Economic Governance and the Paradox of the Informal Economy: How Institutional Entrepreneurs exploit Robust Action in a Polycentric System

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Abstract

During more than half a century studies have regarded formality and informality as two fully separate constructs. Early work of Ostrom started to address the importance of management of common property regimes and shed light on informal arrangements. Social science literature views informal market as temporary and focus on the transition towards formality. This struggle to explain the persistence of informality comes down to what scholars characterize as a fundamental paradox of informality –reconcile growth of informality with stability. This paradox creates two problems for conventional approaches. First, much of the work on the emergence of informality is based on the Durkheimian understanding of trust and market governance. Second, the dominant approach views from law and economics, can't conceive the of growth informality because of the necessity of the formal protection of property right. This article attempts to resolve this paradox. We highlight the importance of creating an authority structure that builds power and legitimacy through ties to government institutions in the formal sector. We build on Ostrom's concept of polycentricity to understand how informal self-regulation may emerge and adapt, but then can destabilize as key initial rules are violated. We embrace the comparative capitalism understanding of institutions as configurations of rules and resources. Third, in building on the concept of robust action, we identify the strategies that market makers use to bring stability when Ostrom's rules are violated. To build and illustrate our approach, we enact a four months ethnographic study of *La Salada*, the largest informal, illicit market in Latin America.

Keywords: Governance – Informal Economy – Robust Action - Polycentricity

Introduction

Over the last 20 years, management and development scholars have paid growing attention to the persistence, growth, and impact of the informal economy, particularly in emerging market countries. They have shown how the informal sector, which often includes illegal activities or practices, impacts on a variety of issues, such as strategy, corruption, trade mark protections, entrepreneurship, consumer behavior, poverty alleviation, as well as the emergence of markets and regulatory institutions (Godfrey, 2011; Webb et al., 2012; De Soto, 1989; Castells and Portes, 2004). The International Labor Organization (ILO, 2018) estimated that more than 60% of the world's employed population are in the informal sector, reaching as high as 90% in some developing countries and up to 67% in emerging countries.

At the same time, the literature has had difficulty explaining the growth and reproduction of the informal sector, even as many of these economies have sought to liberalize markets, create institutions of protecting property rights and adopt international regulations and standards. (Godfrey 2011) It often argues that informality should give way to the formal or simply decline over time for a variety of reasons, ranging from declining productivity, convergence of labor markets, pursuit of higher rents, or succumbing to the isomorphic and coercive pressures of MNCs and governments (La Porta, Schleifer, 2008; 2014).

This struggle to explain the persistence of informal markets and clarify their evolution is rooted in what Webb et al. (2009, p 503) characterize as a fundamental paradox of informality – an inability to reconcile the growth of informal markets with their stability. To grow and remain informal would seem counter intuitive, since growth increases the likelihood of detection by enforcement agents of the formal institutions and attacks by predators, be the other informal economic groups or corrupt agents of the formal. The difficulties in solving this paradox in many ways comes from the literature's understanding of the emergence and evolution of the informal sector – that it is institutionally separate from the formal sector and that market expansion depends of some pre-existing clear common view of the rights and rules guiding the economic transactions of all involved.

This article, in contrast, aims to strengthen the understanding of this paradox by showing how a governance structure emerges by blending the informal and formal and reconciling very contrasting views of rights and rules. The inevitable conflicts that arise from growth demand a governance structure that is not necessarily replaced by formal institutions but rather coopts and transforms them. Our socio-political approach understands informal socio-economic arrangements as embedded in a broader architecture of formal political institutions (McDermott, 2002; 2007). This approach it allows to identify the mechanisms of the evolution of the interface between the formal and informal (Beckert &Dewey 2017, Helmke and Levitsky 2004), namely those which enable the successful market maker or entrepreneur to create stable governance by integrating formal institutions formal institutions of legitimacy and enforcement into the informal arrangements.

We shift the theoretical lens from a reliance on social and legal preconditions for growth to an integration of three strands of social theory that are often overlooked in management and IB studies. First, we build on Ostrom's concept of polycentricity to understand how informal self-regulation may emerge and adapt, without the constraints of shared identity or prior laws, but then can destabilize as key initial rules are violated. Second, we embrace the comparative capitalism understanding of institutions as configurations of rules and resources, which helps ties issues of

stability and change to different levels of political power. (Deeg & Jackson 2008, Thelen, 2004; 2009) Third, in building on the concept of robust action, we can identify the strategies that market makers use to bring stability to the market when Ostrom's rules are violated. These strategies help the entrepreneur adapt the existing social fabric and consolidate an informal authority structure by recombining the formal institutional sources of legitimacy and enforcement. (Bridges 2012)

In making this argument, we build on works that have attempted to identify and resolve the apparent contradictions between informal socio-economic arrangements and formal institutional power, such as Polanyi's view of markets being both embedded in informal social norms and a product of state power or Maier et al.'s informal, traditional governance mechanisms can continue to thrive where many view simply institutional voids (Maier et al., 2013). To the extent that our approach to understanding the governance of informal markets is plausible, then one must reconsider conventional approaches to market evolution and the amelioration of the costs of informality in the developing world, such as exploitation, corruption, fraud, and poverty. Our approach, suggests that the persistence of informal markets is rooted in organized political power that is well integrated into the formal institutions of a society (Hollande 2017). In turn, typical isomorphic and economic pressures may prove quite limited, while attempts to implant an external formal set of regulations would breed significant political conflict.

To build and illustrate our approach, we enact a grounded theory, ethnographic study of La Salada, the largest informal, illicit market in Latin America (Sassen, 2011). La Salada is located in the Province of Buenos Aires, Argentina, began in 1991, by a group of Bolivian immigrants, mostly trading textiles and garments. They started a small group, no more than 30 people; over subsequent 20 years grew include the creation of three fairs, Urkupina, Ocean and Punta Mogote, which are supported by informal workshops with an estimated 30,000 employees (The Economist, 2014), and is a central market for thousands of wholesale purchasers from throughout Argentina, Paraguay, Uruguay, Brazil. The Argentine newspaper La Nacion in 2010 has estimated La Salada revenues in roughly 500 million USD$.

The article proceeds as follows, we first highlight the theoretical background of the study, next we explain our methods and data analysis process. Later we present our findings and discussion and finally we draw our conclusions.

Theoretical Background

We use the terms informal markets and informal sectors interchangeably, defining them as "a set of illegal activities yet legitimate, to some large groups through which actors recognize and exploit [economic] opportunities" (Webb et al. 2009, p. 492). The core puzzle of informality is trying to explain the sustained growth and expansion over time of informal markets that also at times transgress into illegal activities. Stated more abstractly, the informal sector must be able to grow in a way that provides stable and predictable patterns of economic exchange to participants, who have some acceptable level of security over the management, transfer and revenue of their property. (Greif et al. 1994; Markus 2015)

There are two main though problematic approaches to explain this puzzle. One focuses on the internal sources of sustained informal transactions and the other focuses on external sources

(Godfrey 2011). The first comes from works in economic sociology. It posits that market organization without formal rules emerges through a shared understanding of informal rules and norms grounded in pre-existing shared social ties, such as shared ethnic, religious, or regional identities and histories (Geertz, 1963). Shared histories give groups a common understanding about who has the authority to set the rules and what constitutes fair practices and reasonable sanctions for violation of the practices. Similar approaches come from work stressing the importance of closed, dense networks, where the overlapping ties and reputation to become a key governance mechanism (Portes and Sensebrenner, 1993). Such approaches have offered significant insight into the emergence of informal markets in many regions of the world and with different types of technologies or products. But by definition, these approaches have significant limitations in explaining sustained, stable expansion as the market expands to individuals and groups that lack the shared history and identity or overlapping ties (Portes & Sensenbrenner 1963).

The focus on external sources of informality largely come from the legalistic or law and economics view. The informal sector is a function largely of weak institutions of formal world, where the institutions raise significant costs to formalization (De Soto, 1989; 2000). The costs come from breakdowns in regulation of property rights – high uncertainty because of inadequate regulatory structures to protect property rights and high entry barriers to register private economic activities. (De Soto 1999) There are two key problems with this approach. On the one hand, strictly speaking without secure private property rights firms remain unproductive, and should disappear. Indeed, economists have shown that even with registration the firms remain uncompetitive and unsustainable because productivity is so low (La Porta and Schleifer, 2008). On the other hand, this view is fraught with self-contradictions about the nature of rights and regulation. While burdensome rules would demand deregulation, the extension of property rights would require reregulation in several domains, not only in firm registration but also in worker protection and intellectual property. The basic view understands property rights as unitary, but rights and regulations have multiple dimensions, such the management, transfer and revenues of property and often are shared and incomplete. It is not clear from this view how a new set of rights and regulations comes about, apart from suddenly being imposed by government agencies, which were apparently dysfunctional to begin (Godfrey 2011; Markus 2015).

Notice that as different as these approaches may appear, they share common understanding about informal sectors. They largely see the informal and formal as quite separate, whereby growth of the informal on depends pre-existing accepted understanding that defines rights ex-ante, internally from a shared history or externally from government-imposed rules. What is missing is a process that can account for the construction of a common governance mechanism that evolves to satisfy the internal and external constituents over time.

An alternative approach can begin by releasing general assumptions about the unitary view of property rights and the binary view of institutions that give rise to informality. Alisha Holland (2017) argues that conventional understandings of informality exaggerate the separation between the informal and formal because they exaggerate the institutional breakdown that facilitate informal sectors. Informality and illegality emerge not simply in predatory states but often in institutional settings with laws and enforcement mechanisms. Informality and illegality emerge because of *selective enforcement* of different rights or regulations. While her focus is on the calculations politicians and bureaucrats make in forbearance, similar to the work on corruption and mafias

(Gambetta, Dewey, Markus, Volkov) she suggests that part of their response comes from the ways in which the informal sector becomes organized.

Holland's insights shift the analytical focus in two ways. First, she embraces what scholars of development and illegality have been increasingly emphasizing – that to solve the paradox of informality one needs to analyze more closely the interaction or interface between the formal and informal or legal and illegal (Ostrom et al 2006, Beckert & Dewey 2017). As Godfrey notes, "One avenue of fruitful inquiry would consider not if informal and formal arrangements are substitutes or complements but when the two substitutes for each other and when they act as complements, thus bringing the dynamic and symbiotic relationship between two governance modes into sharp relief." (p. 268, 2014) These approaches do not discard sociological or legal views but rather recombine and synthesize them. Second, scholars like Holland, Grief and Markus force us to consider how the governance of informal sectors become political actions to stabilize and legitimize the existing arrangements. Political strategies are not the monopoly of government actors but also by leaders (market activists) of the informal sector in mobilizing their constituents (Rao 2008) in order to secure resources and recognition from government agencies at different levels.

These two shifts force us to reconsider the sustained growth of the informal sector as a collective action problem that demands an authority structure to anchor its governance. As suggested by the sociological and legalistic views, the problem has internal and external components (Godfrey 2011). Internally, the actors in the market need to have a set of rules or norms that allow for predictable sets of property use and exchanges among themselves. Externally, the actors need a predictable level of security against interventions or outright theft and threats from groups outside the initial market, such as other economic groups or government agents. (Markus 2015) Notice that in framing the rise of the informal sector in this way, governance and its attendant authority structure must emerge to resolve these tensions in a stable manner.

The work on polycentricism (Ostrom 1999; 2005; Batjargal et al 2012) offers a helpful point of departure to solve this dilemma. This work likens the informal sector to a polycentric order that emerges from multiple rule setting centers, like governments, communities, civic groups etc. Multiple actors first through repeated exchanges create a basic set of informal rules to govern their shared, overlapping rights over resources (Dixit, 2004). This is a dynamic process of mutual adjustment as new actors are incorporated into the market of exchange. Although the initial rules may be designed by a defined social group, the rules can be adjusted with growth. However, growth stresses the initial arrangements – internally new entrepreneurs have different expectations about what is fair and who decides this and externally outside actors come to believe that they may have regulatory authority over the resources if not simply a share of resources and rents. Ostrom et al present the conditions when the arrangements can breakdown, such as conflicts over membership, resource use and enforcement as well as the overall authority as to how the structure gets redefined. At this point, Ostrom sees the need for a larger scale jurisdiction of external conflict resolution mechanisms, such as different levels of government intervention. However, the process of intervention remains unclear, as government actors often do not see the informal sector as organized with a reliable counterpart. In many ways, this myopia is similar to assertions of institutional voids (Maier et al, 2013).

But by delving into the so-called voids, scholars like Maier et al and (2013) have revealed that the informal sector is replete with organizations that act as intermediaries between the formal and informal. Network theorists refer to such actors as brokers, who create linkages across structural holes between different networks or groups. However, brokerage often assumes a set of stable rules and preferences between the groups that can be reconciled, whereas, especially in the developing world, they are often unstable and conflicting. (Helmke & Levitsky 2004, McDermott 2002, 2004) The question is then how such intermediaries come about to allow a stable, sustained evolution between the nascent informal internal arrangements of the market for exchange and the demands of representatives of external formal institutions, such as the police, the municipality and national regulators.

To explain the rise of such an intermediary in expanding, dynamic polycentric order, we turn to scholars of sociology and politics that stress: a) the importance of an authority structure whereby the actor or controlling group amasses the power and legitimacy to b) institutionalize the market in the sense of negotiating and enforcing rules and providing key supporting resources and infrastructure. The institutional entrepreneur derives his or her power and legitimacy first from the social fabric of the informal market. The initial informal rules of exchange are not replaced but modified over time as new demands come with expansion. The aim is to construct a "proto institution" or architecture of rules and resources that are layered onto the existing platform. (Lawrence et al. 2002, Mahoney & Thelen) But in doing so, the entrepreneur risks his or her authority. Internal actors find new opportunities to question his or her authority over such issues as informal taxes, rents etc. External actors present threats of encroachment into regulating the activities if not complete replacement.

Scholars of the formation of nascent market governance in medieval Europe offer insights into the structure and process. Grief et al (1994) have shown how merchant guilds helped expand trade among local and foreign merchants by providing the organizational infrastructure to set rules and adjudicate conflicts. To maintain this authority (position), the guilds created agreements with outside feudal rulers to share in the rents of expanded trade. This became in many ways a symbiotic relationship between the formal and informal domains that Godfrey seeks (2011) – the agreements gave the guilds the power and legitimacy in the eyes of the participating merchants while also limiting the encroachment and coercion from the feudal rulers.

The work on the origins of modern banking and the rise of the Medici family by John Padgett offer the process of gaining power and legitimacy. Padgett & Ansell (1993) introduce the concepts of robust action and multivocality that help understand how the entrepreneur balances these potential threats through creating bridging alliances with different factions. Padgett and Powell (2012, p. 24) define robust actions as "noncommittal actions that keep future lines of action open in strategic contexts where opponents are trying to narrow them … [and] may ensue when a central broker bridges two segregated blocks of supporters through distinct networks." Power emanates from the entrepreneur or market maker centralizing control over the flow of information and resources between potentially conflicting networks, not just between the internal and external groups but also between different external factions. The identity of the entrepreneur also needs to be ambiguous enough for members of the different networks with which they interact to attribute different interests to the broker. He or she becomes multivocal in the sense of "being all things to all people".

These actions are socially grounded in the sense of building relationships within and across the internal and external groups. They are political in the sense of creating coalitions with disparate groups to consolidate power internally and externally. The coalitions come from linking the credible creation and redistribution of resources that provide security to expansion. It is not enough to provide one-time payoffs or guarantees, particularly because the interests of factions are divergent and shifting. Rather he or she must construct consistent common material and political benefits – for the merchants, an informal system of taxation that results in reliable infrastructure and protection; for the police, municipality and regulators, a reliable system of payments and political support for regional priorities. As this institutionalization process evolves, the informal and even illegal activities become ever intertwined with selective forbearance in the application of formal laws.

The following section describes our research setting and process tracing methodology.

Research Setting

La Salada is considered to be the largest informal, illegal market in Latin America, dedicated mainly to wholesale merchants in garments (Sassen, 2011). The US government has included La Salada on its 'Notorious Markets' list, and the European Commission has called it "the biggest illegal market in the world" (USTR, 2014). La Salada has emerged officially in the early 1990s due to the collapse of the textile industry in Argentina and the loss of employment by many Bolivians, who used to work within the textile value chain. According to the ILO (2012) only 37.4% of the total employment within the textile industry is categorized as a dependency relationship formally registered with the social security system. The remainder is either informal wage employment (36.5%) or independent employment (26.1%), much of which is fully informal. During the 1970s and particularly the early 1990s the sector shifted towards some model where older manufacturers outsourced their production and concentrated on the most profitable activities of their businesses. By doing so they left the entrepreneurial risk to the shops where garments are made, and these, in turn, passed those risks on to their workers (ILO, 2012).

This marketplace is made up of an imprecise number of stalls, with estimates ranging from 7,822 (Dewey, 2014) up to 30,000 (*The Economist*, 2014), selling mostly textiles, food, and electronic products across four different and independent organizational units, called ferias (three of these are semi-legal, officially registered with the local authorities, and are called Urkupiña, Ocean, and Punta Mogotes; the fourth one is named La Ribera, which is on the banks of a small river, the Riachuelo, illegally occupying that public space). Estimates of La Salada's annual revenues range from 500 million US dollars (USD) (*La Nacion*, 2012) up to 3 billion USD (*Financial Times*, 2015). The popularity of La Salada grew dramatically during the economic collapse of Argentina in late 2001 and early 2002.

Most stalls do not pay any taxes, and all the operations are managed in cash. Enforcement is ineffective due to a system of bribery, which includes the police and the local council, who demand payments in exchange for ignoring copyright issues (Ossona, 2010; USTR, 2014). The US government has included La Salada on its 'Notorious Markets' list, and the European Commission has called it "the biggest illegal market in the world" (USTR, 2014).

First, the background conditions that gave rise to La Salada are typically found in the literature on the emergence of informal sectors in emerging markets, namely economic duress and generally weak institutions for the enforcement of rights and regulations and the support of industry adjustment (Meagher, 2000). Second, as per Holland (2017), Argentina, and the garment sector in particular, have many laws to protect trademarks, property rights, labor conditions, and the environment, but their enforcement is notoriously uneven over time and space. Third, La Salada was started by a small group of ethnically homogenous producers and merchants, Bolivians, but then expanded to include a large number of diverse groups from the region and a diverse set of products. Fourth, property rights – from the ownership of stalls to the use of labor and trademarks – remain largely unenforced, but La Salada has a stable enough set of rules and procedures that have allowed tremendous growth and continuous investment into physical infrastructure and security systems. Fifth, despite recurring periods publicly documented conflict and even extreme violence, La Salada has seen stable growth.

As with other informal markets around the world, La Salada grew out of desperate economic times. As Argentina leaped from one economic crisis to another in the 1980s and early 1990s, the textile and garment sectors faced steady decline. Older manufacturers outsourced their production and concentrated on the most profitable activities of their businesses. By doing so they left the risk to the shops where garments are made, and these, in turn, passed those risks on to their workers (ILO, 2012).

In general, international scholars and organizations have evaluated Argentina as having relatively poor institutions of property rights, regulation as well as macro-economic and industrial policies, while society is characterized as one of low trust and social cohesion (Levitsky & Murillo, 2009, Perry et al., 2007). Yet as a classic "middle income" country, Argentina has significant institutional capacities for regulation of trademarks, property rights, and labor conditions (Hollande, 2017; World Bank, 2010). For instance, in his detailed study of a variety of manufacturing industries, including textiles and garments, Amengual (2014) demonstrates how monitoring and enforcement of labor rights and conditions vacillates with different levels of government as well as changing alliances among ministries, labor unions and producer associations.

La Salada emerged in the early 1990s by a group of unemployed Bolivian textile and garment workers as the industry collapsed. Similar to other accounts of informal entrepreneurs, these Bolivian first joined the ranks of home producers and street sellers in Buenos Aires, highly precarious endeavor constantly under threat by bandits and police and regularly having to move their operations. To reduce this uncertainty, a sub-group pooled their money to purchase the site of abandoned thermal baths in 1991, in a place named Ingeniero Budge, province of Buenos Aires and to establish their infrastructure.

The market gradually grew. At the time of the foundation of La Salada, the Argentine peso was pegged to the US dollar, making imported textiles cheaper than Argentine-made fabrics (The Economist, 2014). From 2005 to 2015, importation was no longer a problem because of currency controls and high taxes. Every time Argentina faced bad economic times, La Salada took off, because more vendors selling to the working poor and middle-class consumers used it.

La Salada and its ferias did not emerge and consolidate overnight. It has grown gradually, in spurts, but many social groups and no clear formal rights. Enforcement is ineffective due to a system

of bribery, which includes the police and the local council, who demand payments in exchange for ignoring copyright issues (Ossona, 2010; USTR, 2014).

Research Design and Methods

Since we still know very little about how organizations embedded in the informal economy are able to growth and not becoming formal firms and why some organizations are able to resist the attacks to formalize, a qualitative research design is suggested as the most suitable method to explore such issues (Yin, 2009). Qualitative research designs based on case studies are particularly suited to develop or extend theory (Eisenhardt and Graebner, 2007).

We follow an inductive, qualitative, and grounded approach (Glaser and Strauss, 1967), to discover the unexpected. This approach is coherent with grounded theory building (Edmondson and McManus, 2006) and allows the opportunity to deal with the unanticipated. This study was intended to generate new theory, and aims at presenting a new process model. Our principal data-set includes a four-month organizational ethnography of La Salada. The data-base includes also 86 in-depth interviews, participant observation and relevant archival secondary data. Interviews were conducted with 70 informants working inside La Salada, including people in top management positions such as CEOs, chairmen, and specific managers within its hierarchy (i.e. people allocated to specific functions of the business in each of the four ferias, for example accounting, payroll, legal, security), micro-entrepreneurs selling their products at the market, and staff dedicated to basic functions such as policing and security. I also interviewed 16 stakeholders, including Argentinian MPs; officials from the Ministry of Labour and other ministries that have a particular interest in employment in the informal sector; senior members of the leading textile industry association in Argentina directly involved in the sector where La Salada operates; staff of an NGO fighting against the informal economy in Argentina (*Fundacion la Alameda*); journalists who had conducted in-depth investigations of La Salada; and political consultants and lawyers working for La Salada. The aim of this approach was to capture the fine granularity of the context we are exploring as well as for purposes of triangulation.

All interviews of the people working in La Salada were conducted on-site. All other interviews were conducted in the city of Buenos Aires or the Province of Buenos Aires. The micro-entrepreneurs were either stall-owners or stall-renters. Their ages varied between 18 and 60 years. Approximately 60% of these people were men; 40% were women. Each stall had on average 3-6 direct employees. Approximately 70% of the stall owners or operators also had small-scale manufacturing operations, which in general employed 4-16 people. The stalls operate in retail sectors such as textiles, shoes, basic electronics, food, and a variety of consumer products.

Data were collected between December 2014 and September 2015, through face-to-face in-depth interviews using semi-structured questions. The interviews lasted, on average, 60 minutes, ranging from 35 to 180 minutes. Interviewees from La Salada were asked a broad range of relevant questions. This included about their roles and functions and to describe the early stages of the organization's existence (its emergence); about the formal and informal activities pursued within La Salada; the motivation behind the creation of La Salada; how micro-entrepreneurs co-ordinate their activities; the social norms that govern the market; how they seek to gain legitimacy in the eyes of

Argentinian society; the ways in which La Salada overcomes the failures of the state; and whether their current economic and social situation has improved since they started to work in La Salada. Approximately 79 hours of interview data were gathered. The interviews (all of them conducted in Spanish, and many in *lunfardo*, the Buenos Aires dialect) were subsequently transcribed by Argentinians. The transcriptions were then reviewed by the author who had conducted the interviews, and the data were coded and analyzed.

We collected archival data to trace event chronologies and discourses over time (Langley et al., 2013). The ethnographer's privileged access included views of internal documents, legal authorizations granted by the local council, and La Salada internal e-mail correspondence. While not included in the final analysis, these proprietary documents were used to validate observations and interview impressions.

Data Analysis

We analyzed the data following the prescriptions for naturalistic inquiry (Lincoln and Guba, 1985) and constant comparison (Glaser and Strauss, 1967; Strauss and Corbin, 1990). We initially drew on the multiple stories from the interviews, field-notes and several documents gathered to build narratives about the different organizations (*ferias*) to obtain the first insights on how these informal entrepreneurs entered the polycentric system of local formal institutions and how they interacted with them. This procedure was an iterative one for examination and comparison of key events (Isabella, 1990), in which our understanding of the historical events as they emerged from the first stages of analysis was checked with key informants within La Salada, and with key stakeholders. The interview protocol included questions aiming to unearth information on the organization of the governance of La Salada, in a context where La Salada entrepreneurs were clearly interacting with formal institutions. I have spent in total a period of 4 months within La Salada. Due to the rather peculiar opening time of the market, which use to function twice a week as a wholesale market, from midnight until 9am, my visits were organized three times a week, normally from midnight until 4-5 pm in the afternoon the day after. On Sunday, I was attending the market from 6-7am until 2-3pm, when it uses to work as retail market. I spent a considerable amount of time visiting the office of the CEO of Punta Mogote, in general once a week from 9am until 2pm. I repeatedly visited the offices of both Punta Mogote and Urkupina, and less frequently the office of the Ocean fair. During those ethnographic visits, numerous additional informal conversations took place, which strongly contributed to consistently add depth and details to the empirical data that was collected (Moore, 2011). I also had the opportunity to observe multiple meetings where the management of La Salada discussed governance arrangements with several formal institutional actors, such as policy-markets, local politicians, and public bankers. I had also the chance to interview two investigative journalists who both of them wrote journalism reports about La Salada and helped me to understand the complexities of such unusual market organization.

In this study, interview data were triangulated with large amount of archival data, particularly we collected 431 documents as articles from the media which accounts for approximately 470 pages of information, and 63 archival documents, accounting for approximately 1890 pages. My field notes

and meeting minutes also provided a roadmap to examine the nature of the functioning of the institutional infrastructure at La Salada.

Initially, we built a list of key chronological events, actors involved, key activities, raw data (including field-note observations, quotes from informants, policy and media reports, other documents such as books published about La Salada). This process contributed to generate a narrative which "involves construction of a detailed story from the raw data" (Langley, 1999, p.695). In this phase we ordered temporally the case narratives, following the temporally bracketed approach (Langely, 1999) to fully and analytically describe the processes over different period of time, and also analytically highlighting the key developments over time. In a second stage of the process, I also engaged in cross-case comparison (Eisenhardt, 1989), in order to compare and contrast the themes and concepts that emerged.

In a second stage of analysis, we identified institutional polycentrism (Batjargal et al., 2013), robust action (Padgett and Ansell, 1993; Padgett and Powell, 2012), and brokerage work between contradictory segments (lower-level institutions, in our context municipal government and local police).

Next, in the third stage of analysis, by deeply consulting field-notes and raw data, but remaining open to phenomena emerging from the data, we looked for evidence of how informal entrepreneurs stably interacted with the lower-level institutions mentioned above. Following grounded theory procedures, we continually compared the emerging theoretical categories with the gathered data, looking for processes when analyzing people's meanings, perceptions and experiences (Glaser and Strauss, 1967; Charmaz, 2006). In the coding phase, each interview was coded separately for processes, with a focus on actions (Charmaz, 2006). We then moved to first-order concepts (or what grounded theorist Charmaz calls first-order categories) and second-order themes (Corley and Gioia, 2004), with a more selective approach to capture more genuine meanings. We looked for relations between first-order categories, and moved to a higher level of abstraction and thus obtained second-order themes. This process involves both inductive and abductive reasoning, in which plausible theoretical explanations for the emerging data are considered by checking them against the data until the most plausible description is reached (Charmaz, 2006). We compared them with the literature on institutional polycentrism and robust action. Second-order themes included informal entrepreneurs' work to take advantage of the institutional polycentrism (e.g., "establishing rules", "highlighting lack of enforcement", and "stabilizing the market activity") as well as robust action work (e.g., "negotiating with the police and the local council" and "taking advantage of one's networks"). We later cross-checked how informal entrepreneurs would take advantage of institutional polycentrism and the robust action to exploit their networks. In the final level of abstraction, we also sought evidence of outcomes of the robust action of the key actors, the informal entrepreneurs of La Salada.

Findings

Phase One: Emergence of the organization, expansion and early conflicts

In this section, we highlight the evidence coming from our data set. Below we present the categories emerging from the data analysis. We identified three phases. These phases illustrate the

self-coordinating spontaneous governance system characterized by particular context-embedded rules and norms between informal entrepreneurs and formal local institutions (Ostrom, 1999; Batjargal et al., 2013).

The background on origins of La Salada are characterized by the predominant role of the Bolivian community in the province of Buenos Aires. As suggested by Arrieta (2011) Bolivian immigration towards Argentina is mostly explained as a source of greater economic and professional opportunities. This type of immigration was also influenced by the economic crisis that Bolivia surfaced during the end of the 1980s. Social networks and ties later on contributed to consolidate this migration patter towards Argentina (Tania, 2007; Arrieta, 2011). This was part of a significant shift in migration patterns in the context of globalization which has seen substantive immigration from Bolivia towards Argentina and which contributed to the reorganization of the clothing sector (Rizek et al., 2014). These precarious conditions are strengthened in the case of migrant workers, due to the adverse situations they have to deal with (Mcllwaine, 2005; Datta et al., 2007).

In the early 1990s the Bolivian community in Argentina, in order to cope with various dimensions of exclusion and vulnerability facing them (e.g. fluctuation of economic activity, insufficiency of cash income, exclusion from formal labor markets, economic inequality in the rent of value chain), spontaneously began selling products (food and textiles) through family and community links. These domestic groups (family and community) mobilized their resources to develop (initially) petty market activities. What makes La Salada's case unique is the fact that it has been moving and evolving from this early project, based on the initial mobilization of a Bolivian community leveraging its indigenous mechanisms into a complex platform of four informal and independent organizations (ferias) that together constitute this huge bazaar.

By the early 90's the first step of the configuration of La Salada was based on the cultural heritage of the Andean tradition of the *ferias* and other survival practices; five Bolivian families inspired them to organize a cooperative which started selling clothing and footwear manufactured in its own neighborhood workshops copied designs of the great leaders at astonishingly affordable brands. The first organization created in 1991 is called Urkupiña, in honor of a Holy Virgin of La Paz, Bolivia. This informal mall became a pole of attraction for Bolivian immigrants living in the area of Ingeniero Budge and in the related area of Lomas de Zamora and La Matanza.

Throughout the second half of the 90s, La Salada continued to expand constantly despite the frequent economic crises of Argentina; they were attracting the interest of consumers not only from low income households of the Greater Buenos Aires and the suburbs southwest of the Capital Federal. Soon enough this big informal retail hub led to consumption of the middle and upper classes. Today there are three major informal (or semi-legal) fairs called Urkupina, Ocean and Punta Mogotes and, simultaneously, on the banks of the Riachuelo river there is a fourth one, completely illegal called "La Ribera".

Below we introduce a quote from one of the informants we interviewed at La Salada:

"Without any formal job, without any formal training on how to work with garments, they started by smuggling products from La Paz, in Bolivia. Later, she was able to afford and buying machinery and manufacture and then sell for herself garments without intermediaries. She could now sell directly to her clients in Puente 12"

The quote above highlights the beginning of the members of the Bolivian community who, between 1989 and 1991 started to manufacture and sell precariously garments in different parts of the Province of Buenos Aires. At the beginning, they decided to do so, because they were tired of the unfair wage practices of the garment value chain in Argentina. They used to get paid very late (3-4 months after they delivered the goods) or not paid at all. Because of that economic inequality, they took initiative to do business differently. Another informant explains:

"Although all of us were suffering because of the unfair pay and the treatments we received, the Bolivian community was essentially disconnected. We were disconnected as community. Each of us was selling on his own, where they could, and at the time they could. All started to change when, without any formal planning process or previous formal consensus, a few fellow Bolivians started to sell garments and some food in a place named Puente 12. We started to work there spontaneously, we were a small number and at midday of every Monday we were selling".

The quote above highlight the early beginning of the collective organization of this market. It was not the result of formal planning, but rather, a more spontaneous set of actions to respond to the unfair economic conditions. But it was promising, although it was quite precarious at first:

"Everything was quite precarious, I started here because a former client of mine did not want to pay me and so I believed that working here could be a feasible option. The first time I went, I sold all my garments in half hour. After that, I came back every week".

While it started precariously, the market was growing every week, and more and more fellow Bolivian immigrants was joining the fair. The fair became a huge commercial success and more and more Bolivian joined it but also local Argentine entrepreneurs. Its expansion phase began. But the success came at cost. Between 1989 and 1991 they have been moving from one place to another at least six times.

An informant explains this:

"At Puente 12 they sold garments which they bought from other sweatshops, and they resold it. They were not both manufacturers and traders. At time, they were traders [only]. They bought wholesale, [and then] distributed … and sold in street stalls. But they were chased by the police, the crowd, the neighbors complaining and 'colectiveros' (bus drivers) complaining too. Then the police came and made them [the Bolivians] run. But they ran, and after two hours they came back, and like six months, eight months, I cannot remember, went by. Then, one day a police chief says, 'Look, why don't you go to a place where no one will see you?' And he adds: 'Here is a place where no one is going to disturb you'."

This expansion came with several conflicts, particularly with the local police and the local council officials. These conflicts could not be resolved because there was not a formal organization of the fair dealing directly with the police and the local council. Early conflicts emerged because of this lack of organization.

"Come on, come here! The problem is not about our paperwork and our documents. The problem is that you only seek to take more and more money from us! We should do something,

I am tired of moving from one place to another…and then, today they are asking for 10, and tomorrow they want double. It's never enough"

Members of the Bolivian community were tired of dealing with police and local council and it was not simple to find a stable solution. As a consequence of this situation, and for the first time, a small and stable organizational structure was about to emerge at La Salada. A very important figure was emerging, and his name was Gonzalo Rojas. Rojas was going to be the first one to finally reach stable agreements with both, local police and local council officials to allow La Salada members to work without interruptions.

Phase Two: Early Polycentric Governance and its collapse

Gonzalo Rojas travelled from La Paz, Bolivia, to Argentina in 1985. In 1988 he was working in the triple frontier, between Argentina, Paraguay and Brazil. Later he arrived in Buenos Aires. When these conflicts with the police and local council started to increase, Rojas took the initiative to rise money and solve these conflicts with both formal authorities. He officially took the role of manager and started to build the first governance of the field and La Salada.

"We negotiated, we talked with the municipality, with the security forces ... going to negotiate was something new [to us], we learned it at the time ... we had to find agreements with them in order not to be hurt, to save the people's merchandise they had seized."

The quote above, from an informant who worked with Rojas, told us that they started to negotiate with the formal authorities in order to establish basic governance rules and agreements. This was important as they were seeking more stability and establish basic rules.

Another informant told us the following:

"The police were chasing them every time. But because it was that fear of the police that had been pushing them, splitting them, because they had no official documents, because they had no permit and were asked to pay bribes. Then they all evicted. There was a person, Gonzalo Rojas, who noticed something: that the Bolivian would typically fear and run. So, what did he do? He was big, very strong. And then he started negotiating with the police. He said 'Look, if you let us sell, we'll give you some.' Because he knew the cops were corrupt. So, what he did was ... He said [to all his fellow Bolivians], 'Well, I'm going to take care of it, but you give me a fee so I can pay you.' Then what about him? I asked, what do I know? He put 200 pesos, he kept 100 and gave 100 to the [bribe recipient]. Then he took on the role of the leader."

This account is revealing how Gonzalo Rojas acted to try to solve a collective problem of the Bolivian and establishing a stable form of governance with formal authorities.

"The leaders of one of the ferias remember having made weekly payments at least to the regional police of Avellaneda and Lanus, and that they also had someone in the jurisdiction of Lomas de Zamora; to the police station of Puente La Noria and at the police station just next to La Salada, so that they would let clients enter the market safely ... I also remember there was a civil servant within the local council who would also take money."

The above quote shows how Rojas actively established a system of bribes to provide order and stability to the market. Again, another informant told us:

> *"Later he Decided to negotiate. He said: 'Let's start renting this and establishing ourselves. Then we will have a place. A place where we don't have to run anymore.' But when it began to make noise, the municipality of Lomas de Zamora started to bother us. Gonzalo was arguing that La Salada was legal, so to … but [what] did he do? Again, he went to speak to them. But no longer with the police, [he] began to make contacts with other people working for the local council … Then the arguments began to settle, the fights we had either directly or indirectly. Then the Mayor of Lomas said: 'I want you here to be the price makers, you have to challenge those of the Shopping Center'."*

Another important innovation of Gonzalo Rojas was the creation of tradable and rudimentary form of property rights within the fair. He started to build internal rules and one of them was the option of buying stalls and receive in exchange a form of property rights. These property rights are rudimentary because they do have economic effects (can be used as collateral for economic transaction, for a loan) but technically they are not legally considered as property rights.

> *"He started selling property rights - shares of the market (stalls) when it was not yet his own property. But he sold them, saying, 'This is going to be yours, if you pay me when I sell everything, we will give you the deed.' There was never a 'mainstream' property rights paper. Where would he get the money if he had nothing? In fact, he put a big amount of money together and saying, 'Ready, yes, I'll pay you half and we'll mortgage this and I'll pay you.' Then it was with the rent plus the fees that he was going to collect the rest of the money … it was going to be a great business for him and Antequera, his wife and others, who at the time founded the place and asked the other partners to pay something like USD 5,000, with the promise that they would have their own plot [some sort of legal deed]. After that, those who had a good relationship with him certainly got it and become owners."*

Thus, Rojas established a system of selling and renting property rights within the fair, which became quickly universally accepted within La Salada.

The governance system started to work as formal institutional members actively played (and accepted) according to these rules that were established together. Nevertheless, this peculiar polycentric system of governance began to suffer.

> *"They take you and steal from you. Because a policeman comes and seizes your products. They tell you, for example: 'You are selling this.' You have 100 garments, I don't know, 100 shirts. Then comes the police chief. First, he grabs all the clothes and puts them inside the patrol truck. And then he grabs and leaves three garments, four garments. And he calls witnesses and says, 'You, you and you, witnesses.' Then he says to them: 'Look, this person has found him selling four garments that are Nike brand, I do not know, and that is forbidden.' Or: 'You are selling in one place and you do not have the right to sell because you do not pay taxes, so we are going to have you arrested. Do you see, do you witness that this person has four garments?' And one says to him: 'Yes, because I see four garments. But what about the garments inside the truck? So, what do they do? They make you sign something. The*

witnesses also sign a document and you are made to sign the same document, first blank, and then ... First they make you sign the blank document and then later they fill it out."

New conflicts emerged, and new threats started to appear. The quote above suggest that new predatory behavior was emerging and that the key actors like Gonzalo Rojas could not necessarily solve it again. The external actors like the police, had some actors who would always defect the governance rules and asking for more. At the internal level, within La Salada, people feared for their stability. Gonzalo Rojas actively attempted to manage these new threats and conflicts but he could not always deal with this effectively.

"When Gonzalo (Rojas) started to refuse to pay a million dollar bribe he was asked, a given high police officer started to become hostile towards him, he was pressing him all the time, he was checking on the goods all the time, taking stocks of garments or simply stopping the traffic of cars and bus to prevent them to visit La Salada. Gonzalo Rojas reacted strongly, he did not want to pay that amount of money and he wanted to manage his autonomy from the police."

This is the time when the Ostrom rules of self-governance, between formal and informal institutions, are being broken by these police members. Rojas was trying to bring governance stability, and also enforcement, protection and legitimacy, but later he will be removed.

"He was arrested by the police, and he died soon later in jail. Allegedly it was a suicide, but it was a rather odd suicide, it was common knowledge that he was killed in jail by a group of criminals".

This is the phase where rules are broken and potential instability is emerging again.

Phase Three: The rise of Castillo and his group

In this phase, there is the emergence of a new institutional entrepreneur called Jorge Castillo. Castillo was the main partner of the third fair of La Salada, called Punta Mogote. His institutional work became too important for La Salada and helped to re-establish rules and enforcement. His strategy was based on robust action and multivocality. He connects the informal and illegal to the formal and legitimate. And he keeps a level of autonomy. An informant told us:

"There was the issue of the inspections from the Police (Gendarmeria) and the ARBA (Tax Enforcement Agency). People who had some contact by paying a monthly fee (a tax-bribe), knew that that day they did not have to go to sell…Then you pay, and you want to be notified (in advance) when they are coming to be ready. You look, you just pay. So, within your monthly quota there is a plus. You pay I'll take care of you…And that's the case in [the ferias] Urkupiña, Ocean and Punta Mogotes.

The informant above is explaining that several formal actors are involved with La Salada. The police, the tax enforcement agency, the local council, and this is important as these actors need to be part of the governance system and the rules.

"The functioning of La Salada obviously requires various mechanisms within the Justice, the different State jurisdictions, the police forces and the political power to come together. Not only do they put the buses, they also bribe the provincial and federal police, judges, attorneys. They do everything so you can go and buy without being disturbed."

The informant above, explicitly suggests that the stable functioning of La Salada requires several rules in place with many authorities. Castillo was the person in charge to establish these common rules.

"The last aspect that surprises me is that instead of hiding from the press, he is seeking the attention of the media. I think there are two things, first to demystify what La Salada is. While La Salada is not clean, it has those clean parts. So, showing this part that is clean. All the rest doesn't matter, he doesn't care, besides he says 'No, I have nothing to do with that, I have to do with this part, which is good.' Then he shows all the things, the successful figures, but also answers questions about a dead man near the market. Secondly, he also does talk to the media to take care of himself too, I believe ... physically. Because a few have wanted to put him down, but now he doesn't run the same risk because he is a public person and has political links, not only with the Radicalismo, but also with the authorities of Lomas, who are Peronistas."

The work of Castillo was important also to build a new legitimacy around this informal market-place. This is what an important informant told us:

"Look, from what I understand, the owner [Castillo] built many streets and even organized the bus logistics and transport over here, right? You will see security in the neighborhood everywhere. Many neighbors who have set up a stall have been helped by these people. They used to live in very precarious places and they have great houses now. Many people started to have a stall here. But I do know that Castillo did a lot in the neighborhood. Obviously not for us, but for people from the outside, the businesses that arrive here for example. He improved the infrastructure and the security people are everywhere, many times it happened that the micros did not arrive. Buses couldn't arrive here, they were robbed, they stole everything. In other words, now there is security everywhere, wherever you go it's safer."

Castillo, acted differently compared to Rojas, he understood also the importance of building a degree of legitimacy around this informal market. The same informant also told us:

He has a good relationship with ... the government. He may belong to the Radicalismo [Radical Party] but when discussing business matters, he sits down to talk with whoever he needs to. He was very close to [former Secretary of Commerce] Guillermo Moreno. ... they were traveling and everything ... And Castillo knows how to sell that image to justify his work. He tries to make people see that La Salada is a place that many can afford; and it creates jobs, it is full of workers."

This shows how Castillo managed the multivocality, this capability of establishing a fluid dialogue with different actors, understanding their different interests and positions, but also representing his own interests and the ones of La Salada.

"But he is also surrounded by people who also have their own powerful contacts and known other people, because he, for example, where did he learn that? By cultivating relations. It's like those who have not had any formal education, but have that ability, well if they surround themselves with a person who compensates for the skill, he is surrounded by those type of people."

This important set of skills allowed Castillo to solve certain internal and external threats and problems. Internally, he gained a lot of respect as he was considered to dealing with formal authorities but also building a new legitimacy for La Salada. Externally, he was able to deal with several threats, from those of formal authorities like the police, to those of crime gangs, as he was wisely leveraging his networks. Also, he was able to increase the number of customers and strengthen the ties with several external actors.

Discussions

This study presents the emergence of a governance system at La Salada. It introduces a collective action and it shows that it cannot be solved by social ties or formal intervention alone. Emergence, initially takes on a polycentric structure, the growth of which stresses the prior authority structure, which has internal and external components. Nevertheless, issues and conflicts arise and eventually new Entrepreneurs emerge to institutionalize new demands and collective problems, balancing demands and threats from internal and external stakeholders. Actors like Castillo are seeking power and legitimacy. He is able to Do so through Robust action and multi-vocality in step by step process**.** This study then, provides empirical evidence of how robust action is implemented within an extra-legal context, through a wise use of multivocality. It also highlights the creation of proto-institutions from the interaction of informal and formal institutions.

We found that institutional entrepreneurs of La Salada were able to establish a systematic interaction with local institutions in the context of forbearance of macro institutions. The institutional work of the entrepreneurs of La Salada has aimed at leveraging those institutions that help to legitimize their informal work. By doing so, they feel encouraged to further expand their business activity, which gives them even more leverage with certain institutional centers, which acknowledge their capacity to generate employment and income in a context of poverty and inequality. The evidence from La Salada supports the hypothesis of Webb et al. (2012, p.7) that "ambiguous jurisdiction and conflicting interests across institutional centers are positively related to opportunity exploitation in the informal economy". The informal entrepreneurs of La Salada were strategic in pointing out the weaknesses, contradictions and fragmentations of macro institutions. By understanding these issues, they were capable of strengthening their activity.

The importance of polycentrism in the context of informality has been studied in the past (Garcia-Rincon, 2007; Roever, 2006), confirming that institutional polycentricism encourages informality. However, this study goes beyond this observation and highlights the more micro-level dynamics or processes that characterize the agentic action of the informal entrepreneurs in La Salada, showing how informal actors actually contribute to the emergence of a polycentric system using robust action. In the case of La Salada, the local police and the local council constitute what, following

Padgett and Ansell (1993), we refer to as contradictory networks; that is, networks whose members use conflicting rhetoric and have contradictory interests.

The findings show the importance of multivocality in the institutional work of the informal entrepreneurs of La Salada. The key institutional entrepreneurs of La Salada behave ambiguously enough to bridge between the local police and local politicians, because both attribute to him different types of interests. This is a characteristic of multivocality: the "tactical capacity of robust-action brokers to sustain multiple attribution of identity" (Padgett and Powell, 2012, p.25). They used these tactics in a way that made him a coherent and credible agent within his large network, allowing him to consolidate La Salada as a more legitimate organizational form.

This shows first, that the role of multivocality in promoting institutional innovation as suggested by different scholars (Hargadon and Douglas, 2001; Furnari, 2014; Padgett & McLean, 2006) can work also in the context of informality, and this is something that was not explored before in other studies. Furthermore, this case also highlights the multivocal inscription of the robust action strategies. In particular, as Ferraro, Etzion and Gehman (2015, p.373) explains, "discursive and material activity that sustains different interpretations among various audiences with different evaluative criteria, in a manner that promotes coordination without requiring explicit consensus".

The findings allow us to explain the emergence of proto-institutions (Lawrence, Hardy and Phillips, 2002) from inter-organizational collaborations. The capacity to maintain brokerage activity between opposing networks explains how, for example, informal entrepreneurs were capable of creating tradable and rudimentary property rights. In this case, property rights become possible due to the stable interaction between local institutions and informal entrepreneurs and their rules and norms. In the case of the entrepreneurs of La Salada, it represented a valuable form of economic empowerment and increase their potential for capital accumulation, stressing the importance of basic commercial rights including rights (Brown, 2015; CLEP, 2008). This would also build upon the literature that looks at property rights development in public space (Ostrom and Hess, 2010) but with the fundamental distinction that La Salada entrepreneurs have been capable of building, obtaining and selling property rights for individuals entrepreneurs not merely on the occupation of public space, but rather on an original property right of the land they initially acquired. Through the robust action of the institutional entrepreneurs of La Salada, they initially offered the opportunity for many early entrepreneurs of La Salada, to become partners.

These accounts reveal that embryonic form of property rights can be achieved, including by moving from the illegitimacy to the legitimacy. In fact, today, these rudimentary forms of property rights that the stall owners retain, are used substantially. Furthermore, this insight suggest that these informal types of property rights based on self-governance are more effective than formal ones in certain unstable contexts. It also provides evidence that informal entrepreneurs are able to compete with the state to build and provide property rights. Finally, it is important to stress that this proto-institutional outcome of rudimentary property rights, does not come from a legal entitlement as it has been portrayed by certain authors (De Soto, 2000) but rather, from a mix of custom and business practices. Thus, proto-institution of property rights become embedded in informal institutions.

This process illustrates the creation of elementary institutions, including rules, social norms, or practices (Aoki, 1991; Lawrence, Hardy and Philips, 2002). These rules or practices "can become more or less institutionalized, depending on the extent of their diffusion and the strength of these self-

activating mechanisms – the set of rewards and sanctions" (Lawrence, Hardy, Philips, 2002, p.282). They are partially diffused but have the potential to become fully institutionalized, as proto-institutions. One of the salient features of informal entrepreneurs is in fact their diffused lack of property rights (De Soto, 2000). In this sense, this institution is novel in the context of the informal economy. What is substantially different from the mainstream, formal-economy notion of property rights is the enforcement. In this context, it becomes relevant private enforcement services, a form of informal coercion and protection (Carruthers, 2004).

Conclusions

This study builds on the scant research produced within institutional theory literature looking at institutional polycentrism and informal entrepreneurship research (Batjargal et al., 2013), responding to multiple calls for work on the entrepreneurial and organizational behaviour of informal firms (McGahan, 2012; Ketchen et al., 2014; Godfrey, 2011). Specifically, it makes a substantial empirical contribution to the field of organization theory by looking at one of the most sophisticated, and yet scarcely explored, informal markets worldwide. It extends our understanding of institutional polycentrism (Ostrom, 1999; Ostrom, 2005, Batjargal et al., 2013) in a context characterized by the relationship between formality and informality (Ostrom, 2006). It shows the micro-dynamics of the relationships between informal entrepreneurs and formal institutions, for example how agreements are reached, and what types of rules are established. The findings demonstrate the relationships with local institutions, the processes that underlie their evolution, and the strategic use of robust action, understood as brokerage activities between two contradictory networks. By doing so, this study also shows how informal entrepreneurs skillfully inserted themselves into the core of this polycentric system by resolving contradictions between local council and local police.

The findings suggest that, contrary to the view of scholars who believe that informal firms are capable of building solid institutional arrangements (La Porta, Shleifer, 2014), informal firms are able to operate in dynamic polycentric systems and take advantages of such conditions. Furthermore, this study also demonstrates that the informal economy is not disconnected from the formal economy and formal institutions, as suggested by La Porta and Shleifer (2014). It represents one of the few contributions studying informality not at the macro (national or regulatory) level but at the meso and micro level. The findings also expand the understanding about how the emergence of proto-institutions contributes to the consolidation of governance regimes and modes of coordination.

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