs are most instrumental in reducing gender gaps in business ownership, with administration of joint land titles mentioned as perhaps the most strongly evidenced type of gender-focused business environment intervention.

Importantly, more focus should be given to other dimensions of the business environment that are often overlooked. There is strong evidence that women should be represented and able to participate actively in gender-sensitive BERs (Hetherington 2016). Aspects of the business environment, such as harassment and discrimination, should be addressed, which might be more prominent on the agenda with the inclusion of women in decision-making processes. Furthermore, childcare has high beneficial outcomes for women entrepreneurs and for female participation in the workforce in general (*ibid.*; Chopra *et al.* 2020). Working in the informal sector exempts women from support measures for childcare services (e.g., they do not receive any form of tax incentive or subsidy) (Samman, Presler-Marshall and Jones 2016), while having well-established systems in place could provide incentives for women to formalise – but only if other barriers to registering and paying taxes have been tackled.

### **The value of supporting formalisation processes for women-led enterprises**

Formalisation is a complex and dynamic process, whereby individuals try to balance costs and benefits, which play out differently for men and women (de Mel, McKenzie, and Woodruff 2013). As De Castro, Khavul and Bruton (2014) show, entrepreneurs – men and women – purposefully navigate between the enabling and constraining powers of the macro- and meso-institutional environments they face. These environments should not be seen as informal or formal, but as a continuum along which entrepreneurs make their choices, including the decision to formalise or not. Meso level institutions 'provide the locus for an entrepreneur's identity and solidarity with a community, but they also reinforce business informality' (*ibid.*: 77). Within this mix of formal and informal institutions at the meso-level and distant macro-level institutions, women and men make different choices about whether and how to formalise. Thus, the social processes underpinning the different lived experiences of men and women, as well as the economic processes underpinning business development, are both pivotal to capture these complexities and to understand the nature of women's entrepreneurial choices (Xheneti, Madden and Thapa Karki 2019).

Interventions and policy to promote the formalisation of small businesses as a goal in itself are a controversial component of BERs and enterprise development support, particularly regarding women entrepreneurs (Hearle, Baden and Kalsi 2019). Assuming robust macroeconomic policies are in place for formalisation, challenges of awareness of entitlements and confidence in institutions remain. Informal enterprises that operate closer to or partly within the formal economy – often, the 'opportunity' enterprises in contrast with 'necessity' enterprises – might be easier to persuade to move to the formal sector entirely when the benefits of doing so become greater, but gender-related perspectives and norms still need to be addressed. Formalisation efforts, therefore, typically focus on the higher levels of the informal work hierarchy, where more men are concentrated (Chen 2012). However, for women-led enterprises at the bottom of the pyramid, the wider costs of formalisation are likely to outweigh the benefits, combined with a lack of trust in governance structures and lack of awareness of the provision of public services (Ulrichs 2016). For them, the value of formalising is limited due to 'uneven power relations, based on class, gender, divergent institutions and cultural values' (Xheneti, Madden and Thapa Karki 2019: 15).

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Formalisation should be seen as a continuum between informality and formality, which entails more than just the moment of business registration but requires that the entire business operates in the formal economy, including registering employees, and paying a fair share of taxes, while the business has access to and receives benefits from formal services and support (Hearle, Baden and Kalsi 2019). Any policy that forces formality – for example, through fines, enforcement or delinking business between formal enterprises and informal ones – will hit women entrepreneurs hardest as they are overrepresented in the informal economy. The literature that focuses on informal female entrepreneurship, therefore, is clear that criminalising the informal sector impacts negatively on women’s livelihoods, incomes, and wellbeing, while recognition of their roles and potentials is needed to improve the quality of and returns on work in the informal economy (Kabeer 2017; Xheneti, Madden and Thapa Karki 2019). If, as a result, women entrepreneurs move closer to the formal economy, the value of formalising could increase.

In this context, the literature supports the MUVA approach of not pushing for formalisation in the narrow sense of business registration. Both MUVA+ and PAM participants were supported to structure their businesses and ‘formalise’ them through book-keeping, establishing a brand and social media presence (in the case of PAM), opening bank accounts, separating their personal and business accounts, etc. These are ways of formalising a business on a continuum, where the ultimate decision to register the business is not as relevant as a project’s outcome.

## **5. Conclusion: how MUVA has contributed to knowledge**

Having tested two of MUVA’s female entrepreneurship projects on a small scale, this paper could help policymakers and practitioners to understand better how to support women entrepreneurs in the informal sector.

The MUVA experience shows that it is important to understand the heterogeneity of the informal sector in low-income countries such as Mozambique; and that a differential approach to different groups of informal enterprises is needed from policy and development perspectives. A focus on formalisation will not benefit many enterprises, particularly women-led enterprises, due to the gendered constraints they face and the small size of their businesses. What is needed is to invest in the informal sector – as opposed to criminalising it – in a gender-sensitive manner, based on the specific needs and challenges women entrepreneurs face; for example, having MUVA+ and PAM as different projects, focusing on two specific groups of women entrepreneurs within urban Mozambique, as opposed to a one-size-fits-all approach. Where business acceleration projects, such as PAM, can be an attractive and effective enterprise development intervention for entrepreneurs who spot an opportunity in the market but need support to grow their business, MUVA+ shows that an often-forgotten group of self-employed informal urban market sellers are also motivated to stay in business and seek opportunities to grow, but need targeted and tailored support.

Within these two groups, women have different motivations and capacities that shape their business experiences, which the human-centred approach of MUVA+ and PAM recognised, accelerating the personal transformation and development of the participants. The right balance between soft and hard skills is needed: soft skills to address challenges and opportunities (including gender-related constraints) and build relationships with clients; and hard skills such as learning book-keeping and making use of new technologies.

Making the formal sector more attractive would not do much for most of the informal women entrepreneurs but improving the circumstances of doing business in the informal sector

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would. Formalisation, therefore, should not be interpreted as just a single action of registering a business. The MUVA experience clearly shows the importance of understanding formalisation as a process in which business registration at some point may make sense for some, but not for others. In both MUVA+ and PAM, participants were supported to structure their businesses and formalise them through book-keeping, establishing a brand and social media presence (in the case of PAM), opening bank accounts, and separating their personal and business accounts, among other skills.

Thus, the MUVA experience confirms that well-designed, human-centred enterprise development projects can generate positive impacts on the incomes and livelihoods of female participants. In Mozambique, until recently the only focus of public policy related to informal entrepreneurs was on formalisation. Initiatives such as MUVA have started to push the debate into a different dialogue space, but much more work is needed to generate public policy-relevant support for the target groups. Individual development approaches need to be accompanied by policy and programmes that address structural challenges that women entrepreneurs face daily, such as sociocultural and economic barriers, harassment, and discrimination.

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