



Debt portfolios of the poor: The case of street vendors in Cali, Colombia

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ABSTRACT

The informal economy plays a significant role in the job market in Colombia. Cali, the third largest city in Colombia, is characterized by a high percentage of socially and economically vulnerable population groups who take part in the urban informal economy, with street vending as their primary source of income. This paper studies the socioeconomic dimensions of street vendors in Cali. In particular, it examines why they are unable to escape poverty and capitalize on their comparatively high earnings, despite a minimal tax burden due to the unregulated nature of their work and benefits from government welfare. The analysis is based on two surveys with 637 participants and 300 participants respectively. The study shows that most of the street vendors do not have access to formal banking systems. Consequently, they usually depend on payday loans with much higher interest rates which absorb a large share of their income and perpetuate their indebtedness, preventing them from improving their living conditions. However, the daily cash flow of street vending masks the high opportunity cost of loans and long-term deficits.

1. Introduction

The informal economy is of particular importance in developing countries around the world. People who work in the informal economy already face numerous challenges (e.g. low educational level, poor economic background) and they are exposed to further social and financial difficulties due to the non-regulated character of the informal sector. In our paper, we examine the informal economic activity of street vendors in the city of Cali in Colombia. The research question driving this research is: *why are street vendors not likely to improve their living conditions despite certain benefits from the government, as well as a comparatively high income?* Our hypothesis is that the main reason why street vendors are unable to improve their living conditions is that they are generally excluded from the formal banking system, therefore, their main source of capital is payday loans offered by moneylenders at predatory interest rates which maintain a vicious cycle of indebtedness. In the first section, we describe the theoretical framework of the informal economy with focus on Colombia, including the political background and the characteristics of street vending. In the second section, we explain the data and methods to test our hypothesis. The study was divided in three complementary parts (observation only and two different questionnaires) and implemented between December 2014 (study 1) and April 2016 (study 3). We examined the socioeconomic profile as well as the debt portfolio of street vendors at two different

markets in Cali – the Downtown market and the Santa Helena market. In the third section, we present the results of our analysis. The obtained data on street vendors is not only compared between the two sites, but also with the average working population in Cali as a reference value. After a discussion of the results in the fourth section, we present our conclusions.

2. Theoretical background

There is no consensus on the definition of “informal economy”. Generally speaking, the term is used with reference to employment outside formal regulatory arrangements, either in law or in practice (ILO, 2014). The International Labor Organization (ILO) considers informal economic activities all those that are not covered – or insufficiently covered- by formal arrangements that grant workers access to government protection, rights and representation (Gómez, 2016). The term ‘off the books’ is frequently used because it embodies the non-regulated nature of the sector outside of formal regulation and beyond the taxation regime (Vanek, Chen, Heintz, & Hussmanns, 2012; Vanek, Chen, Heintz, & Hussmanns, 2014).

The informal economy plays an essential role in the urban economies of the global South (Bromley 1978; Chen 2005, 2012; Godfrey 2011). In Latin America, it represents nearly half of the non-agricultural employment amongst the working age population (Gómez, 2016).

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Colombia follows the Latin American pattern. About half of the working age population obtains their income through an informal economic activity (DANE, 2015). During the past two decades, the reduction of the informal sector has been at the top of the policy agenda. Several laws and institutional reforms have been enacted. Between 2009 and 2012, 1.7 million informal workers were integrated into the formal economy, and the number of citizens contributing to health and retirement systems increased by 23.5% and 24.3% respectively. Despite these efforts, the proportion of non-agricultural informal employment could only be reduced by three percentage points – from 58% to 55% between 2009 and 2013 (Gómez, 2016).

The term “informal economy” covers a wide range of economic activities, from garbage collection or street vending by an individual to small companies with less than five employees (ILO-FORLAC, 2014). Our analysis focuses on the sector of street vending because of its role in the dynamics of the urban informal economy and the relevance on the public agenda concerning poverty reduction and urban planning (Bhowmik 2012; Bromley, 2000; Cross, 2000).

From a theoretical standpoint, the informal economy has been studied from four perspectives: i) legalist, ii) voluntarist, iii) structuralist, and iv) dualist. The legalist perspective refers to all regulations and costs imposed by governments that inhibit small entrepreneurs from entering regulated and formal economic activities (Becker, 2004). The voluntarist perspective focuses on the deliberated decision made by informal workers to avoid taxations and regulations (Chen, 2012). The structuralist perspective argues that the informal economy is a subsidiary sector of the formal economy that allows reducing costs and sustains economic growth (Portes & Haller, 2004). The dualist standpoint considers the existence of the informal economy as an outlet to provide income generation to the poor (Chen, 2012). Empirical analyses that have studied the dynamic of street vending in Colombia, concluded that the voluntarist and dualist perspective are deeply intertwined in this context (Martínez, Short, & Estrada, 2017).

Street vending regulation in Colombia has a long history dating back to the 1930's, when the government elicited a legal framework concerning the control and regulation of its expansion. This regulatory system remained in effect until 2003. Under this framework, street vending was deemed an illegal appropriation of public space and local governments were granted the capacity to evict street vendors from their vending site and confiscate their merchandise (Donovan, 2008). In 2003, the Constitutional Court revised this legal framework. Since then, street vendors have been protected by law, and their eviction from public space is prohibited, unless they are offered equivalent or better income generation opportunities. Consequently, removing street vendors from public space has become very costly for local governments. Given the lack of resources to provide stable jobs or equivalent income, the occupation of public space to sell goods has expanded in large cities in the country (Martínez & Short, 2017).

Street vendors in Colombia are economically and socially vulnerable by many standards. They suffer from poor access to education and their job provides both an unstable income and harsh working conditions. Furthermore, they tend to be excluded from formal economic structures, like regulated banking systems and retirement plans. These conditions have been reported in different developing regions around the world (Cross, 2000; Chen, 2001; Swanson, 2007). The exclusion of street vendors from the formal banking system is due to various circumstances. For one, they often do not meet certain formal requirements for raising a credit such as formal employment and a co-debtor that can prove financial stability. Furthermore, in the market of credits, the supply curve has a U shape due to asymmetric information and transaction cost which offers low interest rates for rich people (see Fig. 1: r_c in competitive markets or r_m without competition) but excludes poor people from formal loans (Ashta, 2009). Therefore, the only outlet for accessing formal credit for street vendors is through micro-financing schemes but in many cases, those small credits are tied to business plans that street vendors are not in the capacity to develop.

Apart from this, holding a bank account in Colombia generally involves activity fees (withdrawal and deposits) which can be difficult to afford. Further reasons are the relatively long time frame required to access a loan and the perception that the bank will reject them anyway (Bhowmik & Saha, 2013; Pérez-González & Muñoz-Molina, 2015). In the absence of a regulated banking system, the black market of payday loans is dominant, because of lower transaction costs and information asymmetry due to their closeness to the community and the potential use of force (Ashta, 2009). As a result, moneylenders are able to push down the supply curve for poorer borrowers but charge much higher interest rates than a formal bank (see Fig. 1: $r_{\text{paydayloansc}}$ in competition or $r_{\text{paydayloansm}}$ without competition) (Ashta, 2009). There is evidence that payday loans in Colombia are linked to criminal organizations (Miranda, 2016). As the only resort for easy credit, street vendors are exposed to outrageous interest rates and the violence displayed by criminal organizations in the country.

The decision of the Colombian government to allow street vending as a tool to help eradicate poverty and protect vulnerable populations has led to the development of urban economic dynamics that incentivize informality but also facilitate the exclusion from regulated and institutional structures, like banking. Though not illegal, street vending remains a non-regulated economic activity. Thus, government efforts to control and reduce the expansion of informal markets are still challenging. In contrast to the idea of supporting the poor, street vending also led to negative consequences because of the demonstrated links with organizations which profit from tax evasion, the mafia, loan sharks and smuggling (Revista Semana, 2016).

3. Data and methods

Our study was conducted in Cali, the third largest city in Colombia with 2.4 million inhabitants. The city is one of the main industrial centers of the country and the major economic hub in the Pacific region. Cali fits in the general pattern of urbanization in Latin America where demographic changes and large migrations into cities have created an environment of poverty and inequality, yet with the potential for many economic opportunities (Cohen, 2006).

According to the Cali planning department, there are nine street vending sites in the city, though the exact number of street vendors who work at each site is unknown. Government interventions focus on the two largest street vending sites, the Downtown market area, and the Santa Helena market. Downtown covers 13 blocks in the middle of the economic and political center of the city. Street vendors in this area are located along main roads and next to formal commerce buildings and storefronts. They offer a wide variety of articles such as clothing, footwear, accessories, games/toys and food among other products. Santa Helena (3.5 km away from the Downtown) is primarily a street food market located near one of the most violent and distressed areas of Cali. It covers about 12 blocks where formal and informal commerce coexist.

This paper is based on three studies conducted at these two sites. The studies were implemented by the Observatory of Public Policy (POLIS) at the Universidad Icesi in Cali. The first study took place Downtown in December 2014. During the first stage, observational data was collected using a structured guide regarding the type of stall (fixed or mobile), type of products offered and number of people working at each stall. 792 vendors were counted at the site during this phase. In a second stage, pollsters were hired to conduct a detailed survey with 68 structured questions concerning socioeconomic status, family composition, income (including sales and profits), indebtedness, education, life satisfaction and access to government welfare. The survey was completed by 527 street vendors. The respondents were randomly selected in all blocks of the market, and the survey was conducted while they were at their stall. The pollsters approached the respondents by explaining the objective of the study, assuring confidentiality and emphasizing that the acquired data would be used for academic purposes

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