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Theorizing entrepreneurship in the informal sector in urban Brazil: a product of exit or exclusion?

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Theorizing entrepreneurship in the informal sector in urban Brazil: a product of exit or exclusion?

Abstract

This paper evaluates critically the competing explanations for informal sector entrepreneurship that read such endeavor to result from either “exclusion” from state benefits and the circuits of the modern economy or the voluntary “exit” of workers out of formal institutions. Reporting evidence from a 2003 survey in urban Brazil, it is revealed that similar proportions of informal sector entrepreneurs explain their participation to result from their involuntary exclusion and voluntary exit from the formal economy. The outcome is a call to shift from an either/or to a both/and approach when explaining informal sector entrepreneurship and for wider research on the relative weightings given to exit and exclusion in different contexts so as to develop a socio-spatially contingent explanation for participation in informal sector entrepreneurship across the globe.

Key words: entrepreneurship; micro-enterprise; small businesses; enterprise culture; informal sector; underground economy; shadow economy; Brazil

Introduction

A recent Organization for Economic Cooperation and Development (OECD) report highlights that of a global workforce of some 3 billion, 1.8 billion (some two-thirds) work in the informal economy (Jütting and Laiglesia 2009). Given the enduring importance of this realm, the past decade or so has witnessed the emergence of a

small but burgeoning sub-set of the entrepreneurship literature that has started to seek to explain why entrepreneurs operate in the informal economy both in the global South (Bhatt 2006; Bhowmik 2007; Charmes 1998; Cross 2000; Cross and Morales 2007; Das 2003; Gurtoo and Williams 2009, 2011; Mindard, 2009; Unni and Rani 2003) and global North (Barbour and Llanes, 2013; Dellot, 2012; Llanes and Barbour 2007; Small Business Council 2004; Venkatesh 2006; Webb et al. 2009, 2013, 2014; Williams 2005, 2006, 2008, 2009; Williams et al. 2011). The result is that competing theories have emerged to explain informal sector entrepreneurship. On the one hand, there is a structuralist perspective which views participants to be pushed into such endeavor by their “exclusion” from state benefits and the circuits of the modern economy (Davis 2006; Gallin 2001; Sassen 1997; Taiwo, 2013). On the other hand, there is a view that these informal sector entrepreneurs voluntarily “exit” the formal economy, with neo-liberals depicting this as a rational economic decision (De Soto 1989 2001; Maloney 2004; Perry and Maloney 2007) and post-structuralists representing it as a lifestyle choice (Cross 2000; Gerxhani 2004; Snyder 2004). The aim of this paper is to evaluate critically the validity of these competing explanations by reporting a survey of the reasons for informal sector entrepreneurship in urban Brazil.

To commence, therefore, a brief review will be provided of the competing explanations that view informal sector entrepreneurship to be a product of either exclusion from the circuits of the modern economy or their voluntary exit from the formal sphere. Secondly, and to begin to evaluate critically the validity of these rival explanations, a survey of informal sector entrepreneurs and their motives in Brazil’s urban areas will be outlined and thirdly, the results will be reported. This will reveal that participation is the result of neither purely exit nor purely exclusion but instead,

that some conduct such endeavor more due to exit and some more due to exclusion. In the final section, therefore, a call will be made for a shift from an either/or to a both/and approach when explaining informal sector entrepreneurship and for wider research on the weighting given to each explanation in different contexts so as to begin to piece together a more socio-spatially contingent explanation for informal sector entrepreneurship across the globe.

Before commencing, however, informal sector entrepreneurship needs to be defined. Given the long-standing problems with finding a common definition of entrepreneurship and how, as Anderson and Starnawska (2008: 222) state, “entrepreneurship means different things to different people”, a working definition is here employed appropriate to the task at hand. An entrepreneur is defined for the purposes of this paper as somebody actively involved in starting a business or is the owner/manager of a business (Harding et al. 2006; Reynolds et al. 2003), whilst the informal sector is defined as those activities where monetary transactions are not declared to the state for tax, social security or labor law purposes but which are legal in all other respects (Evans et al. 2006; Williams 2006; Williams and Windebank 1998). Informal entrepreneurs, therefore, are those actively involved in starting a business or are the owner/manager of a business engaged in monetary transactions not declared to the state for tax, social security and/or labor law purposes but which are legal in all other respects.

Theorizing Informal Sector Entrepreneurship: a product of exit or exclusion?

During the twentieth century, the widely-held belief was that economic activity was moving into the formal economy and that the informal economy was small and

gradually disappearing. Informal entrepreneurs were thus widely depicted as a leftover or historical legacy from an earlier mode of production. Seen through this lens, the continuing existence of informal sector entrepreneurs, such as street vendors and hawkers, in modern economies represented “under-development”, “traditionalism” and “backwardness” whilst the emergent formal economy represented “development”, “advancement” and “progress” (Bairoch 1973; Geertz 1963; Lewis 1959). Informal sector entrepreneurs were consequently viewed as parasitic or at best inefficient; part of a pre-modern traditional economic order that survives only at the fringes of modern society and the antithesis of everything deemed modern.

Over the past decade or so, however, numerous studies have revealed not only that the informal economy (Charmes 2009; ILO 2002; Jütting and Laiglesia 2009; Schneider 2008), but also informal sector entrepreneurship (De Soto 2001; ILO, 2012; Minard 2009; Small Business Council 2004; Venkatesh 2006; Volkov 2002; Webb et al. 2009; Williams 2006, 2009, 2013; Williams and Round 2009; Williams et al, 2012), is extensive, enduring and expanding in the global economy. The outcome is that various attempts have been made to explain its persistence and growth. Until now, commentators have largely adopted one of two broad perspectives. Here, each is briefly reviewed in turn

Informal Entrepreneurship: a Product of Exclusion

Recognizing the widespread persistence and even growth of informal entrepreneurship, a group of structuralist commentators have depicted such endeavor as a by-product of the advent of an increasingly de-regulated global economy and

informal sector entrepreneurs as unwilling and unfortunate pawns in an exploitative global economic system (Castells and Portes 1989; Davis 2006; Gallin 2001; Portes 1994; Portes and Haller 2004; Portes and Roberts 2005; Sassen 1997). They are the surplus labor “excluded” from the circuits of the modern economy who engage in this endeavor out of necessity as a survival strategy in the absence of alternative means of livelihood. Read through this lens, informal entrepreneurship is an absorber of surplus labor, provider of income earning opportunities for the poor, a provider of goods and services that are often unavailable in the formal sector and a primary means of maintaining a low cost of living by providing cheaper goods and services than would otherwise be the case (Bhatt 2006; Nelson and Bruijn 2005; Tokman 2001).

As Fernandez-Kelly (2006: 18) therefore puts it, “the informal economy is far from a vestige of earlier stages in economic development. Instead, informality is part and parcel of the processes of modernization”. For these commentators, informal sector entrepreneurship is seen to exist at the bottom of a hierarchy of types of employment and is akin to “downgraded labor” with its participants receiving few benefits, low wages and with poor working conditions (Castells and Portes 1989; Gallin 2001; ILO 2002a; Kapoor 2007; Portes 1994; Sassen 1997).

On the one hand, informal sector entrepreneurship is a direct result of employers reducing costs by sub-contracting production to the informal economy, such as to people who might have been former employees who now engage in “false self-employment” for one supplier only (Castells and Portes 1989; Gallin 2001; Portes 1994; Portes and Haller 2004; Portes and Roberts 2005; Sassen 1997). On the other hand, it is viewed as an absorber of surplus labor for those excluded from the formal labor market. Those of no use to capitalism are no longer maintained as a reserve army of labor but, instead, are off-loaded onto the informal economy resulting in their

increasing reliance on informal entrepreneurship as a survival practice. Informal entrepreneurship is therefore extensive in excluded populations where the formal economy is weak since its role is to act as a substitute. It is undertaken by those involuntarily decanted into this realm and conducted out of necessity as a survival tactic (Castells and Portes 1989; Sassen 1997).

Informal Entrepreneurship: a Product of Exit

For others, informal sector entrepreneurship is the result of a decision to voluntarily “exit” the formal economy, rather than a product of involuntary exclusion. On the one hand, this is argued from a neo-liberal perspective where informal sector entrepreneurs are viewed as rational economic actors making a rational economic decision to exit the formal economy (De Soto 1989, 2001; Maloney 2004; Perry and Maloney 2007). On the other hand, it is argued from a post-structuralist perspective where informal sector entrepreneurs are viewed as social actors making a lifestyle choice (Cross 2000; Gerxhani 2004; Snyder 2004). Each is here reviewed in turn.

Informal entrepreneurship as a rational economic decision. For neo-liberal commentators, informal entrepreneurs are depicted as heroes casting off the shackles of a burdensome state and rational economic actors who choose to operate in the informal economy as a rational economic decision (Sauvy 1984; De Soto 1989). For such neo-liberals, over-regulation of the market is to blame for the growth of informal sector entrepreneurship (Sauvy 1984; de Soto 1989). As De Soto (1989: 255) asserts, “the real problem is not so much informality as formality”. Informal sector entrepreneurship is therefore the people’s “spontaneous and creative response to the state’s incapacity to satisfy the basic needs of the impoverished masses” (De Soto

1989: xiv-xv). These entrepreneurs voluntarily operate in the informal economy to avoid the costs, time and effort of formal registration and in preference to operating in the formal economy (Cross and Morales 2007; de Soto 1989 2001; Perry and Maloney 2007; Small Business Council 2004). Informal sector entrepreneurship is the last bastion of untrammelled enterprise culture in an over-regulated economic system, and its growth evidence of the resurgence of the free market against state regulation.

Informal entrepreneurship is consequently a rational economic strategy pursued by entrepreneurs whose spirit is stifled by state-imposed institutional constraints. It is a populist reaction to over-regulation. As such, pursuing entrepreneurial endeavor in the informal economy is asserted to offer potential benefits not found in formal economy, including flexible hours, job training, ease of entry to the labor force, opportunity for economic independence, better wages and avoidance of taxes and inefficient government regulation (Gurtoo and Williams 2011; Maloney 2004; Packard 2007).

Informal entrepreneurship as a lifestyle choice. More recently, an alternative “exit” perspective has emerged which again depicts informal entrepreneurship as voluntarily chosen but rather than view it as a rational economic decision pursued by rational economic actors, it is seen more as a lifestyle choice pursued by social actors. This is inspired by a small tributary of critical, post-colonial, post-structuralist, post-development and post-capitalist thought that transcends the conventional “thin” portrayal of economic endeavor as always purely market-like and profit-motivated and instead adopts “thicker” portrayals of economic endeavor which recognize the complex mix of logics, including social logics, often involved (Bourdieu 2001; Chakrabarty 2000; Zelizer 2011).

In a global North context, this has resulted in a re-reading of informal entrepreneurship as a voluntary activity which is: conducted largely for closer social relations such as kin, neighbors, friends and acquaintances (Williams 2006); undertaken more for social and redistributive reasons rather than purely financial gain (Persson and Malmer 2006; Round and Williams 2008; Williams 2004); a resistance practice pursued in response to either waged formal employment or the corruption and bribes that can be part and parcel of operating in the formal economy (Kudva 2009; Round et al. 2008; Whitson 2007), or an alternative realm in which people transform their work identity and/or display their authentic identities such as by establishing “lifestyle” business ventures (Snyder 2004).

In a global South context, this representation of informal entrepreneurs as social actors has been similarly adopted but the emphasis has been slightly different. Here, the major thrust has been to depict informal entrepreneurship more as a “lifestyle” choice. Firstly, attention has been drawn to not only how the social relations between informal entrepreneurs differ to normal market relations in that business and friendship relations blur and there is greater community solidarity and reciprocity (Stillerman and Sundt 2007), but also how exchange relations between informal entrepreneurs and their customers differ to mainstream market relations in that without recourse to a legal contract, interpersonal relations and trust become more important (Cross and Morales 2007). Secondly, there has been a focus on how informal entrepreneurship is pursued as a lifestyle choice because of the greater personal freedom and flexibility it affords and allows them to gain control over their lives (Cross 2000; Hart 1973) and third and finally, how such informal entrepreneurship is often in the eyes of its participants a family tradition and

expression of community support which allows customers to source goods they otherwise could not afford (Cross 2000).

Until now, these exit and exclusion perspectives have been largely treated as mutually exclusive. Most commentators depict informal entrepreneurship as taking place according to a single unique “logic” (De Soto 2001; Snyder 2004). In recent years, some have begun to call for the crude depiction of informal entrepreneurship as universally caused by exit or universally caused by exclusion to be transcended. As Perry and Maloney (2007: 2) point out, ‘These two lenses, focusing, respectively, on informality driven by exclusion from state benefits and on voluntary exit decisions resulting from private cost-benefit calculations, are complementary rather than competing analytical frameworks’. Here, therefore, and in a bid to show the need to move beyond the either/or approach that views them as competing perspectives and towards a both/and approach which examines the weight that needs to be given to each explanation in different contexts, we report some evidence from urban Brazil.

Methodology: examining informal sector entrepreneurship in Brazil

In order to evaluate critically the validity of viewing exit and exclusion as competing explanations for participation in informal sector entrepreneurship, we here report a household survey conducted in Brazil during 2003 by the Brazilian Institute for Geography and Statistics (IBGE, Instituto Brasileiro de Geografia e Estatística), which is the national census bureau. This survey of the urban informal sector (Pesquisa Economia Informal Urbana, ECINF) generates cross-section data representative of the urban self-employed and micro-firm owners with at most five paid employees, excluding domestic workers.

The stratified sampling design, developed in two stages, generated a representative sample of these entrepreneurs both geographically and in terms of the sectors in which they work. In the first stage, the number of households to be interviewed in each of the geographical areas that constitute urban Brazil was decided. To achieve this representative sample, the 2000 Census was used to identify the number of these entrepreneurs in the 26 Brazilian states, as well as federal districts, and also each of the 10 Metropolitan Areas (Belém, Fortaleza, Recife, Salvador, Belo Horizonte, Vitória, Rio de Janeiro, São Paulo, Curitiba and Porto Alegre) and the municipality of Goiânia. Having established the number to be interviewed in each urban area, the second stage then involved generating a representative sample of these entrepreneurs according to the activity or sector in which they worked. Using the 2000 Census of Population to determine the number of these entrepreneurs operating across different economic activities in each urban area, the number of interviews required in each sector within each urban area was determined. The outcome was a representative sample of the population of micro-entrepreneurs in urban Brazil.

To collect the data for ECINF, two surveys were undertaken. Firstly, the ECINF household questionnaire gathered background socio-demographic information on household members aged ten or older, including their employment status. This included investigating whether they were self-employed or employers who employ up to five employees. If a household member was identified as being either self-employed or an employer with five employees or fewer, then the second survey was implemented, the ECINF individual questionnaire. This investigated the characteristics of their entrepreneurial endeavor.

Firstly, data was collected on the nature of the economic activity conducted, classified using the Brazilian National Classification of Economic Activities, which is an adaptation of the third revision of the International Standard Industrial Classification (ISIC) of economic activities of the United Nations. Secondly, data on the income generated, the expenses involved, equipment required, location of production and number of employees was collected. Thirdly, and to evaluate the level of organization, formalization and/or visibility of these economic units, the type of accounting adopted for recording the transactions, the status of the employees, whether the enterprise was registered with the authorities, had a license to trade and whether they paid taxes and made social contribution payments was investigated. Fourthly, the main problems confronting the business were investigated, their plans for the future (expansion/retraction/maintenance of the level of activity or closing the business) and the difficulties involved in regularizing the business. Fifthly, their main reason for starting up the enterprise was investigated using a closed-ended list of reasons that reflects the contrasting rationales cited by the exit and exclusion perspectives discussed above. Sixthly, the characteristics of the entrepreneur were investigated, such as whether they had other jobs, their education level and the prior work they undertook so as to reveal the origin of such micro-entrepreneurs. Finally, data was gathered on their access to various services, such as credit, as well as how they paid for goods or raw materials and the location of their customers.

In total, 54,595 households were interviewed. Of the 40,235 individuals identified who reported being either self-employed or owners of businesses with a maximum of five paid employees, just 8% reported paying taxes and/or making social security contributions. Below, therefore, the results will be reported for the 37,016 individuals who are either self-employed or owners of a business with a maximum of five

employees who report that they do not pay either taxes and/or make social security contributions, that is, who are informal entrepreneurs.

Results: explaining informal sector entrepreneurship in Brazil

This survey reveals that 86.7% of informal sector entrepreneurs in urban Brazil operate as sole traders without any employees and 13.3% have enterprises with five employees or less. Examining the characteristics of these informal sector entrepreneurs, Table 1 reveals that two thirds (66%) are men, rising to three-quarters (73%) amongst those who own informal sector enterprises with employees. Men, moreover, earn some 67% more than women from their informal sector entrepreneurship (R\$869 compared with R\$520), displaying how informal sector entrepreneurship reinforces the gender disparities in the wider labour market. Most informal entrepreneurs, furthermore, are in the prime working age population aged 25-59 years old (83% of all informal entrepreneurs), with nearly one-third (31%) having completed at least their education to high school level, with 8% having a university degree. Just 9% have no education or less than one year of education. Of those informal entrepreneurs with employees, moreover, around one in five (18%) have a university degree, thus calling into question the depiction of informal entrepreneurs as largely composed of the illiterate and uneducated.

INSERT TABLE 1 ABOUT HERE

Turning to the nature of their entrepreneurial endeavor, Table 2 reveals that 52% work for 40 hours or more each week, rising to 70% amongst those with employees. The vast majority work for 21 days or more each month. Consequently, informal entrepreneurship in Brazil is not largely a part-time endeavor used to top-up other earnings, as has been found in advanced western economies (Williams 2004, 2006). Indeed, just 19% worked less than 20 hours per week and 15% less than 15 days per month. Instead, there appears to be segmented labor force of informal entrepreneurs with at one end, the majority engaged in informal entrepreneurship as a full-time occupation and principal source of earnings at the other end, a minority conducting such informal entrepreneurial endeavor on a more part-time basis as a means of topping up household earnings. Analyzing the activities conducted, the most common sectors are commerce and repairs (33%), construction (17%), primary and manufacturing industry (16%), social and personal services (8%), transport storage and distribution (8%) and hospitality and food services (7%). Many of these businesses are long-established with 31% being established for over 10 years and a further 26% for 5-10 years.

INSERT TABLE 2 ABOUT HERE

Given that 27.3% of these informal entrepreneurs operate home-based enterprises and a further 27.5% work in their customers home, this clearly signals the importance of conducting a household survey if the full range of informal entrepreneurship is to be captured (Mason et al. 2009). Indeed, only one-fifth (20.3%) of the informal

entrepreneurs operate from a workshop or store, displaying the limited range of informal sector entrepreneurship that would be captured by a business premise survey.

Informal entrepreneurship is sometimes depicted in the “exclusion” perspective to be a result of production activities being increasingly sub-contracted into the informal sector and that people who might have been former formal employees engage in “false self-employment” for one supplier only (Castells and Portes 1989; Gallin 2001; Portes 1994; Portes and Haller 2004; Portes and Roberts 2005; Sassen 1997). The finding of this survey, however, is that just 4.1% of these micro-enterprises work for one customer only, just 0.7% for big businesses and 1.9% for small businesses. It therefore appears that entrepreneurial endeavor in the informal economy in Brazil is not a result of sub-contracting production functions down the supply chain to the informal sector. Nevertheless, it might still be the case, as other commentaries based on the “exclusion” depiction of these informal entrepreneurs argue, that this realm represents an absorber of surplus labor and provider of income earning opportunities for those off-loaded by the formal labor market (Bhatt 2006; Nelson and Bruijn 2005; Tokman 2001).

Informal Sector *Entrepreneurs*’ Motives: Exclusion or Exit?

What were their reasons, therefore, for participating in informal sector entrepreneurship? As the literature review revealed, although the twentieth century was characterized by a depiction of such endeavor as an historical legacy leftover from a previous mode of accumulation, the persistence and growth of informal sector entrepreneurship has led to the emergence of new perspectives that view it to be a product either of involuntary “exclusion” from the circuits of the modern economy or

voluntary “exit” from the formal economy as a rational economic decision or lifestyle choice.

The first clue that informal sector entrepreneurship is not universally a result of exclusion from the formal economy is that of the 27% who were in formal employment before establishing their informal sector micro-enterprise, Table 3 reveals that only 31% cited redundancy as their reason for leaving their formal employment. The remaining 69% leaving formal employment did so for other more voluntary reasons such as to achieve personal goals (such as the desire for autonomy and flexibility). If the structuralist account was correct, then it should have been the case that they involuntarily left their formal job and have adopted informal entrepreneurship as a means of livelihood due to their exclusion from the formal economy. This is not the case for all informal sector entrepreneurs.

INSERT TABLE 3 ABOUT HERE

To evaluate the proportion of informal sector entrepreneurs who are driven by exclusion into informal sector entrepreneurship and the proportion who voluntarily exit the formal economy, therefore, participants were asked which of the following ten reasons was their major motivation for starting their micro-enterprise: family tradition; did not find a formal job; to supplement my net income; opportunity presented by partner; experience in the area; promising business opportunity; it was a secondary job; it allowed me to have working time flexibility; and it gave me independence. Table 4 groups these reasons according to whether they are exclusion or exit rationales for participating in informal sector entrepreneurship, so as to enable

an evaluation of the weight that needs to be given to each when explaining informal entrepreneurship in urban Brazil.

INSERT TABLE 4 ABOUT HERE

The finding is that less than half (48.7%) of informal sector entrepreneurs claim that they started up their micro-enterprise due to their exclusion from the circuits of the modern economy such as due to their inability to find a formal job or due to inadequate income. Indeed, less than one-third (31.1%) of informal sector entrepreneurs gave their inability to find a formal job as their reason for engaging in such entrepreneurial endeavor in the informal sector.

For 45.5% of informal sector entrepreneurs, therefore, participation in this endeavor is more a matter of choice, rather than due to a lack of choice. Why, therefore, do they assert that informal entrepreneurship is a chosen activity? Some 18.9% of informal sector entrepreneurs reflect the neo-liberal explanation representing themselves rational economic actors who have chosen to exit the formal economy, with 8.4% stating that it was due to their experience or skills in the area, 7.4% because it represented a promising business opportunity, 2.1% because it was a secondary job and 1% because of the opportunity presented by their partner. Some one quarter (26.5%) of informal sector entrepreneurs, meanwhile, reflect the post-structuralist explanation, viewing this endeavor as a lifestyle choice due to the independence they get from pursuing this type of work (16.5%), the fact that they are following a family tradition in pursuing such endeavor (8.1%) and the flexibility they can achieve in their working lives (1.9%). These informal entrepreneurs are therefore “lifestyle

entrepreneurs” doing so out of family tradition and/or due to the flexibility and independence they find in such endeavor.

In broad terms, therefore, some 10 in every 20 informal entrepreneurs do so due to their exclusion from the formal economy, four out of choice and as a rational economic decision, five as a lifestyle choice and the remaining one in 20 either gave other reasons or did not respond. When comparing the sole traders’ motives with those who have five employees or fewer, however, some marked differences stand out. Whilst over half (52.2%) of informal sector sole traders are primarily doing so due to their exclusion from the formal economy, this is the case for less than a quarter (23.7%) of informal sector entrepreneurs with five employees or fewer. For the latter, it is more due to a desire to voluntarily exit the formal economy. Indeed, neo-liberal explanations account for nearly one-third (32.4%) of informal sector entrepreneurs with employees and post-structuralist exit rationales for 37% of these entrepreneurs. Whilst sole traders are driven more by exclusion into informal sector entrepreneurship, therefore, entrepreneurs with five or fewer employees are driven more by exit rationales, with approximately the same number viewing it as a rational economic decision as those who view it as a lifestyle choice.

In sum, no single explanation is universally valid in relation to all informal entrepreneurs. Instead, it is only by combining and using both exclusion and exit explanations that a more comprehensive and fuller explanation can be achieved of the different rationales for informal sector entrepreneurship. Consequently, rather than view these as competing either/or explanations, they should be both viewed as required in order to more fully understand the range of reasons for informal sector entrepreneurship. It is not whether one is universally correct, in sum, but the weight which needs to be given to each explanation in any particular context that is important.

Conclusions

This paper has evaluated critically the competing explanations that read engagement in informal sector entrepreneurship through either a structuralist lens as driven by “exclusion” from state benefits and the circuits of the modern economy or through a neo-liberal and/or post-structuralist lens as driven by the voluntary “exit” of workers out of formal institutions. To do this, empirical evidence from a 2003 survey of informal sector entrepreneurs in urban Brazil has been reported.

The finding in broad terms has been that some 10 in every 20 informal sector entrepreneurs engage in this endeavor due to their exclusion from the formal economy, four out of choice as rational economic actors, five as a lifestyle choice and the remaining one in 20 either gave other reasons or did not respond. Around one half (48.7%) of these informal sector entrepreneurs operating micro-enterprises with five employees or less, therefore, are driven into this realm due to their exclusion from the circuits of the modern formal economy. Instead, for 45.4% of informal sector entrepreneurs, participation in this endeavor is a matter of choice, rather than due to a lack of choice. They voluntarily “exit” the formal economy either as a rational economic decision or a lifestyle choice. The remaining 5.9% either cite other reasons beyond the issues investigated or did not respond. Of those conforming to the voluntary “exit” perspective, some 18.9% stated neo-liberal explanations associated with it being a rational economic decision and 26.5% cited post-structuralist explanations associated with it being a lifestyle choice. However, although similar proportions of informal sector entrepreneurs cite exclusion and exit rationales in urban Brazil, those who are sole traders are more likely to cite exclusion rationales whilst

those informal sector entrepreneurs with five or fewer employees are more likely to cite exit rationales.

The outcome is that these exit and exclusion perspectives can no longer be seen as mutually exclusive. Informal sector entrepreneurship is not universally due to either exclusion or exit. To fully understand such endeavor, both exit and exclusion explanations need to be used. There is therefore a need to shift from an either/or to a both/and approach when explaining informal sector entrepreneurship. It is more an issue of the weighting which applies to each explanation when seeking to understand informal sector entrepreneurship in different contexts. Hopefully, therefore, this paper will encourage not only a shift from an either/or that views them as competing perspectives and towards a both/and approach which examines the weight that needs to be given to each explanation in different contexts, but also further research on what weighting is valid for exit and exclusion in different contexts so as to begin to piece together a more socio-spatially contingent explanation for participation in informal sector entrepreneurship across the globe. If this paper stimulates this re-theorizing of informal sector entrepreneurship and encourages such further research, then it will have achieved its objectives.

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Table 1
Socio-demographic characteristics of informal entrepreneurs in urban Brazil, 2003

% of informal entrepreneurs	All informal entrepreneurs	Sole traders	Entrepreneurs with employees
Gender:			
Man	66.3	65.3	72.6
Woman	33.7	34.7	27.4
Average income (R\$):			
All	753	623	1 606
Man	869	727	1 701
Woman	520	424	1 341
Age Group:			
10 – 17 years old	0.9	1.0	-
18 - 24 years old	7.1	7.6	3.8
25 - 39 years old	37.3	36.7	41.3
40 - 59 years old	45.6	45.3	48.0
60 + years old	9.1	9.4	6.8
No response	0.1	-	-
Educational level:			
No education or <1 year in school	9.1	9.9	3.6
Basic education not completed	37.1	39.0	24.1
Basic education completed	13.9	14.1	12.6
High School incomplete	8.8	8.9	8.0
High School completed	20.0	18.8	28.0
University degree not completed	3.1	2.7	5.3
University degree	7.9	6.3	18.3
No response	0.2	0.2	0.1

Source: IBGE, Diretoria de Pesquisas, Coordenação de Trabalho e Rendimento, Economia Informal Urbana 2003.

Table 2
Nature of informal sector entrepreneurial endeavour in urban Brazil, 2003

% of respondents	All informal entrepreneurs	Sole traders	Owners with employees
Hours worked each week:			
< 20 hours	19.2	21.1	6.3
20 - 40 hours	28.9	29.7	23.3
40 - 60 hours	37.1	35.2	49.6
> 60 hours	14.5	13.6	20.5
No response	0.3	0.3	0.3
Days worked each month:			
< 15 days	15.2	16.5	6.7
15 - 20 days	23.3	23.5	20.3
21 - 30 days	61.3	59.5	79.0
Sector:			
Primary and manufacturing industry	16.0	16.1	15.5
Construction	16.8	17.4	12.4
Commerce and repairs	33.2	32.8	36.2
Hospitality and food services	7.0	6.7	9.0
Transport, storage and distribution	7.8	8.3	4.1
Estate, renting and business services	6.7	6.3	9.3
Education, health and social services	3.4	2.8	7.7
Other social & personal services	8.0	8.4	5.2
Other activities	0.3	0.3	0.4
No response	0.8	0.9	0.1
Length of time business established:			
<1 year	12.3	12.9	8.4
1-3 years	19.8	20.1	16.9
3-5 years	11.7	11.5	12.8
5-10 years	25.6	25.4	26.8
>10 years	30.6	29.9	35.0
Location of Business:			
Wholly home-based business	27.3	28.6	17.3
Wholly outside home	65.1	63.2	79.1
- store/workshop	20.3	15.5	56.0
- customer's home	27.5	29.2	15.1
- co-owner's home	0.1	0.1	0.1
- vehicle	6.4	6.9	3.4
- public place	8.8	9.5	3.4
- other	1.7	1.8	1.0
- no disclosed	0.2	0.2	0.1
Both home-based and external	7.6	8.2	3.6
Customer base:			
Varied customer base	83.6	83.6	83.9
Fixed customer base	16.4	16.4	16.0
- only one customer	4.1	4.1	3.1
- several customers	9.5	9.5	8.7
- big businesses	0.7	0.7	1.8
- small businesses	1.9	1.9	2.0
- government & other agencies	0.1	0.1	0.3

Table 3
Starting business in last 5 years: by reason left formal employment

% of informal entrepreneurs starting business in last 5 years who were previously in formal job, by reason left formal employment:	All informal entrepreneurs	Sole traders	Entrepreneurs with employees
Made redundant	30.8	31.8	24.0
Retirement	3.0	3.3	1.2
Personal or familial reasons	19.4	18.6	24.6
Low income	13.4	13.5	13.0
Other reason	32.7	32.2	36.6
No response	0.6	0.6	0.6

Source: IBGE, Diretoria de Pesquisas, Coordenação de Trabalho e Rendimento, Economia Informal Urbana 2003

Table 4
Motives for starting informal sector enterprise, Brazil, 2003

% of informal entrepreneurs	All informal entrepreneurs	Sole traders	With employees
Exclusion rationales:	48.7	52.2	23.7
Did not find a formal job	31.1	33.2	16.0
To supplement my net income	17.6	19.0	7.7
Exit rationales:	45.4	42.0	69.4
Neo-liberal rationales:	18.9	17.0	32.4
Experience in the area	8.4	7.6	13.9
Promising Business	7.4	6.8	11.3
It was a secondary job	2.1	2.0	3.0
Opportunity presented by a partner	1.0	0.6	4.2
Post-structuralist rationales:	26.5	25.0	37.0
Independence	16.5	15.4	24.3
Family tradition	8.1	7.6	11.8
Working time flexibility	1.9	2.0	0.9
Other reasons	5.8	5.7	6.6
No response	0.1	0.1	0.3

Source: IBGE, Diretoria de Pesquisas, Coordenação de Trabalho e Rendimento, Economia Informal Urbana 2003