



# The urban informal economy: Street vendors in Cali, Colombia



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## ABSTRACT

The informal economy is an important part of urban economies in the global South. Almost half of Colombia's working population relies on the informal economy to obtain income. This study examined street vendors in downtown Cali, Colombia. A recent survey of 527 street vendors provides the basis for a detailed analysis of who works as street vendors, how much they earn, aspirations and perceptions of their work, and how closely they resemble the rest of the working population. The presented data also show the links between this sector and the formal economy. Connections between people working in this sector and the State were also examined, and welfare payment flows from the State to the sector were revealed. This study shows how the informal sector is closely tied to the formal economy and the State's welfare functions.

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## 1. Introduction

In this study, we explore the internal dynamics and external links of an important part of the urban informal economy through a comprehensive survey of street vendors in Cali, Colombia.

This study aims to answer three specific questions:

1. How distinct are street vendors from the general working population?
2. What are the internal dynamics of street vending?
3. How does street vending intersect with the State?

The answers to these questions allow us to advance our understanding of the informal economy and street vending.

First, we examine street vendors' characteristics in detail. Many studies employ the term "street vendor" as an undifferentiated category, distinct from the general population, and few studies that survey street vendors compare them with the city's population. We will determine the characteristics of street vendors and compare them with the wider city population to answer two basic questions: (1) Who are street vendors? and (2) How distinct are they from the general population? The interesting results yield many new insights that have the potential to overturn standard assumptions. Second, we will uncover the informal sector's political economy through an in-depth look at the internal dynamics of economic transactions and money flows within this sector. Third, this study highlights connections among this sector, the formal

economy, and the State. The informal sector is embedded in a wider set of arrangements (Chen, 2005). We explore the liminal nature of the sector and delineate its wider connections and linkages.

The study's overall aim is to provide a more nuanced and detailed account of an important part of the informal urban sector based on data gained from a comprehensive survey.

## 2. Background

The informal economy can be defined in a number of ways. It is usually employed with reference to employment outside formal regulatory arrangements, either in law or in practice (ILO, 2014a). The colloquial term "off the books" is useful as it embodies the non-regulated nature of the sector, outside of formal regulation and beyond the taxation regime. The informal economy can be subdivided in a number of ways. For example, we can identify different types of workers: one fourfold division identifies subcontracted employees, self-employed, working for one's family, and small entrepreneurs (Vanek, Chen, Heintz, & Hussmanns, 2012, 2014). It can also be identified by sector, an approach we will employ here. Three distinct labor subsectors can be identified: informal employment in the informal sector, informal employment in the formal sector, and informal employment in domestic arrangements such as maids and gardeners employed "off the books." This study primarily focuses on informal employment in the informal sector, although the divisions are fluid, as we will see in the subsequent sections.

Four main schools of thought have been applied to the informal economy phenomenon. The *legalist* school conceives informality as a response by informal workers to an excess of procedures, regulations, and costs (money, effort, and time) imposed by the State on micro-

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entrepreneurs (Becker, 2004). The *voluntarist* school focuses on the deliberate decision made by informal workers to avoid regulations and taxations. This decision is not due to the excess of procedures demanded by the State but reflects the perception that the benefits of informality outweighing those of formality (Chen, 2012). A third school, the *structuralist* school, maintains that the informal economy surges as a result of conditions in the formal economy such that to reduce costs and sustain economic growth, labor conditions must be modified; therefore, the informal sector becomes a complementary and subordinated sector of the formal economic structure (Portes & Haller, 2004). Finally, the *dualist* school explains the existence of informality as a parallel and marginal sector that provides income for the poor (Chen, 2012).

Regardless of the conceptual framework used to study the informal economy, the fact remains that it plays a hugely significant role in the urban global South, offering significant job- and income-generation potential (Bromley, 1978; Chen, 2005, 2012; Godfrey, 2011). In Latin America, the share of nonagricultural employment in informal sectors was 57.7% over the 2005–2010 period, and its contribution to GDP ranged from 21.6% in Brazil and 30.9% in Mexico to 36.9% in Guatemala (Charmes, 2012).

Across Latin America, despite marginal reductions in the informal employment rate, even by 2013, 48% of workers in the region earned their income from this sector (ILO, 2014a, 2014b). The rate of informal employment varies across the region; in Peru, the rate of informal employment in urban areas was 66.5% in 2013, 71.3% for women and 62.6% for men (INE, 2015). In Colombia, it is estimated that almost half of all employment takes place within the informal economy (DANE, 2015). Informality is quite heterogeneous: in Colombia, it covers a wider range, from anyone who is a family employee, a worker in a company with fewer than five employees, the self-employed (except professionals) such as trash pickers, domestic employees, and farmhands (ILO-FORLAC, 2014).

Street vending is a significant element of the urban informal economy (Bhowmik, 2012; Bromley, 2000; Cross, 2000). Despite many government efforts to eradicate street vending, it remains a thriving phenomenon in many cities because demand exists from a large low-income population who benefit from buying cheap goods. Street vendors also, in certain countries at specific political junctures, are able to defend themselves from government attempts to remove them from urban public spaces (Bhowmik, 2012; Cross, 1998, 2000). Cali and Colombia are at such a juncture. Street vending is increasingly recognized and promoted by international agencies and some governments as a way to reduce poverty among unskilled individuals unable to obtain formal employment (Chen, 2005).

Numerous studies have examined street vending in Colombian cities. Bogota, as the country's largest city, is the most frequently studied city (Borja, Barreto, & Sánchez, 2008; Carbonell, 2011; Donovan, 2008; Hunt, 2009; Rocha, Sánchez, & García, 2009). Nonetheless, studies have also examined other cities. Jaller (2009) analyzed food street vending in Medellín, and Castaño, García, Ospina, and Granada (2008) provided a socioeconomic description of Pereira's street vendors.

Cali remains under-researched. Bromley's (1978) classic study of street vending in the city highlighted the sector's internal organization, the distinction between self-employed vendors and those working for others, the sector's official containment rather than eradication, and the divergence between the upward mobility attained by a minority compared with the impoverishment of the majority. This study updates Bromley's work.

### 3. Methodology

The data for this study come from a direct survey of street vendors in downtown Cali, collected during December 1–12, 2014, the busiest

season for street vendors in Cali and a time when most street vendors are in operation.

Cali is a city of around 2.4 million people, one of the major cities in Colombia's southwest region, which is composed of the following departments: Valle del Cauca (Cali is the capital city), Cauca, Nariño, and Putumayo. According to Escobar, Moreno, and Collazos (2013), the southwest region contributed around a seventh of the national GDP in 2010, and the department of Valle del Cauca contributed most of that amount, around three-quarters. Sugarcane production was originally one of the main drivers of the economy but now a range of manufacturing activities are undertaken. Downtown serves as the city's main center of business activity (Vásquez, 2001). Most downtown residents have moved to other neighborhoods in the city. The downtown is a daytime economy and turns into a nearly empty space at night, when activities such as prostitution and drug dealing prevail.

Observational data were also collected on all street vendors located in a 13-block area downtown, the most populated area of the city in terms of street vendors and formal commerce (see Fig. 1). Observational data were collected using a structured guide that collected information on (1) types of stalls (fixed or mobile), (2) type of products offered, (3) number of people working at a stall, and (4) an indicator of the physical condition of the stall (physical condition was defined as good, fair, and poor, and its classification was based on the condition of each stall as perceived by the interviewer). Of the total 792 street stalls counted, 58% were permanent and 45% of the stalls were classified as being in good condition. There were 1085 street vendors working: 66.8% of the stalls were occupied by one street vendor, 29.4% by two street vendors, and 3.8% by three street vendors.

In the second stage, detailed structured surveys were completed for 527 street vendors, who represent around 66% of the street vendors counted during the observational stage. The total number of street vendors in the city is unknown. Local government does not have an official count. According to the local government's planning office, street vendors concentrate in nine areas around the city, and downtown is the largest. Information provided in this analysis can only serve the purpose of characterizing the economic dynamics and street vendors' profiles of those operating downtown.

The survey was designed and financed by the Observatory of Public Policy (POLIS) and the Masters Program in Government (both from Universidad Icesi). Pollsters were hired and trained to use the questionnaires. Three pollster's supervisors were present in the field during data collection.

Informants were randomly selected in all blocks and the survey was conducted while they were at their stall. We approached respondents by explaining the study's objective, assuring confidentiality, and emphasizing that the data will be used for academic purposes. Also, we clarified that they could stop the survey at any time and participation was voluntary. Only a few street vendors did not participate. Respondents answered 68 questions concerning socioeconomic status, family composition, income (including sales and profits), education, life satisfaction, and access to government welfare. Because no comparable survey of street vendors has been conducted in other areas of the city, we acknowledge that there may be differences when compared with vendors in other areas of the city, for example, in terms of gender, income, and type of merchandise sold.

We did not ask questions about patronage and corruption of police and officials because we felt, at the initial stage, it would provoke resistance from the respondents. Perhaps in another round of questions, now that trust has been established, we may venture into this more politically sensitive area. The survey results are used to identify the socioeconomic characteristics of street vendors and their links to the formal economy. Study details are presented on the POLIS web page ([www.icesi.edu.co/polis](http://www.icesi.edu.co/polis)).

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