

VOLUME THIRTEEN / NUMBER ONE / 1989

grassroots development

JOURNAL of the INTERNATIONAL AMERICAN FOUNDATION



FOCUS: Re-examining the Informal Sector

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Grassroots Development is published three times a year in English, Spanish, and Portuguese by the Inter-American Foundation. Its purpose is to explore how development assistance can contribute more effectively to self-help efforts. The journal reports on how the poor in Latin America and the Caribbean organize and work to improve their lives. Articles in *Grassroots Development* draw primarily on the experience of the Inter-American Foundation and the groups that it assists. However, submissions by persons outside the Foundation are encouraged. Prospective contributors should write for "Instructions to Authors."

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Grassroots Development is indexed in the *Standard Periodical Directory*, the *Public Affairs Information Service Bulletin*, the *Hispanic American Periodical Index (HAPI)*, and the *Agricultural Online Access (AGRICOLA)* database. Back issues are available on microfilm from University Microfilms International, 300 N. Zeeb Road, Ann Arbor, Michigan 48106.

To receive the journal, write to:
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Cover photo: A shoemaker in Lima, Peru, works in the country's dynamic informal sector (see article p.9). *Opposite:* Woman makes guitars for family-owned enterprise in Lima. *Photos by Miguel Sayago.*

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Volume 13, No. 1, 1989 JOURNAL of the INTER-AMERICAN FOUNDATION



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The notion of the informal sector has had a checkered past. Originally formulated in studies of Third World urbanization commissioned by the International Labour Office (ILO) of the U.N. during the early 1970s, the idea was adopted by others as “marginalization.” Both concepts were attempts to describe the ad hoc

economic activities that a growing wave of unskilled and impoverished migrants—unable to find salaried jobs—were employing in order to scrape out a living. Cut off from the formal economy, the urban poor invented their own, using shoestring budgets to transform readily available materials into low-cost goods and services for local consumption. Untaxed, unlicensed, and unregulated by the government, the full scope of informal sector activities was unmeasured and poorly understood.

By the early 1980s, the sector had broadened and diversified, becoming an indelible feature of national economies that could no longer be ignored. International donors intensified funding for development programs geared to the sector, and the media lionized a new folk hero—the microentrepreneur—as a Don Quixote tilting at the windmills of big labor, big business, and the state. As the international debt crisis deepened and Third World economies stagnated, the pervasive dynamism of the informal sector raised hopes that a new engine of growth had kicked in.

By the end of the decade, techniques for assisting the sector had become standard items in the tool kit of development organizations. Some of the vaneer, however, has begun to wear thin. Even as these ideas take hold in many countries of the Hemisphere, an attempt is underway to define, and refine, what has been learned from a decade’s investment in new methodologies.

This issue of *Grassroots Development* reflects

on that process by trying to bring the formal sector into tighter focus. María Otero begins by discussing the origins and evolution of the informal economy as a “pyramid” painstakingly erected by the poor, and then arguing for a democratization of access to resources that will not only assist those at the top but will strengthen the pyramid’s base. She also warns that politicizing the sector may erode hard-won gains of the past decade.

In the next article, Sheldon Annis and Jeffrey Franks look at how the idea of the informal sector is altering the traditional terms of political debate in Peru as policies are proposed for transforming the informal economy into a dynamo for powering the national economy. The photo essay by Maureen Hayes Mitchell and Rob Crandall examines one day in the life of a family of street vendors, poignantly illustrating the hopes and hardships of informal sector life. The section concludes with a Research Report summarizing Robert Blayney and Diane Bendahmane’s survey of four IAF-funded programs for small-scale businesses and microenterprises, emphasizing how social and economic gains are linked to the skills learned in participatory organizations. Their conclusions echo María Otero’s call for development organizations to reach down to pre-entrepreneurs, those beneath the informal sector pyramid who have been largely overlooked despite the past decade’s flurry of support for microenterprise programs.

Rethinking The Informal Sector

Volumes have been written by academicians, politicians, and business people about the potential of the informal sector to improve living conditions for the masses of Latin America's urban poor. In the following interview, María Otero adds the practitioner's perspective, drawing on her experience assisting groups of microentrepreneurs throughout Latin America. Emphasizing how the sector has continued to expand and diversify from its own internal dynamics, she suggests how governments, private development agencies, and international donors can strengthen and consolidate the process by democratizing access to credit, training, and markets, and by creating a favorable



Ron Weber

An Interview with María Otero

climate for microentrepreneurs and pre-entrepreneurs to organize themselves to compete more effectively.

Otero, an economist, is the director of the newly opened Washington, D.C., office of ACCION International, which provides credit and training to thousands of the hemisphere's microentrepreneurs. She recently returned from two and one-half years in Honduras, where she was country director for ACCION and helped local microentrepreneurs create a national organization. In Washington, her current assignment is to synthesize what ACCION has learned through its position as a leader in informal sector research and programming, including pioneering the concept of solidarity groups as a way

to deliver urban credit. Her monograph, *A Handful of Rice: Savings Mobilization in Micro-Enterprise Programs*, was published recently by ACCION.

Q The "informal sector" has become a fashionable topic in the development community. How relevant has the discussion been, thus far, to the real needs of the people in the sector?

OTERO: To answer that question, we should start with the history of the term, because at one point "informal sector" carried a certain stigma. It was coined in the 1960s not to describe opportunity but failure, to define the problem rather than possible solutions. At that time, most developing countries were trying to modernize their economies through a model that emphasized import substitutions and industrialization. By early in the next decade, however, we began to see that local economies were not growing fast enough to keep pace with population growth or to provide enough jobs for the people pouring into urban areas from the countryside. The result was the emergence of a parallel or underground economy outside the modernizing one to support those who had been left out. In a sense, then, this "informal economy" is a composite of the varied, often ingenious, survival strategies adopted by the urban poor.

The International Labour Organization (ILO) led the way in the early 1970s in exploring the nature of income-generating activities in this sector, identifying such key characteristics as ease of entry, unregulated and highly competitive markets, the microscale of business operations, and the reliance on indigenous resources, family labor, and skills learned outside of formal schooling.

The pioneering studies were done in Africa and Asia, but the lessons applied equally to what was happening in Latin America. Today, in a city like Lima, statistics indicate that more than 3.5 million people depend on informal sector activities for all or part of their livelihoods.

If we have known about the existence of the informal sector for some time, its dynamics are still poorly understood. The early hope that it would be a short-lived phase between migration to the city and absorption into the formal economy has not been fulfilled. Although these two economies function in a parallel manner, after 20 years they have begun to intertwine in some very complicated and important ways. For example, small-scale carpenters purchase raw materials from large suppliers, often accepting materials not suited for export or domestic mass production. Seamstresses contract with large factories to produce a set quantity—usually of pants or shirts—which guarantees them a market for their piecework. Shoemakers also contract directly with retail stores and boutiques, although it is often on consignment. Many observers say that the formal sector has the leverage in these relationships. Most of the microentrepreneurs I have spoken with admit they lack negotiating power, but they also acknowledge that their ties to the formal sector, especially in marketing and sales, assure them of stability and offer the potential for growth.

The relationship between formal and informal has become even more complex during the debt crisis of the 1980s. Far from shrinking, some would say that the informal sector now includes nearly half the labor force in larger cities. At the same time, formal sector firms have been stagnating or retrenching.

Meanwhile, there have also been enormous changes occurring within the informal sector. It is no longer a

question of absorbing recent migrants to the city. The great waves of rural to urban migration are largely complete, and there is an increasing maturity in the sector. The age of the average microentrepreneur, for instance, is about 35 years. These are people who often started working in the informal sector at an early age and, for a variety of reasons, have chosen to remain. The independence of working in one's own shop has its advantages over working in a regimented factory, and the earnings can be comparable to entry-level, formal-sector pay. For women, who head up to one-third of the households in many urban centers, the flexibility of informal sector activities provides the only possibility of combining child care with the urgent need to earn outside income.

Through all of these changes, the informal sector has evolved a diversity of strata, and within each layer there are mini-networks of friends and family that are relied upon for support. Given this diversity, it is presumptuous to think that one kind of program can meet the needs of the entire sector. The informal sector is like a pyramid. Only a small percentage of the people in it are driven by the "entrepreneurial spirit" so esteemed in the developed world. That is, only a few envision their businesses growing and evolving, and are striving to accumulate the capital to make that possible. As you go down the pyramid, you find poorer and poorer people, those whose primary concerns are with subsistence, job security, and income stability. Donor organizations can help the entrepreneurs at the top of the pyramid with some assurance of success, but the "pre-entrepreneurs" farther down are more difficult to reach.

Q What kinds of programs seem most likely to meet the array of needs in the informal sector?

OTERO: A new kind of thinking is called for. Instead of focusing on where we would like people in the informal sector to be, we have to begin with where they actually are. In the past, development specialists thought that people needed to be trained in some marketable skill before they could form a successful income-generating enterprise. But many people in the informal sector already have considerable trade skills, and those that don't cannot afford the luxury of waiting to be trained. They have to put food on the table for their families. Addressing that need by opening up access to working capital may actually be necessary before concentrating on skills training. For instance, a woman street vendor selling produce on consignment from a middleman has no leverage in selecting her merchandise. With cash, on the other hand, she can select better-quality produce that is more likely to sell, allowing her to increase sales volume and earn more money at the same time. That, in turn, can free up time for attending a training program.

What is needed first, then, is the democratization of credit. This is an interesting concept in countries where credit has traditionally been a privilege of the elite, and where credit has been available to the poor only in a subsidized fashion—that is, when someone else picks up the tab. Unfortunately, this door can only be kept open if there are large infusions of outside funds.

I am talking about something different—credit not as charity but as an investment in the future. This means not only looking at people in the informal sector as a vital productive component of society worthy of receiving credit, but also finding sustainable techniques for making loans affordable. Many countries lack the formal institutions for accomplishing this. It is difficult and expensive for traditional banks to supervise large



Ron Weber

“... technical skills are not enough. They must be blended with an understanding of the human side of development.”

numbers of small loans, especially when borrowers lack the fixed assets for securing repayment. New credit alternatives are needed, and ACCION is among the organizations pioneering those methods.

The first step has been the emergence of what might be called “parallel programs.” These are run by nonprofit organizations that channel money from donor organizations, such as the IAF, the Asian and the Inter-American Development banks, and AID, into income-generating activities among the poor. Interestingly

enough, these programs have borrowed techniques from local money-lenders to cut administrative costs. There is minimal paperwork and quick turnaround on loan applications. To tap the ties of kinship and friendship that frequently typify informal sector operations, many programs use solidarity groups to secure loans. Such loans are usually kept small and short-term so that ongoing access to credit becomes an added incentive for repayment.

Sometimes these initially modest programs can evolve into structural mechanisms for affecting the wider economy, or what Kate McKee, formerly of the Ford Foundation, calls “poverty-focused banks.” Perhaps the most famous example is the Grameen Bank in Bangladesh, which works at the village level to help form groups among landless peasants who know and trust each other. Each new group selects a leader, receives training and guidance from program staff, and eventually receives a loan. The loan is subdivided among members of the group so that each person can invest in his or her own business. The group is responsible for collecting the loan, managing it, and deciding how to reinvest it. By building in the incentive of future loans, the program makes participants into co-owners, so that they work to keep the Bank solvent.

These solidarity groups can become the first stage of a broad-based organization capable of reaching an ever-widening circle of people. The Grameen Bank started in 1975 with a handful of women making bamboo stools, and was the brainchild of an inspired university professor. Today, it probably reaches some 500,000 people.

The informal sector and the massive numbers in it require thinking beyond traditional development terms. It requires thinking about expanding networks that can distribute resources in a sustainable fashion

among more and more people. Although we have begun to make progress in this direction in Latin America, the most ambitious programs here still do not reach much beyond six or seven thousand people.

Q You mentioned the vital role that NGOs have played in helping design parallel programs. Most observers now believe that these institutions are vital for getting grassroots programs off the ground, but is there enough expertise to handle the kind of scaling up that you suggest is necessary?

OTERO: Obviously, since I provide technical assistance, this issue is very close to my heart. How does one create and strengthen a cadre of intermediary organizations to obtain enough leverage to promote sustainable development not only in isolated situations but throughout a society? Certainly the managerial and financial constraints in expanding informal sector programs are more severe than in other kinds of programs because the complexity of the task requires skills that most people attracted to NGOs lack. People with MBAs do not generally choose this line of work, which is too bad because business skills are vital. Doing cash flow projections, calculating interest rates, analyzing income and expense accounts, understanding the program's cost structure, studying the loan portfolio . . . These are daily activities in a microenterprise credit program. And all of it requires fairly sophisticated computer literacy.

Of course, these technical skills are not enough. They must be blended with an understanding of the human side of development. And that makes staffing these programs quite difficult. How do you find people who can reconcile financial statements, on the one hand, with the sensitivity to un-

derstand the social intricacies of organizing indigenous market vendors on the other?

What we have begun to learn at ACCION is the importance of pooling development skills by forming collaborative partnerships with organizations abroad. This learning network now includes some 30 organizations in 13 countries of Latin America and the Caribbean. We have much to learn from each other, and the flow of information has not been just one way. ACCION's office in the United States serves as a clearinghouse for coordinating the exchange of technical assistance, information management, and innovative programming among a number of projects. This has allowed individual organizations to maximize scarce resources by dividing up responsibility for solving different parts of the development puzzle. While one project tests out a new approach to training, another can experiment with a savings mechanism.

It is also important to create networks within countries. The form that such relationships take depends on the local situation and the attitude of the public sector. In Bolivia, for instance, there is a great deal of interchange between our affiliate PRODEM, the government, and progressive people in the private sector. In Colombia, NGOs have formed a national umbrella organization, the Asociación de Grupos Solidarios, to work together and lobby for more effective use of government resources for the poor.

Q Does the effort to channel development money primarily through PVOs and NGOs still seem appropriate? That is, 10 years ago the idea that the state could not be trusted to serve the interests of its citizens may have seemed generally valid. But with the rapid spread of redemocrati-

zation throughout the hemisphere in recent years, is it time to challenge governments to work more closely with private organizations, particularly in the informal sector?

OTERO: Increasing governmental interest in the informal sector is inevitable. In Mexico, for example, estimates indicate that one million new jobs must be created each year just to keep pace with new entries to the work force. There is no way that the country's existing formal infrastructure can absorb all those people. At the same time, the kinds of parallel programs I was talking about earlier need increased government assistance if they are going to expand sufficiently. The question, really, is what kind of support governments will offer, and on what terms.

In many countries, there is increased attention on reducing the negative impact of government intervention. Anyone who knows Latin America understands that people trying to survive view the state bureaucracy as a series of hoops to be jumped through or gone around. It is not something you turn to when you want a problem solved. From the perspective of people in the informal sector, laws are often viewed in the same way, as something to be broken or bent. This general attitude is not really a question of criminality. Rather, it is a reflection of the meaninglessness of certain laws. One example is Hernando de Soto's research into legally registering a new microindustry in Peru. He found that it required 289 steps, took 10 months to accomplish, and cost more than 32 times the monthly minimum living wage of an informal sector micro-entrepreneur.

De Soto and others have also proposed reforming the land titling process so that people living in squatter settlements would have greater security. Deeds would not only encourage people to invest in improving their

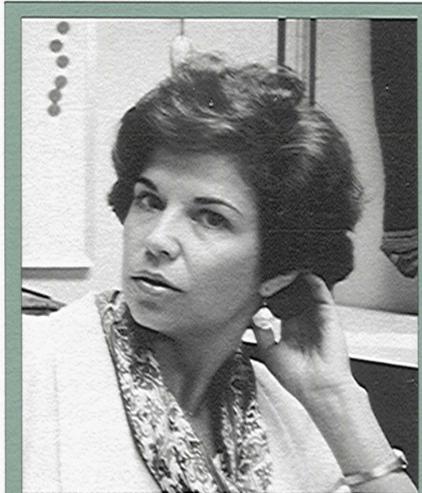
houses, they would provide collateral to open up access to credit. That, of course, may also have some negative side effects, opening up opportunities for land speculators. Nonetheless, people in these settlements, many of whom work in the informal sector, are entitled to the same rights as anyone else in society, including the right to be exposed to the same risks so long as they have access to the same rewards.

In a sense, people in the informal sector do not need to be protected from each other so much as they need increased leverage. For instance, 100 seamstresses living in the same barrio may be doing piecemeal work in their homes, each producing a low volume because she lacks credit from suppliers. These women are poor, often semi-literate, and usually provide the only source of income for their families. But what happens if you work with them, organize them so they can approach a supplier who will agree to give them a discount or a line of credit because of the volume of their demand?

That kind of negotiating power is rare in the informal sector today. Too few people realize how the terms of their linkages to the formal sector can be recast in ways that leverage greater resources. However, NGOs can play an important role in promoting this process. Studies have shown that the informal sector already contains many mutual aid societies and associations that people have put together to make their lives more secure. Most of these organizations are ineffective, but they do exist. The issue is whether or not they can be strengthened to provide a foundation for real development.

We may not fully understand all of the ingredients for accomplishing that goal, but a recent experience in Honduras suggests that it is attainable. An intermediary organization, Asesores para el Desarrollo, started a credit program that was followed up with

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"I am talking about something different—credit not as charity but as an investment in the future."

training. The training focused on small groups of microproducers, each of which was associated with a particular trade. The primary intent was to improve production skills, but an interesting thing happened. Participants began to discuss their work, the problems they faced, possible solutions, and in the process discovered that community was not limited to the place where one lived but might also be redefined as the trade one practiced. As this process developed, leaders emerged. Eventually, the intermediary group convened a national assembly of over 200 representatives from the training sessions.

People at the assembly began talking about their problems, and began asking what they could do to solve them. Officers were elected and were charged with forming a national association of microentrepreneurs. This organization now has elected officials in three cities, and has begun acting on the most common problems facing its membership, especially in the areas of production and sales. It provides people with their first opportunity to participate in a representative body that could help change their lives.

As these kinds of organizations emerge, it is vital that the new democratic governments in the region become involved in developing social structures that will respond to initiatives from the informal sector. In Colombia, which is very advanced in this respect, and in Ecuador, the governments are already looking seriously at the informal sector and have created mechanisms within their ministries to work with it.

Although this process is necessary and is likely to spread throughout the region, it also has its dangers. As I said, the major constraint facing informal sector producers is the lack of cash. This makes the sector vulnerable to politicization. It would be fairly easy in an election year to make the sector a campaign showpiece, open up the public purse selectively to people from a given party. That would undermine all the hard work that has gone into discovering methodologically sound ways of sustaining development in the sector. If you have a government, for instance, that begins to pour millions of dollars into the sector unwisely, chances are great that the program will last a year or two, but few people will repay their loans, and the capital fund will slowly shrink to zero. The program won't help the sector, but will co-opt it, at least for the short term.

The easy thing for governments to do is to hand out money. But it is the

harder things that are likely to pay off. The public sector should work with the structure of intermediary organizations that has emerged in order to tap what has already been learned, and in tandem with them, develop research programs to refine those methodologies. Governments also need to look at the kinds of macropolicies that will open up the formal sector of the economy to competition and create more equal access to resources for the informal sector.

Q Is that likely to make much of a difference if the formal economies continue to stall? Projections of future economic growth in Latin America have the region growing at a rate of 4 percent annually over the next few years, and still only reaching the standard of living that existed in 1980. Can the informal sector be the engine of growth some of its proponents hope it will be?

OTERO: There is research that argues the futility of working in the informal sector. Take, for example, a study in Egypt that focused on a group of small producers, each of whom had one or two apprentice workers. All of these people could think of nothing else but one day freeing themselves from their employer and setting up their own shops. The study suggested that encouraging new microenterprises was simply creating an endless succession of training shops that were unlikely to ever accumulate enough capital to be viable or contribute to domestic production.

And then there is the question of imports. What happens if large producers in Taiwan or Brazil begin mass-producing plastic shoes and flood the market with merchandise that costs 40 cents a pair to make? What happens to local shoemakers producing primarily for the internal

market? We don't really know what happens when the formal and informal economies clash at this level. What we do know is that the informal economy continues to grow in developing countries. So the likelihood is that the apprentice shoemakers would continue to move out, set up their own shops, and produce. Or they would find some other activity that was more sustainable.

Again, I think it is important to focus on where people actually are, not where we would like them to be. It is important not to overwhelm the sector with things that are not needed, or to focus aid in ways that will eventually undermine what has already been so painstakingly accomplished.

The informal sector is in a state of flux; it is still evolving. This is where donor agencies can become constraining. Everybody who looks at the informal sector tries to make it fit their particular policy guidelines. If one is interested in private sector development, what could be more perfect? This is the private sector at its best. If you are concerned with community development or grassroots organizing, those are also possible. If you are interested in women, here they are.

The problem comes when the designated category has its own priorities. Take the issue of women. Although in some countries they form as much as 60 percent of the informal work force, they tend to be concentrated in areas that are extensions of traditional domestic activities such as cooking and sewing—activities that are the least profitable and least capital intensive. Women, in fact, form the base of the pyramid.

In Honduras, there was a program to work with market vendors, all of whom were women. When they were invited to attend a training session for keeping books or organizing inventory, the women would sit and listen politely. One day, the session was devoted to law, and a lawyer was invited to speak. Suddenly these

women were animated, rising up in their seats to ask questions, more questions than the lawyer could answer. Each faced a complex situation in which she needed protection, often related to domestic issues. It turned out that the key to building solidarity and commitment was a series of issues tangential to the economic goals of the program. The point is that the start-up costs of working at the base of the pyramid are high, and the initial returns may be modest.

The danger is that development agencies will gravitate to the top of the pyramid, where payoffs are likely to be quicker. In fact, only a tiny fraction of the sector is currently receiving any resources. The large bulk of people are left out. And of course, there are the poorest of the poor, people who are beneath the pyramid. What do you do to help the pre-entrepreneur, day laborers for instance? There is a whole urban mass being left out. The aspiration of every domestic servant I have met in Latin America is to one day own her own *pulperia*, or corner store. The woman who has some kind of drive, some kind of initiative, may be fortunate enough to put together that *pulperia* or some other business of her own. The poorest usually remain domestic servants. How many development programs are targeted at assisting domestics?

Our challenge is to keep moving down the base of the pyramid, and to think of ways to open up access to the pyramid. I remind myself periodically of what the head of an NGO once told his staff during a meeting. He remarked that every Wednesday afternoon when 30 or 40 men and women crowded into the hot, stuffy reception area to receive their next loan, the smell of hard work and perspiration would drift into his office. "The day we stop smelling that odor," he said, "we will know that we are not working with the right people." ♦

THE IDEA, IDEOLOGY, AND ECONOMICS OF THE INFORMAL SECTOR The Case of Peru

Sheldon Annis and Jeffrey Franks



Miguel Sayago

The authors examine how the idea of the informal sector may be at the center of a tidal change in how Latin American policy-makers try to revitalize their economies. In a brief response, Peruvian political analyst Luis Pásara challenges some of their conclusions.

The idea of the informal sector has always generated controversy. For 20 years, sociologists, anthropologists, and economists have debated: Does informality mean development or the absence of development? Is the informal sector the salvation of the poor or the product of their exploitation? What is the relationship between formal and informal?

Such discourse among academics is nothing new. What *is* new, however, is the spillover of the controversy into nonacademic

Preceding page: *Young seamstress Hilda Herrera does piecework in her home in the San Juan de Miraflores district of Lima.*

debate over economic policy and political ideology. Today, that debate is helping to catalyze the evolution of both a "new" right and a "new" left, a process that has begun to reshape contemporary Latin American politics.

In this article, we examine some economic and political implications of the evolving idea of the informal sector. In particular, we focus on Peru, where debate over the informal sector stands center stage—and may help decide who becomes the next president. We provide, first, two ways to think about the informal sector, and then explain the linkages between macroeconomics and microentrepreneurs. We then describe the informal sector in Peru, showing how the administration of Peru's President Alan García attempted to restart a faltering, debt-depressed economy through a policy of "heterodox stabilization" that was to be led by informal sector growth.

García's attempt badly misfired. But was his idea wrong? Can a modern economy really be driven by tens of thousands of informal, microscale producers? Can the right combination of macropolicies transform the informal sector into an engine of growth? In Peru at least, politicians and thinkers of both a "new" right and a "new" left are betting that it can.

TWO WAYS TO INTERPRET THE INFORMAL SECTOR

In Latin America, there are two grand schools of thought on what the informal sector is and how it works. One school—sometimes called the "structural" school—believes that there is a fundamental cleavage in economic and social composition between the formal and informal economies and infers that the proper role of the state is to help equalize the differences. The other school—which we call the "legal" school—argues that the cleavages are not structural but legal,

bureaucratic, and mostly of the state's making.¹

One reason that the debate over the informal sector is becoming increasingly strident is that the thinking of the structural school roughly corresponds with the political left, while the legal school tends to derive from the political right. Certainly, dividing the diverse views of hundreds of academics and development specialists into two broad categories risks reducing debate about the informal sector into a caricature of its true complexity. The informal sector is still largely uncharted and invites research from a variety of angles, but we contend that the *political* context for increased attention to informality has, indeed, clustered around these two archetypes. Structural school language is rife with references to class oppositions, unequal exchange, exploitation of labor markets, and crises in world capitalism.² Legal school language, on the other hand, is peppered with references to excessive government, mercantilism, deregulation, and the virtues of entrepreneurship.³

For economic structuralists, the term "informal" is essentially synonymous with "poor." It is a term that connotes class—and is defined in relation to "formal," which implies nonpoor, modern, and relative privilege. This analysis presumes that the poor remain informal because the nonpoor benefit from the preservation of a cheap, unorganized labor pool. The terms "private sector" and "capitalist" implicitly connote "antipoor." Basically, the antidote for the ills of a "dual economy" (formal/informal) is protective or redistributive action by the state—for example, minimum wages to protect workers, state support for labor organization, and regulations to prohibit or reduce child labor and unsafe working conditions. By implication, the poor become better off not by working harder within an economy based on exploitation, but by seizing the political

tools of the state. For structural reformers, therefore, "grassroots organizations" should not be primarily oriented towards economic self-help; rather, their role is to help the poor gain increased bartering power, protections, and economic concessions from the state.

The legal school tends to see one economy but two different sets of rules. Whether little or big, above-ground or underground, entrepreneurs generally share the same instincts, motivations, and mutual interests. The formal-informal separation is mostly legal, underscored through the use of terms such as the "underground" or the "black market" economy. To legalists, the underground entrepreneur is not capitalism's victim, but its outlaw hero. What generally frustrates *both* formal and informal entrepreneurs is the intrusive, heavy hand of the antientrepreneurial state. Since the informal sector is, by definition, part of the private sector, solutions are prescribed through freer markets, social mobility as a by-product of marketplace competition, and curbs on the state's inclination to distort economic activity.

THE INTERACTIONS BETWEEN MACROPOLICIES AND MICROPRODUCERS

Does the informal sector reflect capitalism's social and economic failure? Is it merely the place where the economic castoffs who cannot find "real" jobs subsist by whatever means possible? Or is the informal sector a potentially dynamic engine of growth? Is the informal sector something the state wants to encourage—or eliminate?

From the state's point of view, the informal sector is a mixed blessing. On the down side, informal sector output cannot easily be taxed. Even if the informal sector booms, revenues cannot readily be captured to build roads, schools, and hospitals. More-



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Dozens of shoeshine men vie for customers along the arcaded walkway facing Lima's Plaza de Armas. Informal sector activities such as this one employ between one quarter and one half of the entire economically active population in Peru.

over, unprotected informal workers are at the mercy of the most brutal of market forces. But on the up side, informal sector entrepreneurs produce jobs requiring little investment, output requiring minimum foreign exchange, and goods that cater to the needs of the poor; and their profits stay in the country rather than being repatriated to corporate headquarters in New York or being stashed in private bank accounts in Miami.⁴ Even though labor productivity is low, the "equity content" of informal sector output is high since the overwhelming majority of its workers and owners are poor.

Twenty years ago economic policymakers of both the left and the right believed that the modern, industrial, transnational economy would be the driving force behind growth and development. The question was not *if* but *how* the benefits would be distributed. The informal sector was generally viewed as the inconvenient remainder after the "real" arithmetic of economic policy was calculated. The down-side view of informality prevailed.

The problem, however, was that the modern industrial economy failed either to trickle down or redistribute its benefits to the poor in the 1970s—

and in recession-ridden Latin America during the 1980s, the modern economy failed to grow at all in most countries. In evaluating what went wrong, both left-leaning structuralists and right-leaning legalists have begun to think that the informal sector may, indeed, be an alternative engine of growth—if it can be harnessed into and is sparked by the right framework of macropolicies.

Although economists and political thinkers have yet to agree on a consensual framework, they are beginning to identify areas in which macropolicies and the state's interventions (or active nonintervention) represent potential levers to encourage the up sides of informal growth. They concur that the informal sector is intertwined with the rest of the economy and, therefore, can be influenced by a broad spectrum of economic policy instruments for good or for ill. Consider the following examples:

• **Price Controls.** In most Latin American countries, the government has a long tradition of setting or controlling the prices of key commodities. These controls represent a direct tool for manipulating the informal sector. Structuralists point to the positive effects of such controls. Artifi-

cially low prices of basic goods (such as food) can redistribute income by stretching the buying power of the poor. Furthermore, when price controls lead to black markets, resilient and adaptable informals are the first to take advantage of the situation—reselling goods in short supply for hefty profits.

The legalists, on the other hand, argue that price controls lead to shortages that hit informals particularly hard. The average microentrepreneur lacks the working capital to amass buffer stocks to cushion against fluctuations in the supplies of inputs. When price controls exacerbate shortages in supplies and lead to mandatory rationing, formal firms can tap their superior contacts and greater market power to command more resources. Overall, the efficiency of the economy is reduced, and a redistribution away from the poor occurs.

• **Wage and Employment Policies.** Labor supply in the informal sector is extremely complicated because people work there for very different reasons.⁵ Some workers are informal as a last resort, having failed to find jobs in the modern economy. Others (primarily the young, and recent migrants from rural areas) use the informal sector as an "entry point," a place to begin working in the urban economy. When they obtain skills or contacts, they move into the formal economy. Still others are in the informal world by choice—turning aside the opportunity to work in the modern economy because informality gives greater freedom from taxes, bureaucracy, regulations, or the whims of an employer. These people also often earn higher incomes in informality than they could elsewhere.

For the structural school, the informal sector consists mainly of people from the first two categories: the unemployed and the unskilled. The state's remedial role is to devise and implement employment and training schemes to create "good" jobs. This

goal also includes policies for improving benefits in modern industry by legislating higher minimum wages and better working conditions, and by providing workers with greater job security so that a recession does not throw them out into the informal economy. In the informal sector itself, training can boost dimly low productivity levels, and fair employment rules will help improve the lot of the poorest of the poor.

The legalist school sees most informals as self-motivated people who are fleeing the excessive regulation choking the formal economy. Informality often allows them to produce more efficiently than the modern economy while providing important on-the-job training for the unemployed and for new workers. Unnecessary codes and labor regulations should be pared away for both formals and informals in order to increase economic efficiency, extend the advantages of legality to informals, and reduce disincentives to wealth creation.

Legalists also point out that many government policies designed to improve the lot of workers perversely affect those in the informal sector. For example, legislated wage increases often cause firms to fire workers to reduce labor costs. These workers then flood the informal labor market, driving wages down among the poor. Laws designed to prevent that outcome by making it harder to fire permanent workers unintentionally promote greater instability when employers respond by converting permanent jobs into temporary ones or by subcontracting factory work to independent microentrepreneurs.⁶

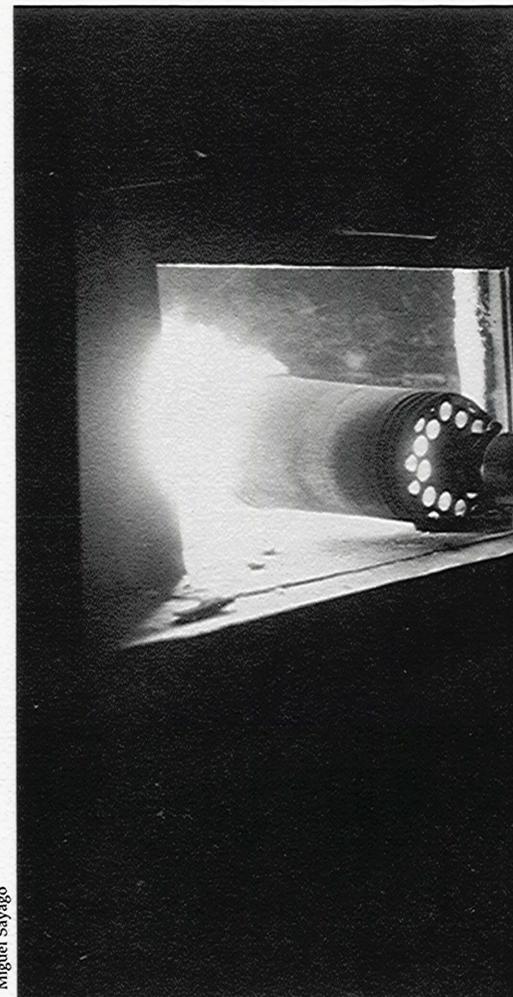
• **Trade and Exchange Rate Policies.** Most producers in the informal sector make goods that compete against foreign imports. Whether in making clothing, processed foods, or electrical equipment, they face a constant challenge from big industry at home and abroad. Many informals

also depend upon imports to keep production flowing since few Latin American countries possess the necessary technology to transform raw materials into finished goods without some steps in the process being provided by foreign countries. Even when raw materials are available locally, then, informals are inextricably linked to the rhythms of the world economy.

For most people in the structural school, this dependency helps explain the formation of an informal underclass.⁷ International trade brings in a flood of low-cost goods produced by high-tech industries, forcing the modern sector of the local economy to replace labor-intensive with capital-intensive technologies in order to compete. This creates "technological unemployment" in the formal economy, and extracts surplus from informal workers by forcing them into "self-exploitation" in order to cut costs. Finally, the imported technologies are often out-of-date and overpriced, reflecting the dependent condition of Latin American economies and their lack of leverage in international markets.

The structural school responds to that inequality by the use of complexly controlled exchange rates to reduce the price of imported inputs necessary for domestic production. It also proposes a protective tariff system to prop up the balance of payments and to keep imports of finished goods from swamping the local market for informal sector products.

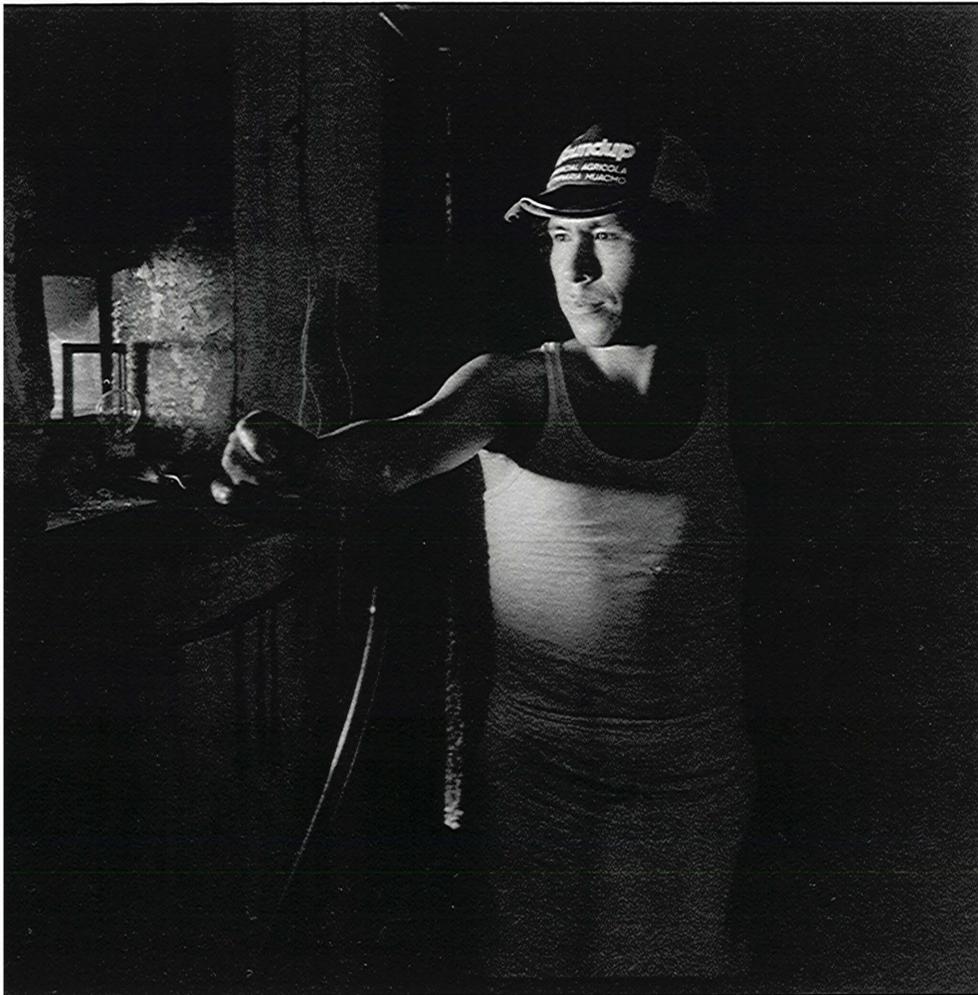
The legalist view is very different. Protectionism may swell the tide of imports, but it also solidifies the structural barriers between the domestic formal and informal sectors. Protection creates a privileged sector insulated from competition on the one hand, and on the other leaves the rest of the economy exposed to the higher prices and shoddy goods that follow. The overvalued exchange rate leads to rationing in which the big formal



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firms always stand first in line, while informals must buy foreign exchange at inflated street rates. The solution is to end protection and free the exchange rate. This would allow efficient informals reliable access to imported inputs at lower prices than they pay now, and give them a level playing field upon which to compete with the less efficient modern sector.

• **Access to Capital.** A severe shortage of capital goods and equipment is one of the defining features of the informal sector. The marginal status of informal enterprises forces them to finance their operations through family savings and informal juntas, or street lenders, who charge exorbitant interest rates.⁸ Besides these inadequate ad hoc arrangements, the only other primary source of investment capital is the banking industry, which is tightly regulated in most Latin American countries. Improved access to financing is thus seen by both structuralists and legalists as a key to the informal sector's development, and credit regulation provides the policy tool.



A worker at the PACOMUH bakery in Huaura prepares an oven. Informal enterprises include a thriving network of wholesalers, suppliers, and service industries, as well as a diverse manufacturing sector.

But the two schools disagree on how to manipulate policy controls to increase access to loans.

Structuralists advocate capping interest rates to reduce the price of capital to borrowers, and imposing requirements that banks lend a fixed ratio of their money to disadvantaged groups. They also promote the organization of specialized lending institutions to reach out into neighborhoods too poor for service by commercial banks.

The legalists believe such regulation is medicine that makes the patient worse. Pegging interest rates below the rate of inflation encourages "dissaving," draining the capital pool from which everyone must borrow. Credit rationing strangles the small borrower and those who cannot finance through friends or from profits (that is, the poor microentrepreneur). Rate restrictions also prohibit banks from charging higher interest rates to poor people to cover the full costs of making small, risky loans. The solution is to give people an incentive to

save more, and give banks an incentive to loan to the informal sector through market prices, rather than government controls.

THE INFORMAL SECTOR IN PERU

Nowhere is the *idea* of the informal sector more hotly debated than in Peru. In part, this is because the *real* informal sector is so visible and plays such an obvious role in daily life. For example, just two blocks from the stately presidential palace and Lima's austere Plaza de Armas lies the vibrantly chaotic marketplace of the Polvos Azules. Here, on the Rimac riverbank, one finds a kilometer-long maze of improvised stalls—offering a dazzling array of radios, plumbing fixtures, Volkswagen parts, food products, school uniforms, *I luv New York* sweatshirts, leather bags, wall mirrors, electric transformers, and other items. In similar markets throughout the city—and just about anywhere else that a tarp can be set

up on a busy street—vendors are hawking their wares. Whether construction materials, lighting fixtures, furniture, rebuilt industrial machinery, children's toys, art reproductions, or "Rambo" socks, it is hard to imagine a product that cannot be bought from Lima's ubiquitous *ambulantes*.

Just how big is the informal sector? Depending on the definition, tools, and data used, estimates for informal sector employment range from about a quarter to nearly half of the economically active population (EAP) in Peru.⁹ As a proportion of the urban work force, the informal sector is estimated to account for as much as 60 percent of all jobs in Lima. Its contribution to overall gross domestic product (GDP) is estimated to be between 7 and 30 percent¹⁰ of all economic output.¹¹

Street vendors and unregistered market selling are only the tip of the iceberg. Beneath the surface are sophisticated networks of informal wholesalers, suppliers, service industries, and a diverse informal manufacturing sector. From middle-class women who make popsicles in their refrigerators for the neighborhood store, to the back-alley shops that forge "genuine GMC car parts" for auto dealerships, the informal sector reaches into virtually every nook of the economy. No one can say precisely where the informal sector begins or ends, but certainly it is both big in size and broad in scope.

THE RISE AND FALL OF HETERODOXY

When Alan García took office as president in July 1985, his Alianza Popular Revolucionaria Americana (APRA) party victory was fueled by overwhelming support from the poor in Lima's sprawling slums. His election signaled an unmistakable repudiation of the orthodox economic policies of the conservative govern-

ment of Fernando Belaunde Terry. In the eyes of Peruvian voters—especially the poor—the essential message was clear: Change the course of national economic policy.

The new García government presented a radical (but highly popular) set of economic policies. First, it took the extraordinary step of imposing a unilateral cap on foreign-debt servicing (which was limited to no more than 10 percent of the nation's export earnings). Second, it implemented a "heterodox"¹² anti-inflation and economic stabilization package, including a one-time currency devaluation followed by a fixed exchange rate, a selective price freeze on many basic consumer goods, wage controls for better-paid workers coupled with a big hike in the minimum wage for the poor, and the forced reduction of interest rates. In short, the government adopted many of the pro-informal sector macropolicies advocated by structuralists, a course diametrically opposite to positions advocated by the International Monetary Fund and the commercial banks.

Perhaps the most unorthodox of García's measures were his explicit proposals for "Andeanization" and "informalization" of the economy, outlined in his inaugural address in 1985 and re-emphasized in 1986.¹³ García and his advisers intended to implement this process by reorienting public investment and expanding credit, training, and technical support for small farmers and informal sector entrepreneurs. The government attempted to replicate, on a wide scale, NGO-type methodologies. It set up a veritable host of semiautonomous, state-controlled development agencies. These adopted the language, hired the staffs, borrowed the methodologies, and lauded the principles that were broadly shared by a plethora of nongovernmental organizations working in microenterprise lending.

While many observers will see only



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the differences between NGO- and state-run programs, we were more struck by the underlying similarities than the charges of greater inefficiency and political machination that NGO programs used to contrast themselves to the state.¹⁴ Key public institutions that were created included:

- **Instituto de Desarrollo del Sector Informal (IDESI).** This semiautonomous organization uses a special fund created in the Central Bank for providing credit and training to microentrepreneurs. In the first year and a half after its creation in February 1986, IDESI made over 140,000 small loans to 41,000 microentrepreneurs throughout the country.¹⁵

- **Fondo de Garantía para Préstamos a la Pequeña Industria (FOGAPI); Fondo de Garantía para Préstamos al Sector Informal (FOGASI).** These organizations are branches of the state development corporation (COFIDE) and specialize in guaranteeing loans issued by commercial banks to small industry and the informal sector respectively. They have guaranteed thousands of private loans to the informal sector.

- **Banco Industrial del Perú.** The state-owned Industrial Bank has operated several different funds that loan money to small industrial artisans, microentrepreneurs, and other informals. These funds have made over 16,000 loans a year since 1986 in all branches of industrial and artisanal production.¹⁶

- **Other Public Initiatives.** The gov-

ernment has promulgated a major "Law of Small Enterprise" to provide comprehensive support to the sector; it has organized an Office for the Promotion of Small Enterprises in the Ministry of Industry and Commerce; and it has also been involved in the establishment of the Central de Crédito Cooperativo (CCC), a savings and loan institution, focusing on cooperatives and small industry, which has branches nationwide.

In addition to specifically targeting microenterprise agencies and programs, the García government also actively manipulated the macropolicy levers that were previously discussed. These adjustments had major effects on the economy. Price controls tilted the terms of trade toward agricultural producers, and minimum wage hikes and expansionary fiscal and monetary policies fueled informal sector growth.

Initially, the García policies seemed to be working. The economy boomed during the first two years of the APRA government, with GDP rising by 8 percent in 1986 and about 7 percent in 1987. According to nearly all observers, the informal economy fared even better than the formal economy, growing at an even higher rate than the already impressive formal figures.¹⁷ Foreign exchange was plentiful due to the debt policy (that is, nonpayment) and cheap because of the fixed exchange rate. Inflation dropped while output soared.

The benefits of this growth were immediately clear. The distribution of

A vendor sells cassette tapes in one of the pueblos jóvenes on the outskirts of Lima. From construction materials to children's toys, there is little that cannot be bought from one of the city's ambulantes.

income shifted in favor of poorer groups, and economic growth was higher for the modern sector because of the demand generated by informal sector dynamism. The political benefits were equally dramatic—in his heyday, President García enjoyed a 96 percent public approval rating.

Unfortunately, the extraordinary boom was temporary. In some respects, the policy sowed the seeds of its own destruction. Several factors caused the heterodox policy to unravel:

- The fixed exchange rate eventually became overvalued, and cheap imports sucked foreign exchange out of the Central Bank, leading to a crisis of foreign reserves.
- The controlled price and wage system eventually distorted the supply and demand structure of the entire economy. This led to shortages of productive inputs and consumer goods.
- Fiscal deficits spiraled. These deficits were financed by printing money, and inflation soared out of control.
- Interest rate controls became profoundly negative as the inflation rate climbed. These negative rates prompted capital flight and stalled private investment.

In the face of capital flight and falling investment, García announced a bank nationalization that he claimed would allow the state to "democratize" credit and leverage greater resources to the poor. The backlash from the private sector brought about the final economic collapse. Inflation shot up from about 100 percent per year at the outset of 1988 to well over 1,700 percent by year's end. That is the equivalent to the value of money declining by nearly 50 percent monthly. The effects were devastating to the informal sector poor, those who had been most helped by the short-lived boom. Soon, everything other than food became a luxury. Jobs disappeared by the thousands, shops and factories closed, raw materials

became unavailable, crime skyrocketed. The nation was beset by food lines, strikes, riots, a mounting guerrilla insurgency, power blackouts, water shortages, a nearly worthless currency, and pariah status in the international financial community. As one economist said, "There is always a crisis in Latin America; but in Peru we have redesigned the yardstick, added unheard-of gradations, and given new urgency to the word."

As might be expected, there are diametrically opposed explanations for the collapse. Were pro-informal-sector policies responsible for the

course, many more poor voters than nonpoor, and poor voters in Peru have traditionally favored the left. The left has long been well organized, and it maintains massive, block-by-block political machinery in the sprawling *pueblos jóvenes*, or squatter settlements, that make up at least a third of Lima. The political right, by contrast, barely maintains a grassroots presence. Offsetting that weakness, the right is no longer stigmatized as the faction solely responsible for Peru's economic woes. President García is generally categorized as a center-leftist in Peruvian

From middle-class women who make popsicles in their refrigerators for the neighborhood store, to the back-alley shops that forge "genuine GMC car parts" for auto dealerships, the informal sector reaches into virtually every nook of the economy.

boom, the bust, or irrelevant to both? Was unilateral debt repudiation the right or wrong decision? Could heterodoxy have succeeded if García had only had the economic skill and political acumen to correctly tinker—or was the IMF right all along? And if these policies were not the right ones to crank up the informal sector as an "engine of growth," which ones are?

COMPETING VISIONS FROM THE "NEW" RIGHT AND THE "NEW" LEFT

Peru is to hold presidential elections in 1990. Assuming that the election does take place, it is likely to offer a choice between two very different sets of ideas, featuring contrasting views of how the state can stimulate the informal sector.

Upon first glance, the demographics of the election would appear to heavily favor the left. There are, of

terms, and unlike the 1985 elections, the left cannot presume that voters will blame the right for failed economic policies, inadequate social spending, and an incompetent debt policy.

How can each side overcome its weaknesses to assemble a winning coalition? The right must demonstrate that it cares about the poor; the left must show that it can produce wealth and political stability. In our opinion, each is looking to the informal sector as at least a partial solution to their political problems. Both a "new" right and a "new" left are shaping their appeal to voters around the idea that a caring and competent state can mold the informal sector into an "engine of growth" to benefit the poor. The political situation in Peru remains complex and fluid. Parties and their shifting alliances cannot be characterized solely on the basis of policies toward the informal sector, but

ferment is occurring among influential thinkers of both the left and the right that points the way toward a dramatic shift in the terms of the debate between the opposite poles of the democratic spectrum. Neither side has congealed into a separate faction yet, and the term "new" is meant to be descriptive of an evolving process rather than a fully organized entity.

THE "NEW" RIGHT AND THE HIPOTECA POPULAR

For its part, the right has found new intellectual vigor and a way to appeal to the poor through the thinking that has emerged from the Instituto Libertad y Democracia (ILD).¹⁸ The ILD's idea-cum-ideology of the informal sector is set forth most forcefully in the book *El Otro Sendero (The Other Path)* by ILD director Hernando de Soto.

As the chief proponent of the legal school of informal sector thinking, de Soto explains informality largely in terms of the bureaucratic excesses and hindrances of a self-serving, mercantilist state. As previously discussed, the legal school focuses on government policies that can free the microentrepreneur from state oppression, and open up markets to competition by stripping modern industry of its privileged position and special protections. The legalist model for relations between the state and the informal sector is well illustrated in the approach to housing and credit that the ILD has advocated and eventually helped enact into law—the *hipoteca popular*, or people's mortgage.¹⁹ (See box on page 18.)

In metropolitan Lima, a vast number of "informals" live semi-legally in self-built homes on lots that were acquired through squatting on state-owned land at the periphery of the city. Historically, it takes poor residents as much as 20 years of effort to gain unencumbered legal title and full

municipal services for such homes. They do so by forming grassroots neighborhood groups that pressure the bureaucracy and that barter electoral support with whichever party can deliver the most services.

Fully titled homes are worth more than untitled homes since they can be bought and sold unencumbered. Furthermore, many informals presently operate residential businesses. Thus, the ILD argued, a massive provisional titling program would not only enhance the value of the informal housing stock (perhaps a third of Lima), it would provide collateral for bank loans and encourage people to start or expand small businesses. With secure titles and mortgage insurance protecting capital improvements, potential entrepreneurs could go to a bank and obtain loans at market rates.

Because housing and credit for the poor are augmented, pressure will decline on government to build low-income housing and provide subsidized credit—neither of which it can afford in the long run nor manage to do efficiently. By removing legal and bureaucratic barriers (its own strings, in essence), the government simultaneously frees market forces and allows enterprising individuals to gain secure low-income housing, create business locales, capitalize the banking system, and borrow at market rates. Moreover, the provisional titles at the heart of this reform can be issued by independent private organizations rather than the government itself. The larger conservation principle, of course, is that everyone gains because the government tries to do less.

Critics argue that de Soto's researchers have greatly overstated the short-term benefits of obtaining legal titles; and replication of the new system of titling in other countries would require significant modification since the government in Peru, not other private property holders, owns most of the land invasion sites. Neverthe-

A microentrepreneur serves breakfast to customers at her stall in Huancayo's market district. Women, primarily microvendors, comprise an estimated one third of the informal sector work force.

less, the *hipoteca popular* represents a concrete illustration of the "new" right's vision of the state's role toward the informal sector. De Soto argues that "his" economy is pro-poor, but does not depend upon heavy external borrowing, new indebtedness, warfare with the IMF, foreign technology, big business, price controls, subsidized credit, tariff protections, fixed exchange rates, or dependence on foreign investment. The essence of growth, he argues, is to mobilize resources from within the informal sector by scaling back the constraints that have forced the need for "an underground." This thinking has been picked up and become core ideology to the new right in Peru and throughout Latin America.

THE "NEW" LEFT AND VILLA EL SALVADOR

If the most remarkable change in the thinking of the "new" right is its sudden appreciation of and concern for the poor, the most striking changes in the thinking of the "new" left are its growing distrust of the centralized state and a new focus on nonradical strategies for alleviating poverty. This represents a striking departure from early leftist critiques that described reformist efforts to stimulate informal sector growth as chimeras distracting from the need for revolutionary change.²⁰

In researching this article, we spoke with a wide spectrum of leftist intellectuals. Though factionalized and hardly speaking with one voice, "new" leftists emphasize certain themes with surprising consistency:

- Few pockets of accessible wealth (either domestically or foreign-owned) remain to be expropriated or heavily taxed for redistribution among the poor. Realistically, the issue today is not state-led redistribution of capital or land, but rather wealth creation from within the domestic economy.



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- Massive state-sponsored industrialization of the sort attempted during the 1970s is even less feasible today than before. The state is too weak, inefficient, and easily corrupted to run factories or regulate a worker-managed large industrial sector (as was attempted under the Velasco regime from 1968-75²¹). In fact, factories in general—whether run by the state, workers, or transnational corporations—are unlikely to meet Peru's employment needs.

- The country cannot continue to thumb its nose at the IMF, World Bank, and private capital markets because some external capital is needed for essential goods, and Peru must participate in world commerce under almost any scenario of growth. A traditionally interventionist left-wing government will not attract the desperately needed help from abroad.

What then? Most "new" leftists argue that the best overall strategy is to follow through with García's attempt to stoke the economy by boosting demand among the informal sector poor. They would extend his heterodoxy by specifically protecting the informal sector and by using the power of the state to reduce structural economic inequities. That would entail

heavy investments in education, training, and social programs; continued organization of the poor into grassroots associations; higher wages and better working conditions; and more credit for small-scale production.

How can this be achieved without a massive state apparatus that does not pay for social investment by simply monetizing deficits? "Go see Villa El Salvador" is the answer most frequently offered by spokesmen for the "new" left.

Villa El Salvador is not a "project" or an "experiment," but a city that came to life on May Day of 1971, when 500 destitute families invaded a vacant plot of private property in the middle of the night. Anxious to avoid increasingly violent clashes with the police, Peru's President Juan Velasco authorized the squatters (whose number had grown to several thousand) to be trucked to an empty tract of state-owned land on the southern edge of the Lima metropolitan area. There, they were given plots to construct homes, medical facilities, roads, and schools.

Today, the city known as Villa El Salvador totals nearly 350,000 people. Block after block of neat, self-

constructed housing stretches over 8,000 hectares of desert. Nearly 200 nursery, primary, and secondary schools—mostly built by community volunteers—enroll nearly 90,000 students. Virtually everyone knows how, or is learning, to read and write. Taking advantage of piped water, residents farm nearly 1,000 hectares that have been set aside for agriculture. Once barren sand yields tons of oranges, vegetables, sweet potatoes, papayas, and corn.

What most impresses visitors is organization. Every block and every activity is intensely organized through crisscrossing neighborhood associations, women's groups, youth groups, artisan associations, and production cooperatives. (See box on page 18.) An estimated 2,000 organizations are nestled within federations of larger federations; and these confederations largely control the democratically elected local government. In 1983, the city became an independent municipality. Its mayor, in turn, represents Villa El Salvador to the city of Lima and to the national government.

Residents of Villa El Salvador work everywhere in the metropolitan area. Relatively few have factory jobs or fixed salaries. Though certainly poor,

the community has a complex and active local economy that is based on small-scale production and the provision of services. In essence, it is a legitimized agglomeration of "informal sector" activities.

Most dramatically, up to 1,000 of these enterprises are to be relocated into an industrial park that is to be

entirely devoted to small-scale economic activities.²² The United Nations and a host of other donors are providing money and technical backing to provide permanent sites for small businesses that are now operating in homes. As they relocate to the park, they will pay taxes; but in return, they will receive credit and tech-

nical assistance and will have access to heavy machinery to be run on a cooperative basis.

Whether or not the park concept eventually works, in the minds of many Peruvian intellectuals, Villa El Salvador is a powerful idea. In many respects, it is the "new" left's vision of what the future ought to look like.

IAF Support for the ILD and Villa El Salvador

The Instituto Libertad y Democracia (ILD) and Villa El Salvador are key players in the accompanying article by Sheldon Annis and Jeffrey Franks. Over the past few years, the Inter-American Foundation has supported both, through grants to the ILD and two community health organizations serving the residents of Villa El Salvador.

The Instituto Libertad y Democracia was incorporated in January 1980 as a private, nonprofit research center dedicated to the study and analysis of issues and policies affecting Peru's economic and social development. With major funding from AID, the Institute has focused the research of its interdisciplinary team of some 40 professionals and support staff on surveying the needs and activities of Peru's informal sector. In his recent book *El Otro Sendero*, Hernando de Soto, the founder and president of the ILD, says that the Institute "is [currently] designing institutional mechanisms required in a market economy that could function without privileges," including efforts to enable those in the informal sector to obtain titles to their land and homes, to legally establish their businesses, to open access to commercial credit, and to enforce contracts.

The ILD received a grant from the IAF in 1985 to undertake a study for devising the *hipoteca po-*

pular, or the simplified private system of registering deeds and providing title insurance so that squatters who had settled on public land could obtain clear title to their homes and obtain collateral for loans to capitalize income-generating activities. After examining similar systems in other countries for ideas that were suitable to Peru, a pilot plan was to be tested in three *pueblos jóvenes*, or shantytowns, in metropolitan Lima. In 1988, President Alan García issued an executive decree extending the *hipoteca popular* to the entire country.

The Instituto de Salud Hugo Pesce (INSAHP) is a private, nonprofit association incorporated in 1982 to improve the health of slum dwellers in Lima's *pueblos jóvenes*. With support from OXFAM/England and UNICEF, it has helped launch successful community-managed health projects in several of the city's northern settlements.

In 1985, the IAF extended its first major health-related grant in Peru to fund an INSAHP-sponsored project in Villa El Salvador, a poor neighborhood of 300,000 residents in southern Lima. Consolidating and expanding the work of four young doctors who had recently graduated from the Universidad Cayetano Heredia, the new project has three major goals. Four teams, each composed

of a doctor and a nurse, were formed to provide specialized care; 40 residents, selected by community organizations, were trained as paramedics to provide basic care and make referrals; and vaccination and public health campaigns were organized to improve prenatal care and reduce infant mortality. Working with the Comunidad Urbana Autogestionaria Villa El Salvador (CUAVES), a representative community body that helped establish a formal municipal government, the teams of INSAHP doctors and nurses played a vital role in drafting and implementing a unified health plan for the entire area.

In late 1988, the INSAHP teams were firmly enough established in the community to form their own independent organization—the Instituto de Apoyo a la Salud Popular (IDASP). In addition to helping implement Villa El Salvador's unified health plan, IDASP recently sponsored a workshop with several NGOs in Lima to examine affordable alternatives to offset the skyrocketing costs of medicines. With funding from the IAF, IDASP will help organize a system of neighborhood pharmacies in Villa El Salvador. The efforts of INSAHP/IDASP have been closely monitored by the Peruvian Ministry of Health for possible replication elsewhere.

—R.W.



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A key maker does business from his portable curbside workshop in Lima. Informal sector entrepreneurs such as this one produce jobs requiring little investment, output requiring minimum foreign exchange, and goods that cater to the needs of the poor.

When describing the community, observers emphasize three points. First, just about anything that a poor country needs can be and is produced in Villa El Salvador. The town is not entirely self-sufficient, of course, but there is an extraordinarily diverse production of basics and a high degree of synergy among the small-scale manufacturers, service providers, and the agricultural economy. Villa El Salvador requires relatively modest inputs from the outside, with local production constantly substituting for imports. The economy does not depend on extensive foreign investment; it is not export oriented; and the reins of power are not held by an elite, by banks, or by international businessmen.

Second, the city has a thoroughly democratic "popular" government. To be sure, it has cliques and special interest groups, but no economic or social upper crust has separated itself from the majority by forming a permanent class. Moreover, a positive "barrio culture" unites the residents with a remarkable sense of shared

purpose. As one researcher put it, "Villa El Salvador is a social movement fixed in one place."

Finally, the economy and social character of the city is heavily state-assisted. That does not mean that the residents do not excoriate politicians and bureaucrats—they do—but they universally assume an active role for the state. No one in Villa El Salvador could imagine protesting: "Get the heavy hand of the state off our backs!" The industrial park, in the eyes of the residents, is an example of the state helping to do the right things.

DO THE "NEW" LEFT AND "NEW" RIGHT CONVERGE?

Two decades ago, squatter settlements such as Villa El Salvador were viewed primarily as unsightly scars on the face of Peru's developing modernity. For the left, the vast pueblos jóvenes were dramatic proof of capitalism's utter failure to help the masses. For the right, they were a mess to be cleaned up by force. Left-

wing activists built up networks of radical support in the pueblos jóvenes while the right condemned such activities as subversive of public order. Violent clashes between police and squatters were common.

Today the picture could not be more different. Both the "new" right and the "new" left see people in the informal sector not as victims, or a backwater, or a side effect, but as Peru's best and most realistic hope for development. Thinkers on both the right and the left are building a new politics, a sociology, and a macroeconomics upon the idea of the informal sector; and whichever political alliance wins the upcoming elections, the new government can tap an ideological mandate for assisting the informal sector.

Economists everywhere, from the Inter-American Development Bank to Peru's left-wing think tanks, are now engaged in an intense intellectual effort to think through a coherent set of pro-informal-sector macropolicies for Peru. Predictably, bank versions emphasize greatly restrained state spending, monetary stabilization, the resumption of international creditworthiness, and renewed borrowing oriented toward export promotion. The hope is that these measures will ultimately generate revenue to pay for neglected social investment.

"New" right legalists, like those at Lima's Instituto Libertad y Democracia, place greater weight on bringing underground businesses above ground, streamlining oppressive government regulation and bureaucracy, making state technocrats publicly accountable for their decisions and actions, and organizing producers into guild-like associations. The left-leaning think tanks, on the other hand, emphasize reduced outflows of capital, selective tariff protections for the domestic market, higher wages, expanded social spending, and the provision of credit for microproducers. "New" leftists—those with the vision

A woman sells clothing in Lima's Polvos Rosados market. She receives credit and technical assistance from the Asociación para el Desarrollo e Integración de la Mujer, which serves microentrepreneurs in metropolitan Lima.

those with the vision of Villa El Salvador in mind—stress the blending of popular organizations and the state, the provision of infrastructure for the smallest producers, a scaled-down industrial role for the state, modest expectations from international exports, technological self-sufficiency, and a greatly reduced role for the international banks and the IMF.

In some respects, Peru is a unique case in contemporary Latin America. The country has been driven into an unusually grim situation by the failures of its past governments and by extraordinary bad luck. Seeing their country caught between the pressures of the Sendero Luminoso guerrillas and a pariah status in the international financial community, most Peruvians do not envision a future of gleaming steel mills, nor do they expect to become the Hong Kong of the Andes. For them, the informal sector is a kind of economy of last resort.

Yet well beyond Peru, the rapidly evolving idea-cum-ideology of the informal sector has taken on a life of its own. The basic notion that the informal sector can be an engine of growth has been planted and taken hold in other Latin American nations. In a half-dozen countries, recently formed, conservative think tanks are melding informal sector economics with populist messages. They aim at a vast swath of voters who are still poor economically but have middle-class aspirations, those whom the past generation of leftists called the petty bourgeoisie.

Many thinkers argue that the debate over the informal sector represents not the crystallization of a "new" right and a "new" left, but a convergence. Each side has so thoroughly invaded the language, concepts, moral terrain, and political constituencies of the other that a clearly marked ideological "spectrum" no longer exists.

That may be. Yet even as labels become meaningless, the debate contin-



Miguel Sayago

ues; and as Latin America becomes increasingly pluralistic, the politics of the future will in large measure hinge on how that huge middle segment of "informals" eventually defines itself.



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Texas Press, 1987) and Direct to the Poor: Grassroots Development in Latin America (edited with Peter Hakim, Lynne Rienner Publishers, 1988). The present article is adapted from his book-in-progress on grassroots organizations and the public sector in Latin America. JEFFREY FRANKS is a Ph.D. student in political economy at Harvard University. His doctoral thesis will examine the macroeconomics of the informal sector. His master's thesis at Oxford University examined Peru's experiences with heterodox stabilization.

ENDNOTES

1. Bejar, Hector, "Reflexiones sobre el Sector Informal," *Nueva Sociedad* 90 (1987): 89-92. In this article, Bejar discusses the informal sector in terms of an "economic interpretation" and a "legal interpretation"—categories that roughly parallel ours.
2. The structural school has been influential throughout Latin America due largely to the influence of the International Labour Organization's (ILO) regional program for Latin America—PREALC—which is headquartered in Santiago, Chile, under the direction of Argentine economist Victor Tokman. PREALC has sponsored studies of the informal sector in most major Latin American cities and has published more than a dozen monographs and working papers on the subject. Examples of PREALC work on the informal sector include the following: Tokman, Victor, "An Exploration Into the Nature of Formal-Informal Relationships," *World Development* 6 (1978): 9-10; PREALC, "La Evolución del Empleo Formal e Informal," *Documentos de Trabajo* 279 (1988); PREALC, "Reflexiones sobre el Sector Informal a Propósito de Dos Estudios de Casos en Santiago y Lima," *Documentos de Trabajo* 319 (1988).
In Peru, one of the chief exponents of the structural school has been Daniel Carbonetto, who served as an economic adviser to President Alan García until 1988. See Carbonetto, Daniel and M. Inés Carazo de Cabellos, *Heterogeneidad Tecnológica y Desarrollo Económico: El Sector Informal* (Lima: INP/Fundación Friedrich Ebert, 1986).
3. See, for example, de Soto, Hernando, *El Otro Sendero* (Lima: Editorial El Baranco, 1986); Instituto Libertad y Democracia (ILD), "Malas Leyes, Buenas Leyes," a compendium of articles from *Caretas* (n.d.).
4. This argument of course does not apply to the huge drug economies in the Andean countries, but we do not consider those activities to be part of the "informal sector."
5. Pinilla C., Susana, *Concepción, Características y Promoción del Sector Informal Urbano* (Lima: IDESI, 1986): 41, 43, 58-9.
6. Instituto Libertad y Democracia, "Las Leyes de Estabilidad Laboral y sus Efectos Económicos," *Cuadernos de Trabajo* 2 (Lima: ILD, n.d.).
7. Carbonetto, Daniel and Eliana Chávez O'Brien, "Sector Informal Urbano: Heterogeneidad del Capital y Excedente Bruto del Trabajo," *Socialismo y Participación* 26 (n.d.): 1-30.
8. For a description of the different mechanisms of informal finance used in Peru, see Susano, A. Reynaldo, "Flujo de Fondos del Mercado Informal de Capitales," *Diagnóstico y Debate* 2 (Lima: Fundación Friedrich Ebert, 1983). That these mechanisms are inadequate is indicated by interviews the authors conducted with microentrepreneurs in Lima, in which they listed the lack of capital as one of the principal constraints on growth.
9. Suárez-Berenguela, Rubén, "Peru Informal Sector, Labor Markets, and Returns to Education," *LEME Working Paper* (Washington, D.C.: World Bank, 1987).
10. See Pinilla C., endnote 5, for the estimate of 7 percent. Total informal sector output was estimated at 31.8 percent of GDP by the Instituto Libertad y Democracia in *Compendio Técnico y Estadístico de El Otro Sendero* (Lima: ILD, 1986). Note, however, that the methodology of these figures has been questioned in Rossini, R.G. and J.J. Thomas, *Los Fundamentos Estadísticos de El Otro Sendero: Debate sobre el Sector Informal en el Perú* (Lima: Fundación Ebert, 1987).
11. Notice that the proportion of GDP represented by the informal sector is much lower than the proportion of the economically active population working there. This reflects the extremely low output per worker among informals.
12. For a discussion of heterodox stabilization experiments, see *Heterodox Shock Experiments* (forthcoming), edited by Stephen A. Marglin; Dornbusch, Rudiger and Mario Simonsen, "Inflation Stabilization with Incomes Policy Support: A Review of Experience in Argentina, Brazil, and Israel," *World Employment Programme Research Working Papers* (Geneva: ILO, October 1986).
13. García Pérez, Alan, *A la Inmensa Mayoría* (Lima: Ministerio de Economía y Finanzas): 22-4. Many of the informal sector policies implemented were discussed by García adviser Daniel Carbonetto (a key Peruvian structuralist cited in endnote 2) in an article published before the APRA government assumed power. See Carbonetto, Daniel, "Políticas de Mejoramiento en el Sector Informal Urbano," *Socialismo y Participación* 25 (Lima, 1984): 109-39.
14. In our interviews, we noted that informal sector borrowers expressed preference for whichever programs ran best and offered the deepest subsidies. That difference, in our view, is not fundamentally a function of public/nonpublic, but depends instead on the generosity and availability of external support. Everyone preferred programs in which funds were available for operations and lending. We saw little evidence that small programs were inherently more efficient. Smallness often merely meant that a program had lost out in the competition for external donor support or had retrenched because of inflation. When programs—whether public or nonpublic, small or large—lost funding—whether through decisions by external donors, as a by-product of inflation, or from the inability of the public sector to sustain them—they all behaved essentially the same. The staffs started squabbling, borrowers began complaining, and everyone ascribed sinister political motives to their nearest competitors.
15. IDESI, *Memoria Anual* (1987).
16. BIP, *Acción Financiera en Apoyo a la Pequeña Empresa, Artesanía y Sector Informal* (n.d.), and an interview with Raúl Paredes of BIP on 7/21/88. The funds are FONART for artisans, FOPEI for small industry, FONAME for microentrepreneurs, and FOFISI for the informal sector.
17. For formal sector growth rates, see Ministerio de Economía, *Alerta Económica* (March 1987). For arguments on the higher informal sector growth rate, see Franks, J.R., "Economic Stabilization in Peru: 1985-1987," (Oxford University typescript, 1987).
18. The traditional right-wing approach to economic policy virtually ignored the needs of the urban poor. Under rightist governments, the burden of stabilization policies was almost always disproportionately borne by the poor. This neglect

is reflected in the fact that Peru has historically had one of the world's most skewed income distributions. See Thorp, Rosemary, "The Stabilisation Crisis in Peru: 1975-8," *Inflation and Stabilisation in Latin America*, edited by Rosemary Thorp and Lawrence Whitehead (London: Holmes and Meier, 1979); Webb, Richard, "Government Policy and Distribution of Income in Peru: 1963-1973," *The Peruvian Experiment*, edited by Abraham Lowenthal (Princeton: Princeton University Press, 1975). The "new" right for the first time in Peru is making poverty alleviation the centerpiece of a conservative economic platform.

19. ILD, "Un Seguro Servidor," *Si* (May 1987): 20-1; Unión Formal-Infomal, "Democratización del Crédito: Un Puente entre la Banca y los Pobres," full-page ad appearing in several Lima newspapers during April 1988.

20. For some early radical critiques of the informal sector concept, see Bromley, Ray, "Organization, Regulation, and Exploitation in the So-Called 'Urban Informal Sector': The Street Traders of Cali, Colombia," *World Development* 6 (1978): 1161-71; Gerry, Chris, "Petty Production and Capitalist Production in Dakar: The Crisis of the Self-Employed," *World Development* 6 (1978): 1173-86; Leys, Colin, "Interpreting African Underdevelopment: Reflections on the ILO Report," *African Affairs* (1974). A more recent "old" left view of the informal sector in Peru is presented in Galin, Pedro et al., *Asalariados y Clases Populares en Lima* (Lima: Instituto de Estudios Peruanos, 1986).

21. McClintock, Cynthia, "Reform Governments and Policy Implementation: Lessons from Peru," *Politics and Policy Implementation in the Third World*, edited by Marilee Grindle (Princeton: Princeton University Press, 1980): 64-97; Scurrah, Martin and Bruno Podestá, "The Experience of Worker Self-Management in Peru and Chile," *Grassroots Development* 8: 1 (1984).

22. Land for the industrial park was originally set aside during the Velasco government for worker-managed factories, and later these industrial sites were made available for large corporations. Few takers appeared, so a portion of the industrial park was reallocated for use by local microentrepreneurs.

A Reply From Peru

Luis Pásara

Annis and Franks conclude their article by predicting that opposing forces in Peru's upcoming presidential elections will seek to capitalize on the informal sector in their campaigns. Some find their prediction a bit breathtaking, and a lively word-of-mouth debate has already started, even before publication of the article. One of the people we consulted for an opinion was Luis Pásara, a prominent Peruvian political analyst.

In his response, Pásara argues that there is little overt indication—at least from party programs—that the left is building part of its campaign around the informal sector. What we find even more intriguing than the discussion about next year's elections are a series of points Pásara raises about the ambiguity of definitions about the informal sector. With his permission, we present them here as a methodological caution to those who venture onto this shaky terrain. We also look forward to receiving other comments on this article.

—The Editors

The principal problem in discussing the "informal sector" in Peru is the ambiguity of the term. In a country where more and more activities are becoming illegal, we may all be said to be employed informally, at least part of the time.

This phenomenon, which is related to two greater ones—a growing anomie in Peruvian society and a radical crisis of governance—clashes with the perception of informality as a clearly demarcated sector comprised of the poor. Narrowing the focus may be a useful simplification for analytical purposes, but given the acute nature of the present crisis, it distorts reality.

In addition to defining who is working informally, there is the more general question of developing a typology of informal sector activities. Though the article contains no typology of its own (and does not tap research available elsewhere), it asserts, without statistical substantiation, that "most producers in the informal sector make goods which compete against foreign imports." It then describes the Polvos Azules market in Lima without any reference to the massive sale there of products brought into the country by smuggling. This paints a deceptive picture of the extent and nature of informal sector production. The informal sector, as Hernando de Soto showed in *El Otro Sendero*, rests primarily on trade and services. Production does occur, but it is confined to labor-intensive goods owing to the low levels of investment in capital equipment that typifies informality. The example par excellence is ready-made clothing, a product line recently confined almost entirely to the informal sector in Peru. Even here, the apparent dominance of informal production is misleading. The primary effect has not been to replace imports, but to shift domestic production away from the formal manufacturers that came to dominate the clothing market in the 1960s as a result of national import-substitution policies that subsidized light-industrial production.

A second, more disturbing question about the breadth of informal sector activities in Peru concerns the pro-

duction and marketing of coca for eventual processing into cocaine. Economic publications in Peru estimate that the coca traffic generates one billion dollars a year, equivalent to 30 percent of the country's legal exports. Can an activity of this magnitude be ignored when discussing the informal sector, particularly when its illegal aspects contribute to the unraveling of the state and the social fabric of the country?

A third misunderstanding concerns the superficial connection made between informality and taxation. Granted, almost by definition the informal entrepreneur cannot be taxed as a generator of income, but he can be and is as a consumer. This may be one reason why informalization of the Peruvian economy has been accompanied by a shift in the tax structure toward indirect taxes, especially those on consumption. In any case, the wider the informal economy spreads, the higher the tax revenues.

There is also the problem of linking informality and poverty. This shows up in Annis and Franks' tendency to lump together both concepts as they apparently do when they maintain that "for 20 years sociologists, anthropologists, and economists have debated" on the subject of informality. Since the concept of informality is not 20 years old, it has to be assumed that the authors are equating it with "marginality," which made its appearance in the social sciences during the 1960s. These are two different concepts, however, and recognition of the differences helps illuminate the present discussion of informality. "Marginality" in its many variations describes the diminished economic, social, and political status to which a growing sector of the population in Latin America was relegated because it was excluded from the process of capitalistic economic growth. The concept of informality, however, re-

fers to the existence of an economy parallel to the formal one (one which can be equated with a modern capitalist economy only by doing violence to the facts). Because this informal economy does not abide by the laws and regulations governing the national economy, it is growing with a dynamism and a strength that at times make it competitive with the formal economy. We are thus talking about two different concepts, or perhaps two different ways of seeing a real situation.

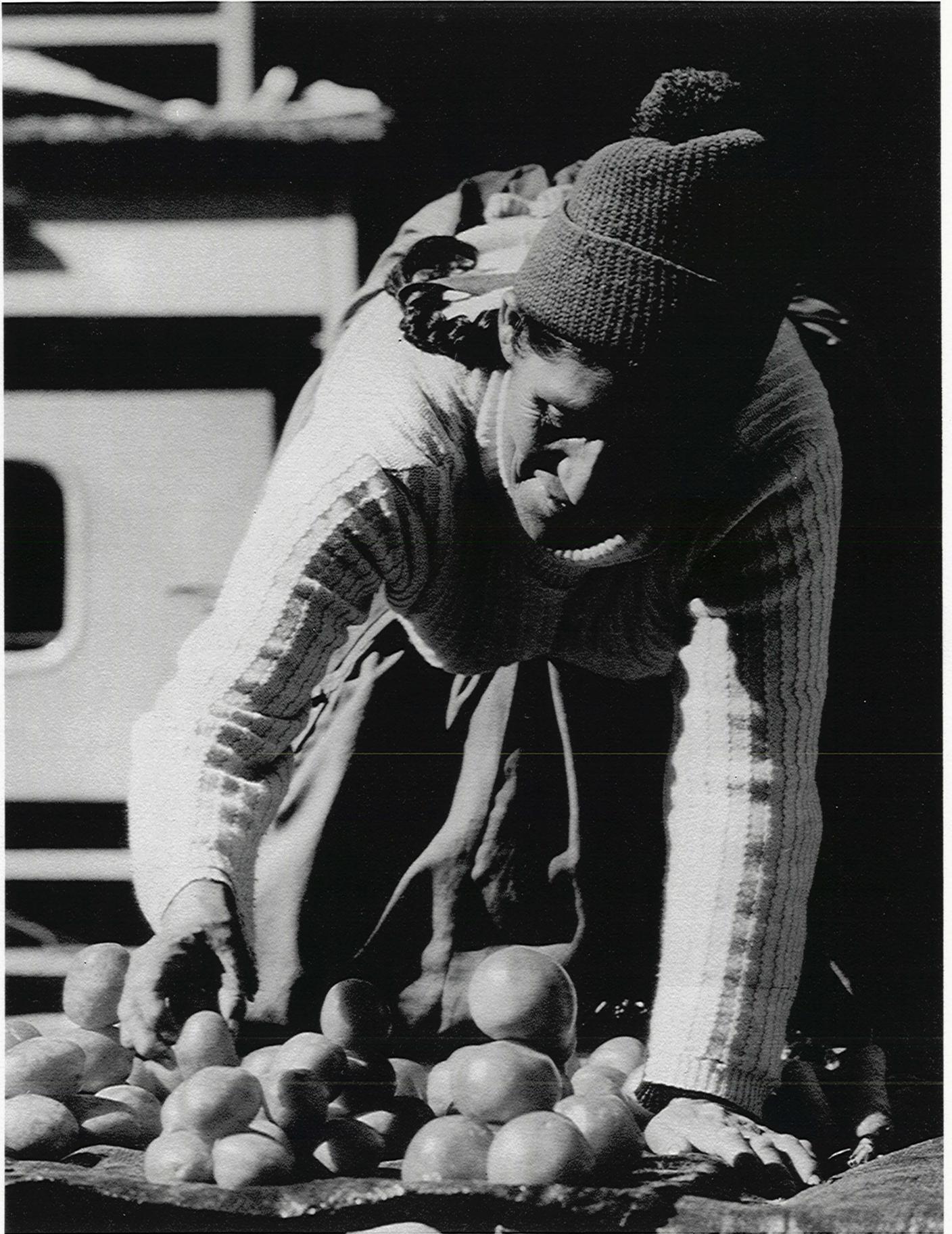
In their discussions of the "two schools," the authors omit a key element of each school's argument. Their account of the structural school overlooks its argument that informality is a by-product of the economic growth model embodied in the formal sector. And the other, the legal school, makes a basic statement about informality that is not clearly expressed by the authors: The reason why the state has created and still maintains an order in which informal producers are marginalized or shunted aside is the "mercantilist" organization of the formal private sector. Mercantilism is neither market oriented nor capitalist, but must depend on government protection to ward off and survive foreign and domestic competition. This point has caused Hernando de Soto's Instituto de Libertad y Democracia to be viewed with suspicion by a significant part of the private entrepreneurial sector in Peru.

The paper states that "the legal school tends to see one economy," the implication being that the other school perceives the formal and informal sectors separately, as being unconnected with each other. Quite the contrary. The two schools agree that the two sectors are integrated, and in ways that work to the disadvantage of the informal sector. Where they differ lies in the structural school's belief

that the disadvantage arises from exploitative relations, whereas the legal school attributes it to the prohibitive costs imposed by government on entering the formal sector.

Considering this basic divergence, it is unlikely that proponents of the two schools will agree on a unified set of policies toward the informal sector. As for the authors' contention that a "new" left and a "new" right have emerged and agree that "the informal sector may indeed be an alternative engine of growth," and "are building their cases to the voters upon the idea that a caring and competent state can shape the informal sector into a pro-poor 'engine of growth,'" a recent occurrence signals a need for caution. Neither assertion is supported in the Izquierda Unida platform approved by the united democratic parties of the left at their congress in January 1989. The document clearly indicates that the informal sector enjoys no particularly preferential consideration in the official thinking of the left. As for Latin America as a whole, it would be even more premature to predict emerging policies based on the experience of Peru. Peru has suffered socially and economically to a degree and in ways that are comparable with few other countries in the region. The chronic incapacity of the modern sector of its economy gives Peruvian informality a unique profile that does not lend itself to forecasting solutions or policies elsewhere. ◇

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Taking to the Streets

Lacking ready access to capital, a family of street vendors banks on each other each day to survive.

Text by Maureen Hays Mitchell
Photos by Rob Crandall

Demetria Montero de Colonio's piercing eyes, set in a weathered face of sculpted features, have not been dulled by four decades of work supporting her family. Known widely as Mamita, Demetria is an *ambulante*, or street vendor, who earns her living selling vegetables along Calle Mantaro, a crowded city street in the market district of Huancayo, the major commercial center of the Mantaro Valley in the Peruvian central highlands. Street vending in Peru is centuries old, and

despite struggles and setbacks, Mamita is perpetuating the tradition by teaching her four eldest daughters and young daughter-in-law the rules of the trade. They, in turn, are teaching their younger sisters and their own children to master what has become both a strategy for economic survival and a source of family pride.

As the Colonios illustrate, street vending in Huancayo is often organized as a family enterprise. Two of the daughters, Yolanda and Paula, and their sister-in-law, Carmen, regularly sell produce with Mamita on Calle

Mantaro. Another daughter sells *choclo*, a squat, large-kernel variety of maize, on a nearby street. And yet another daughter has emigrated with her husband to Satipo, a rapidly colonizing department in the Peruvian

Opposite: Matriarch "Mamita" Montero de Colonio stacks her vegetables in preparation for the day's trade in the busy market district of Huancayo, Peru. Below: View of the market area, where competition among street vendors has increased dramatically in recent years.



jungle along the eastern slope of the Andes, where she, too, works as an ambulante. She also supplies tropical fruit for her family in Huancayo and returns every July and August to sell with her mother and sisters.

Mamita and her daughters begin their day well before dawn. Often accompanied by one or two neighboring vendors, they first visit the wholesale market, shopping for bargains on fresh produce. They have learned that, by banding together, they can increase their purchasing power. After making their selections, the women hire a *transportista* to carry their produce on a cargo tricycle to Calle Mantaro. Once there, the women divide their goods, stock their stands, and by seven o'clock are ready to catch the first shoppers of the morning.

The Colonios hold a decided advantage over their competitors. Each morning while they shop at the wholesale market, Mamita's husband, Antonio, sets up their four stands before he goes to a spot construction job as a mason. Like his wife and daughters, he too is part of the informal sector work force. When the women arrive from the market, their stands are ready for operation; they need only integrate their fresh produce with yesterday's surplus. In the evening, Antonio returns to help take down the stands. Describing her husband, Mamita admits, "Some men don't help their wives at all. They leave them to the children and vending. Not my Antonio."

In preparing their displays, Mamita and her daughters distribute produce so that each stand features a different array. Usually, the Colonios purchase no more than four or five kinds of bulk vegetables. Mamita sells cabbage, carrots, and tomatoes; Paula specializes in onions; Yolanda diversifies with tomatoes, garlic, and several varieties of peppers; and Carmen sells tomatoes and carrots. If one kind of vegetable begins to spoil, all the women take part of the stock in order to sell it more quickly.

Together the women set their prices according to what they paid the wholesalers. If other ambulantes were party to the purchase, they join the discussion. This arrangement creates an interesting phenomenon: Any customer doing some comparative shopping along this stretch of Calle





The long day begins well before dawn for the Colonio family. Clockwise from top left: Mamita's husband Antonio sets up the family's stands while the women shop in the wholesale market; Mamita (right) selects her produce carefully; daughter Yolanda, with her son Rolle, hires a transportista to take her tomatoes and onions to her stand.

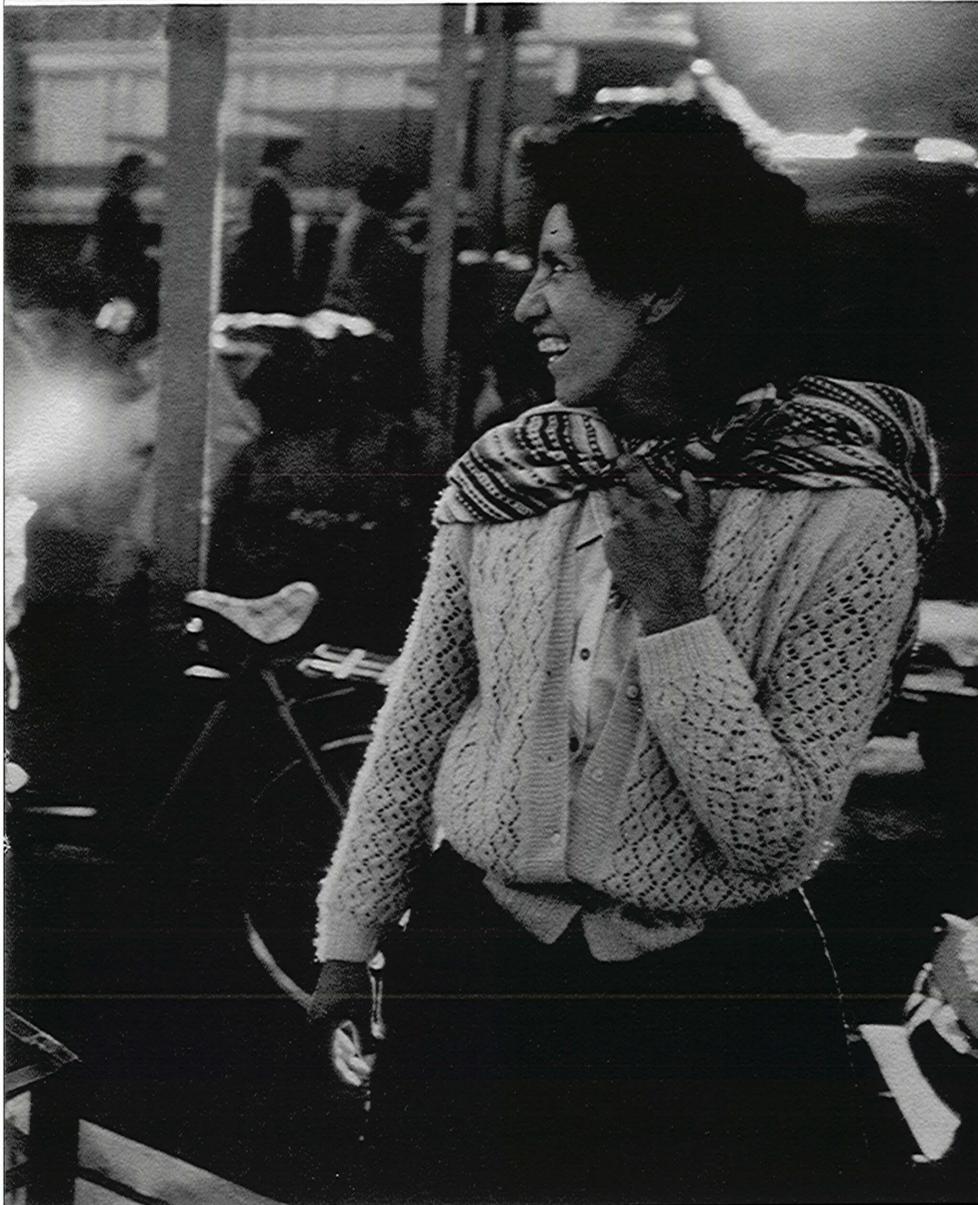
Mantaro is likely to question a relative or cohort of Mamita's and find the same prices. Yet, by wandering a bit further, the customer would soon enter another zone and perhaps encounter a different price.

Mamita's experience has taught her that customers select vegetables that command attention. So the Colonio women meticulously polish, painstakingly stack, and frequently shower their vegetables. Sparkling in the sunlight, their displays work to catch a customer's eye. And when their displays do not do the trick, simply calling out in Spanish or Quechua often does.

At times the Colonios enter into lively banter with their neighbors. "Tomatoes, rich juicy tomatoes! Today's tomatoes, not last year's!" At first, this exchange may strike an outsider as antagonistic, but the good nature of the game quickly shines through. And if all else fails, the "enchanter," a disheveled elderly man or woman, will, for a small tip of coins or produce, bestow good luck on the vendors by gently swatting the stands and their merchandise with a leather whip and a tuft of yellow, flowering *ruda*. If nothing else, these practices help the ambulantes pass the long, slow hours.

For the Colonios, street vending not only supplies an income, it binds the family together. The four stands on Calle Mantaro are the clan's nerve center. Mamita and her older daughters use the addresses of their stands as their home address so that their children may attend school closer to their mothers' work. Mamita's younger children and grandchildren stop by on their way to and from school, and even eat meals there. They are often found curled atop a pile of fiber bags, doing their homework. And during the busier hours of the day, a day-care-like arrangement evolves in which the sisters rotate supervision of the children. The children spend so much time there, they sometimes refer to the stands as "home."

The family network on Calle Mantaro is also an interesting blend of individual and joint enterprise. While each woman works for herself, elements of their operations are shared, and each readily lends a hand to another. When Carmen left her job in a sweater mill after her son was



born in late 1986, she decided to join her in-laws as an ambulante. Her husband built her small stand, her sister-in-law Yolanda financed her licensing fees, and Mamita covered her initial produce investment. Together with Paula, Yolanda and Mamita coach Carmen on the subtleties of street vending. Likewise, when Paula's second child was born and she was forced to miss eight days of vending, Mamita and Yolanda expanded their stands to encompass hers, tending her onions and paying her daily fee to the municipal collector.

As the streets of Huancayo have become more crowded with vendors, the competition has intensified. "When I first came here, we were few and we sold well," recalls Mamita. "Now there are so many more ambulantes. Sales are down, and no one earns very much." Since she shares her block of Calle Mantaro with 140 other ambulantes, 85 of whom sell fresh produce, her profit margin has, indeed, diminished. With the pressure to finance their daily purchases with cash to avoid credit problems, the Colonio women have little margin for saving or spending on items other than necessities. Their average price markup is about 20 percent, which allows Mamita to gross about \$20 per day. Once her business-related expenses are deducted, she takes home less than \$3 daily. Even this requires the family to work long hours. They tend their stands every day from seven a.m. to six p.m. Invariably, their best hours are between nine and eleven, yet for those few extra sales, they will sit at their stands, polishing tomatoes, until dusk.

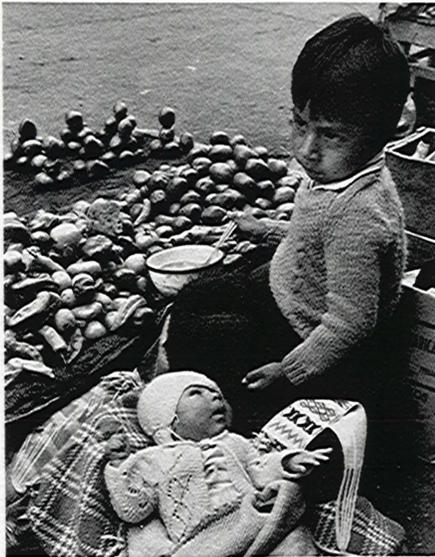
In addition to the long hours and poor pay, ambulantes must also cope with the dangers of the streets. Mamita and her daughters store all their merchandise in their stands overnight. Because the inventory and equipment at each stand might be worth as much as \$120, and because petty thieves work the streets at all hours, the ambulantes on Calle Mantaro have hired 24-hour watchmen to patrol the area. But not even they can be trusted. The watchmen often pilfer the stands the ambulantes so meticulously wrap up and leave behind, or they quit in fear for their own safety. In recent years, the Sendero Luminoso guerrillas have



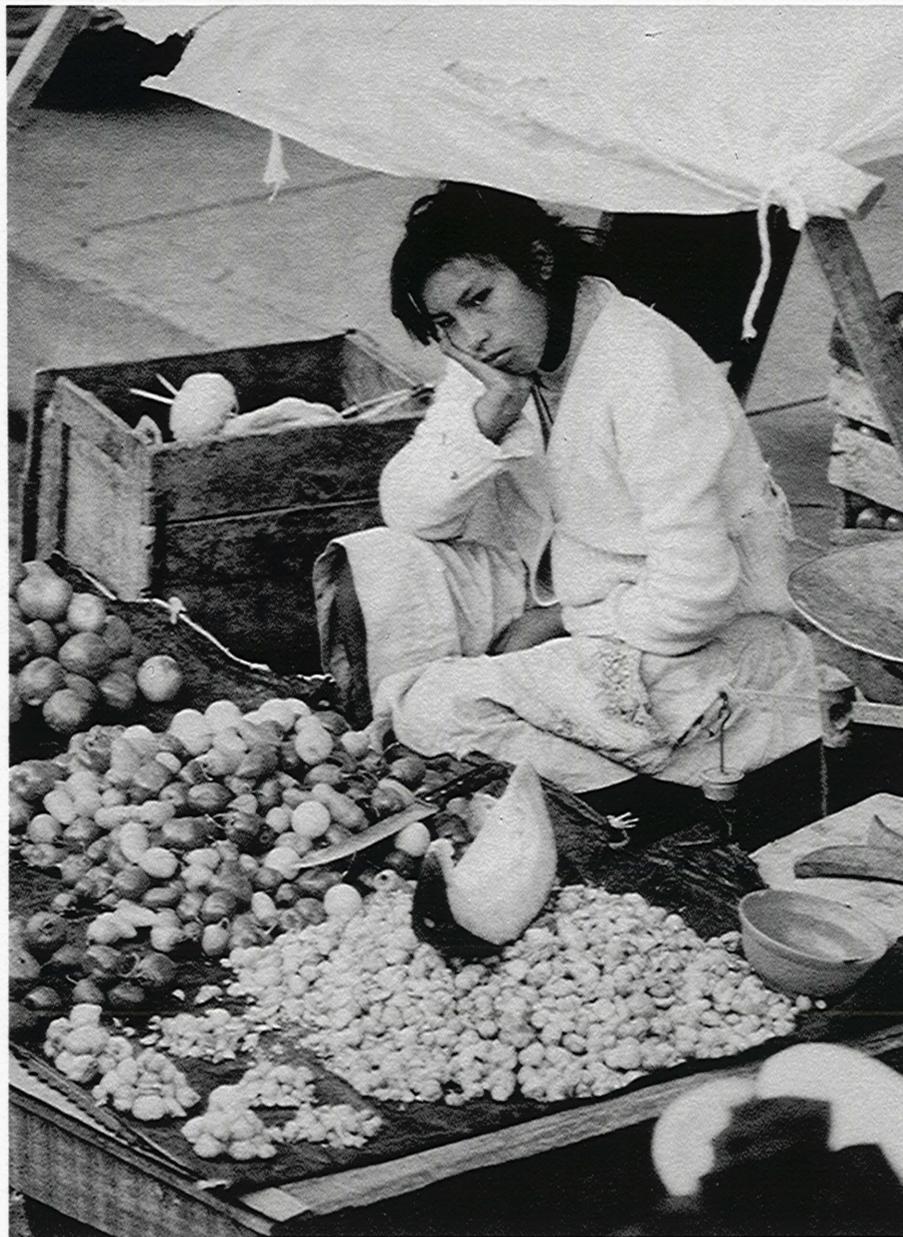


Clockwise from top left: *Mamita (center back) at her stand on Calle Mantaro; Yolanda prepares squash for sale; a neighboring vendor showers her vegetables to create an attractive display.*





Left: Yolanda's son Rolle eats his breakfast while keeping an eye on his cousin Juanito. Children spend so much time at the family stands that they often refer to them as home. Below: The afternoon hours pass slowly for younger sister Wilma, who tends Yolanda's stand on Sundays.



become a violent force in the valley, adding a new worry for the ambulantes.

Regardless of the dangers and difficulties, street vending has become a way of life for Mamita, who, even as her financial pressures have eased somewhat, still insists on working every day. After more than 40 years of selling vegetables, Mamita feels more comfortable tending her stand than staying at home.

Mamita says she will always be an ambulante. And despite the hard life, she still harbors some hope of advancement for her children and grandchildren. Unlike many vendors who simply seem resigned to their fate, Mamita is proud of her work. She shares a collective consciousness with other ambulantes, an awareness of their critical role within the urban economy. She is also competitive and displays a clear entrepreneurial spirit, readily admitting her preference for work as her own boss rather than earning a salary from someone else. "We answer to no one but ourselves," she says. "And when the day's sales have been good, we get the full reward of our own labor."

Mamita's eyes sparkle as she adds, "I am like many working mothers who dream of entering business with their children, and I have done just that. I am surrounded all day, every day, by my daughters and granddaughters, and I am teaching them to be proud of their work and accomplishments too. I don't know any other way to make a living, but that's fine, because I like it." ♦

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Searching For Comparative Advantage

The IAF and Microenterprise Development

Between 1972 and 1986, approximately 12 percent of the IAF's annual program budget was earmarked for urban microenterprise projects. Two years later, the figure had jumped to 22 percent—nearly a 100-percent increase. When agricultural projects with a significant micro-entrepreneurial component are included, the percentage is even greater.

To assess the impact of its funding in this sector, the Foundation hired economist Robert G. Blayney to analyze the economic and social gains resulting from four representative microenterprise projects supported by the IAF, and to make recommendations about future IAF involvement in this area. The results of his research were published recently by the Foundation as part of its "working paper" series.

"The IAF's work in microenterprise development is neither a Horatio Alger effort nor an attempt to reach all microentrepreneurs," said Charles A. Reilly, director of the Foundation's Office for Learning and Dissemination, which commissioned the study. "Many development organizations, including USAID, AITEC, and PACT, are working effectively at microenterprise promotion. Latin American and Caribbean business persons are increasingly involved in the sector also. The IAF has taken a particular focus—on group action and associational activity. When microentrepreneurs join forces, they can do things that individuals cannot, such as obtaining credit or buying raw materials in bulk at discount rates. Also, groups and associations of microentrepreneurs can expand horizontally throughout a region or country, thus offering benefits to greater numbers of the poor."

Indeed, solidarity group formation and its logical sequel of association formation among beneficiaries stand out as the common denominator



Sandra Wavrick

A Peruvian beekeeper from the department of Lambayeque displays a panel of honey ready to be harvested.

among the projects studied, which ranged from small committees of beekeepers to the first association of microentrepreneurs in all of Latin America.

To gather data, Blayney traveled to Colombia, the Dominican Republic, Mexico, and Peru, spending four or five days at each project site. He interviewed project workers, visited the pushcarts and market stalls of entrepreneurs, attended association and group meetings, and pored over financial records and other documents. "Admittedly," said Blayney, "there were limitations on this kind of research. First of all, there was really no baseline information on the beneficiaries. In its place, I had to use general statistics on the low-income groups in the country. And since the sample was very small, there was no control group. At the same time, it was quite obvious that beneficiaries had on the whole profited both financially and socially from their participation—but there was no way to be very precise about just how much."

In Peru, Blayney visited the Fundación Nacional para el Desarrollo, a nonprofit organization that, among other things, is introducing the beekeeping business to small farmers in the remote northern department of

Lambayeque. Of the four projects evaluated, this is the only one involving a rural enterprise. Operating as a hybrid cooperative/business, the Fundación provides credit, technical assistance, and marketing services to committees of farmers who are among the poorest people in Peru, earning the equivalent of \$10 to \$25 a month. The program also assisted local carpenters, who were given technical assistance in organizing small hive-building businesses.

In Santo Domingo, Dominican Republic, Blayney saw firsthand how a small association of street peddlers increased profits by buying, instead of renting, their three-wheeled, pedal-powered pushcarts, or *tricyclos*. Their grassroots association was organized spontaneously in 1981 in response to the theft of a tricyclo. A technical adviser to the Fundación de Desarrollo Dominicano, through which the IAF eventually lent financial assistance to the association, encouraged the members to organize into groups so that they could receive outside funding.

Since then, 30 solidarity groups have been formed and many peddlers have been able to buy their carts and avoid the hefty rental fee that was cutting deeply into their profits. The association has also opened a tricyclo repair and manufacturing business, and a sewing school for women. Having worked so long completely on their own, the *tricycleros* have new confidence in what can be accomplished through banding together. Blayney notes that the association's decision to go into manufacturing may have been somewhat rash, given the relative inexperience of its members. However, after a number of setbacks they are now moving forward—albeit more cautiously.

Women microentrepreneurs are the focus of the project evaluated in Cali, Colombia. The program is sponsored by the Banco Mundial de la

Mujer, the Colombian affiliate of Women's World Banking (WWB), an international network of women's organizations dedicated to securing greater access to local and regional financial markets for women. The core of the WWB/Cali project is channeling credit to women microentrepreneurs, most of whom work as market women, street vendors, or producers of items for sale in the marketplace. The organization helps these women form solidarity groups to guarantee each other's loans, similar to the tricicleros in Santo Domingo. Members also learn rudimentary business practices, and are required to open a savings account. At the time of Blayney's visit, 425 solidarity groups had been formed with a total membership of 1,500, 71 percent of whom were microvendors, the poorest of the poor in Cali and adjacent Puerto Tejado.

The Mexican project that was assessed catered to a group of small manufacturers whose businesses were somewhat more advanced—certainly less “micro”—than those of the Cali market women or the pushcart peddlers in Santo Domingo. The small entrepreneurs in Monterrey and several other Mexican cities were served by the Asesoría Dinámica a Microempresas (ADMIC), an association offering credit and technical assistance in a socially conscious framework. Before members are eligible to receive a loan, they and their families must attend business classes. ADMIC stresses family participation and mutual assistance in all its activities; however, the solidarity group concept for guaranteeing credit was not in evidence. Out of the ADMIC experience, however, emerged a national association of microentrepreneurs called Micro-Empresarios Mexicanos (MIMEXA), which has also received support from the Founda-

Research showed that ADMIC



Stephen Vetter

A member of the Asociación de Tricicleros "San José Obrero" builds a pushcart in the association's workshop in Santo Domingo.

beneficiaries made the greatest financial gains of the groups evaluated. All its members increased their sales and assets by 200 percent or more during two years of participation. Their profitability increased by 78 percent or more. On average, each entrepreneur created two new jobs. According to Blayney, ADMIC entrepreneurs were able to make such gains not only because their enterprises were more substantial from the outset (having assets in machinery and equipment), but also because they were involved in manufacturing, rather than relying solely on retailing or service activities. It is harder and much more expensive to achieve positive economic impacts with entrepreneurs on the lower end of the scale, or with pre-entrepreneurs, but it can be done, as this study affirms.

Blayney's examination of the four projects also revealed that often the most modest assistance—a tiny loan, learning how to open a bank account, getting help in keeping business records, setting up mutual aid arrangements to provide a form of “sick leave” and the like—can have a dramatic effect on these small businesses and consequently on their owners' lives.

Blayney concluded that the overwhelming majority of the micro-entrepreneurs were better off

economically as a result of their participation in the projects. They increased sales and profits, created or sustained jobs, improved or expanded their businesses, obtained more education for themselves and their children, and started savings accounts for the first time in their lives. As might be predicted, the extent of the gains depended on how long the entrepreneur had participated in the group or association and, as mentioned above, how advanced the enterprise was initially.

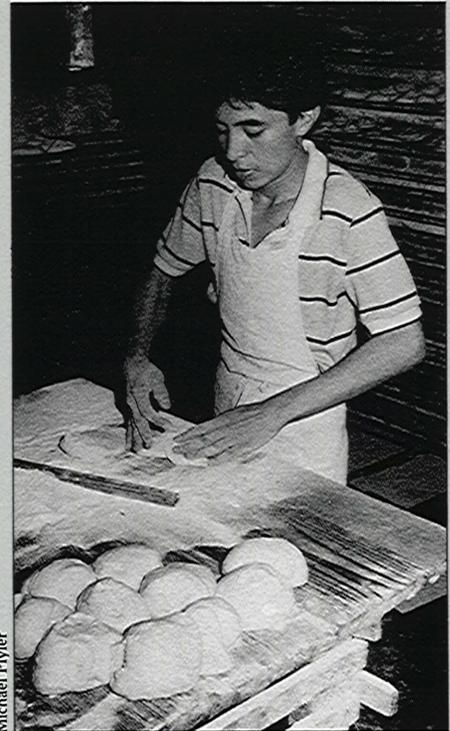
Many project participants had never thought of themselves as “business owners.” In fact, they had to be persuaded that what they did from day to day to keep bread on the table was a bona fide business. But once convinced, and with the backing of credit and technical assistance, they became more attuned to business opportunities available to them. As this change in attitude signifies, project beneficiaries clearly were gaining socially as well as economically.

For Blayney, whose extensive experience in providing practical advice to microenterprise programs in the developing world made him a natural choice for this assignment, the most interesting aspect of the research was trying to develop a framework for looking at the social impacts of the projects. Crucial to his thinking is the concept of empowerment and what he calls “social learning,” a step-by-step process in which an individual learns to exert control over the situation he finds himself in.

“Empowerment of the entrepreneur is of key importance to the operation of a viable enterprise,” says Blayney, “even though it is extremely difficult for some business economists to consider it a worthy goal of development, let alone business development. Whether the enterprise is small, family-owned, or community-operated, the manager or managers must be socially empowered to oper-



Left: A seamstress (left) learns bookkeeping skills from a WWB staff member in Cali, Colombia. Right: A baker prepares pastries for sale at an ADMIC trade fair in Monterrey, Mexico.



Michael Plyler

Kathryn Shaw

ate more successfully in the real world."

The first step in the process—simply making contact with a solidarity group or support organization—may be the hardest, especially for impoverished street peddlers or market women who may never have joined any organization before. Formally becoming a member is the next step, followed by participation—hesitant at first but increasingly confident. Through participation, members learn about credit and business practices, exchange ideas, apply the newly acquired practices and ideas to their businesses, and ultimately adopt a more optimistic view of the future because they have grown as persons willing and able to make decisions and take control. The IAF projects Blayney studied all utilize management training classes and organization into committees, solidarity groups, or associations as vehicles to assist the working poor in this learning process.

Blayney, who admits that his conceptual framework needs elaboration, recommends that the IAF keep abreast of new methods for tracking the social impacts of microenterprise projects. He points out that a number of organizations are already engaged

in devising reliable methods for quantifying social development benefits. For example, the Federación de Organizaciones Voluntarias in Costa Rica, a former IAF grantee, and AITEC, a U.S.-based development organization, are designing and utilizing new monitoring and evaluation methodologies to collect better economic and financial data, and are breaking new ground in measuring progress in human development and social learning.

In response to this recommendation, the IAF research agenda now includes a project to design a detailed evaluation methodology that goes beyond cost/benefit analysis and tries to pin down criteria for evaluating growth in "intangible" benefits, such as organizational effectiveness and individual social gains. An upcoming IAF working paper will describe this methodology, which will be tested and refined over the next two years.

Blayney also recommended that the IAF continue to support microenterprise projects, especially those assisting the lower half of the low-income population in this sector. While many organizations support microenterprise development, most show a preference for projects designed with the more established,

small, as distinct from *micro-*, entrepreneur in mind. According to Blayney, given its grassroots orientation, the IAF is especially suited to work with organizations whose beneficiaries are microentrepreneurs (in the true sense of the word) or even *pre-*entrepreneurs.

In preparing the working paper based on his fieldwork, Blayney was assisted by Diane B. Bendahmane, a writer/editor specializing in development assistance. Blayney's experience in the microenterprise field includes directing seminars on micro-scale enterprise at the Economic Development Institute (World Bank), the Harvard Institute for International Development, and the Johns Hopkins School for Advanced International Studies. A copy of their report may be obtained free of charge by writing to the Publications Office, Inter-American Foundation, 1515 Wilson Boulevard, Rosslyn, Virginia 22209. ♦

La Lucha

The Cooperative Struggle for Water

Robert W. Mashek

Digging for water leads a small group of Nicaraguan farmers to create a community.

In December 1986, in my capacity as executive vice president of the Inter-American Foundation, I journeyed to Nicaragua to assess, firsthand, the viability of grant requests submitted by three cooperatives of small-scale farmers who wanted to drill wells and install irrigation systems on their lands. The IAF, after much consideration, decided to fund the projects, and by late 1988, installation of project infrastructure was nearly complete.

Although I had left the IAF in the interim, I could not forget the clear-eyed determination of those Nicaraguan peasants. Among the conflicting news reports and debates about Nicaragua, I heard nothing about countryfolk of the kind I had met. Yet all the clamor of political polarization was unable to drown out the plainspoken perseverance I remembered hearing in their voices as they talked about a more timeless struggle. Having grown up on a family farm in Iowa during World War II, and having come to know groups of farmers in more than 20 countries of Latin America, the Caribbean, and Europe during 27 years of work in international development, I think that farmers seldom enter the maelstrom of politics unless possession of their land is at stake. Farmers everywhere are more preoccupied by the rhythms and challenges of nature, with finding ways to even out the va-

garies of the weather in order to survive and prosper.

Aware of how much was beyond their control, I wondered how the farmers I had met, who had long been abandoned to their own devices, were faring in their efforts to shape their own lives. I wanted to find out how they were bearing up under the new project, if the task of meeting increased responsibilities, reorganizing work patterns, and handling larger amounts of money had made these communities more confident and independent or if the strain was cracking recently formed organizations apart.

In the fall of 1988, the IAF commissioned me to find out. On my return visit, I spent time with the three campesino cooperatives; however, the following account tells the story of one, whose hopes and struggles typify the others.

I first visited La Lucha with a technical advisor from the Centro de Investigación y Asesoría Socio-Económica (CINASE) in 1986, during the dry season. Taking the Pan American Highway some 30 miles south from Managua, we turned west onto a paved road that soon disintegrated into a dusty earthen trail, rutted like a desert arroyo. The parched fields on either side were broken by occasional



Sean Sprague

patches of green shrubs and banana trees set in deep hollows. Here and there, a monumental tree rose, water-wise as an organ pipe cactus.

The going was slow as we maneuvered our way in and around oxcarts hauling water in rusty barrels roped to wooden beams. Eventually, however, we spotted a party of about a dozen campesinos, brown as their fields, dressed in white T-shirts and dark trousers, walking down the track toward us. Clambering out of the jeep, we exchanged handshakes and briefly introduced ourselves. The men explained that we were expected, that they were on their way to check up on a compadre working nearby, and asked if we would like to join them.

Walking together as the jeep followed, we approached a small, white,



cement-block building, with "Cooperativa La Lucha" painted in black letters on the wall. I knew that *lucha*, or struggle, often had political connotations, so pointing to the wall, I asked the man next to me why they had chosen this name for their cooperative.

"Because of our search, our struggle for water," the man answered, a thin smile softening the creases of his leathern face. "Come along. We will show you."

Leading us 100 feet or so off to the side of the community house, the man stopped in front of a circular stone crown, topped with a scaffolding of hewn tree trunks, from which was suspended a pulley threaded by a rope whose far end was harnessed to a bony horse. Opening his hands outward, our guide explained that this

was what we had come so far to see. "This is the well," he said. "We have been digging it for two years now. No one would help us get the water we need, so we decided to dig on our own. We could not wait, not sit around without trying."

Forming a semicircle around the mouth of the shaft, we looked down, at high noon, into darkness. "Hello," one of the men yelled into the abyss. "Hellooo," a cheerful reply rang back.

"How far down is he?" I asked.

"Maybe 300 feet," someone whispered, "but still no water."

The man next to him quickly piped up, "No, but we have hit dampness."

Looking down, I tried to imagine myself at the bottom, looking back up through the wrong end of a telescope at a sky shrunken to the size of a

Like tillers of unirrigated land elsewhere, Nicaraguan campesinos near Managua live beholden to the elements. The same road that is a nearly impassable quagmire during the rainy season, above, becomes a rutted desert arroyo during the dry season a few months later.

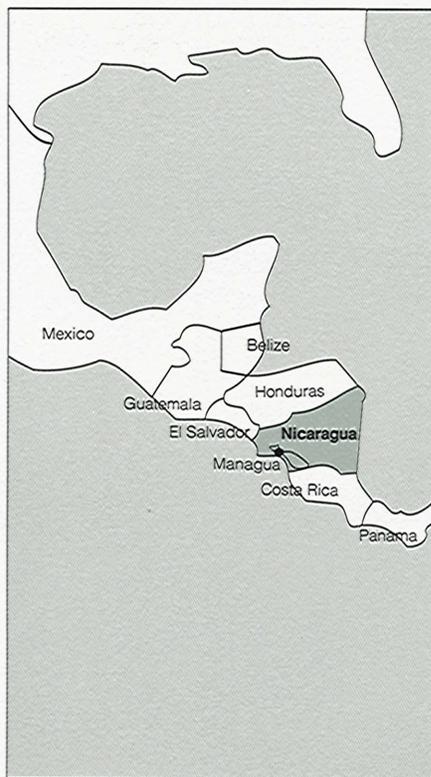
quarter. What kind of courage, given the makeshift materials, did it take to keep making such a descent, day after day?

The spell was soon broken by the reedy voice from the bottom of the well shouting, "Here comes another load!" The pulley began to creak, and turning around, I watched a boy leading the horse down toward the co-op house, pulling the rope until a bucket of moist earth and rocks materialized above the rim of the well. A short

time later, the water miner, using niches in the well's sleeving for footholds, followed. Greeted with backslaps and exclamations—some boisterous, others sober—the man blinked furiously and grinned, home again at last.

As we walked back to the co-op house, the men told me the story of La Lucha. The search for water had gone on a long time, gathering force during the last decade, after people had begun to obtain their land. When these farmers were youngsters, their families worked five days a week for the landlord, and two days sharecropping assigned family plots. During the 1970s, however, the landowner decided to sell out, and the tenants began buying the four- to eight-acre parcels their families had sharecropped for generations. Other farmers in the area received title to their land from the government in the 1980s. Sometimes deeds were given in the name of a cooperative, other times to individual families, but in both cases, each family customarily continued to till the same parcels as their ancestors.

With land of their own, the farmers began a persistent, almost obsessive, quest to find a reliable source of water. They wanted to ease, perhaps even defang, the most fearsome natural trial that annually befalls them—the dry season. In the rolling hills south of Managua that we had just driven through, the landscape of barren woods and dried grass is transformed into lush greenery for half the year. The balance of rain and sun is so right from May to October that the soil can produce two crops of corn, beans, rice, sorghum, and vegetables. But from November through April not a drop of rain falls. During those months a steady procession of oxcarts, including those we had passed earlier in the day, can be found coming and going along the two miles of dusty lanes to the nearest public tap. Most of the water toted in barrels is for drinking; a little is left for washing clothes and utensils, but there is none for watering plants. As the drought lengthens, hens stop laying, and milk cows dry up. Fruit trees are barren, clinging desperately to their few remaining leaves. When the drought is especially severe, most of the chickens and pigs are slaughtered and eaten to



conserve water for whatever breeding stock remains. If, by chance, one of their yoke of oxen should die; a family must rely on relatives and neighbors to share whatever water they can spare from their journeys to the public tap.

Like the tillers of unirrigated land elsewhere, these Nicaraguan campesinos live beholden to the elements. Their daily talk about the weather is not idle chatter. They know that if the rains fall short during the rainy season, their razor-thin margin of survival is threatened.

In the late 1970s, the farmers who would later form La Lucha approached the authorities repeatedly to plead for a water system of some kind to ease the effects of droughts. In 1978, the government approved such a project, but on the eve of installation, the insurrection against the Somoza regime began. Not only did the project evaporate, but soldiers from both sides passed through the area like swarms of locusts. As one farmer explained it, "Both sides preached about respect for the property of peasants, but there were always some who stole our animals, our beans and corn. At the end, practically nothing was left but the land."

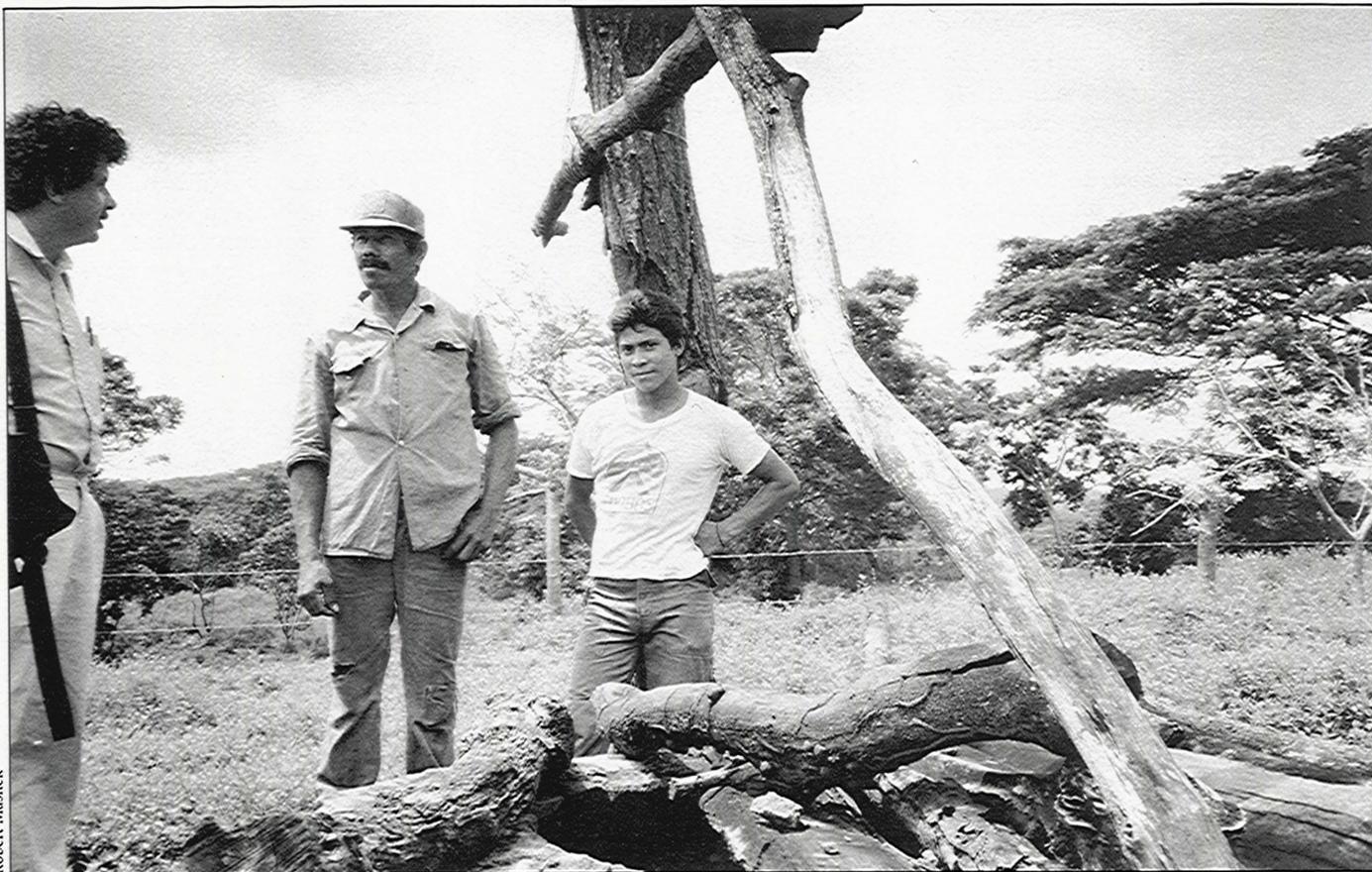
The next four years were devoted to recovery. Longing for a water sys-

tem persisted, but seemed unattainable as the new government, at war with the *contras*, was unable to redeem the project promised by its predecessor. Fortunately for these farmers, that storm raged far away, along the country's borders. Realizing that they were on their own and tired of waiting for something to be done, 13 campesino families banded together in the sere month of February 1984 and decided to start a cooperative. They elected a board of five leaders, set about building a small cooperative headquarters for meetings, and applied for official registration, which was granted later that year.

The idea of a cooperative was not a strange one; its seeds had been planted years before. During the 1970s, some of these farmers were active in a credit program started and supported by the Fundación Nicaragüense de Desarrollo (FUNDE), a private, nonprofit development group that, over the years, has been funded by several international donors, including the IAF and the Pan American Development Foundation. The training these farmers received in agronomy and in handling small amounts of credit convinced them that, by pooling their scant resources, it was possible to accomplish together what none of them could accomplish alone. This same conviction had motivated farmers in the American Midwest, Europe, and many other Latin American countries to start cooperatives to improve production and marketing, but the Somoza regime was suspicious of campesinos organizing themselves locally, so the idea remained dormant for many years.

When it finally sprouted into the Cooperativa La Lucha in 1984, the reasons were eminently practical. As one campesino put it, "You didn't have to be a genius to figure out that no family could afford to dig a well and put in piping on its own. And then there was the question of crop loans. Why should each of us have to make the long trip into town to make arrangements with the bank when a delegation of two or three could handle the matter for all of us?"

Once the decision had been made to dig a well, the cooperative devised a formula for sharing the burden. Members chipped in to capitalize a



small building fund for buying needed materials, especially cement for the sheathing. The digging would be done by their own hands, with picks and shovels.

Listening to this story unfold as we stood together outside the cooperative building, I looked, one by one, into the dark eyes of the men around me, trying to gauge the depth of their determination. Finally, I asked, "What do you think you need to finish this project?"

After some hesitation, one of them answered, "We want and need your help. Not just to finish the well, but for a pump to bring up the water and for pipes to take it to the outlying fields and gardens."

"But," another person added, before I could reply, "if you can't help, you should know that we are going on. We will keep digging. We might not succeed, but we will surely fail if we stop trying."

Convinced, on the spot, that such a long and perilous effort deserved a boost, I told them that the Foundation would do its best to get them help. Visiting technicians from the Instituto de Promoción Humana (INPRHU)—a private, nonprofit Nic-

araguan organization that has received funding from the IAF and has worked with numerous campesino groups—promised to help with the technical planning for a detailed proposal.

For most of the next year, 1987, a struggle paralleling the cooperative's *lucha* for a well occurred within the Foundation. There were many passionate discussions about whether the project was logistically feasible, about whether it was wise to support any group in a country divided by civil war, about whether a grant might be misconstrued as endorsement of the Nicaraguan Government. Finally, the many reservations were overcome, and the standard operating policy of the IAF was reaffirmed: Whatever the status of diplomatic and political relations between the U.S. Government and another national government, the Foundation would continue to support the efforts of private nonpartisan organizations in that country to help the poor improve their opportunities and lives.

On November 12, 1987, an agreement was signed between the Co-

Co-op members pause beside their original well, dug 300 feet with only picks and shovels, and now a monument to the farmers' struggle for water.

operativa La Lucha and the IAF, granting \$47,200 for drilling a well and installing a water pump, electrical lines, and irrigation piping. Similar agreements were concluded with two other cooperatives. Grant funds were allocated in cordobas from the Social Progress Trust Fund on deposit at the Inter-American Development Bank. When a major devaluation of the cordoba occurred in early 1988, however, the project was delayed for several months until additional funding could be arranged to offset the devaluation.

When I returned to see how the campesinos of La Lucha were faring, it was October of 1988, late in the rainy season. The dirt lane that two years before had raised clouds of dust as we passed, stinging our eyes and throats, had become a mire, too thick in spots for a person on foot to navigate. The world around us was rich with the

green of the tropics, too rich as I would soon learn.

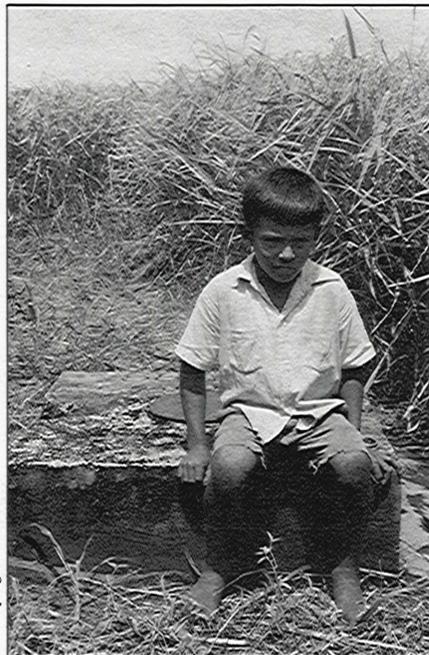
My guide and host at La Lucha was José, a co-op official. As we walked toward the co-op house, he explained that the first crop of the season had been half destroyed by excessive rain. The second plantings looked good, but the rains were still heavier than normal.

Picking our way through the puddles, we approached the stone and cement crown of the well, surrounded by knee-high weeds. The tree trunks of its scaffolding were as sturdy as I remembered. Only four years old, it was already a monument to the cooperative's lucha for water. We stood there for a moment, soundlessly, before José broke the reverie by saying, "Now let's go see the new well."

Trudging through a soggy field of rice nearly ready for harvesting, we arrived at a tiny clearing where there was a cement block—about two feet square—capped in the center and rising a mere nine inches above the ground. A hydraulic study had indicated that this was a better site than the old well for access to subterranean water, a fact that José quickly amplified. "The big rig drilled down some 750 feet," he explained, "and hit a 300-foot-deep pocket of water. As soon as the rains end and heavy trucks can get through, crews will put up the electrical lines and install the pump and the water tank, and lay tubing around the fields."

Later, we ambled back to José's house to sit and chat in the shade. He introduced me to his wife, Ana, his daughter Angela, who was in her early twenties, and his son Diego, in his late teens. Digging into my pack, I offered them my thanks in advance for the night's lodging—small bags of beans, rice, pasta, sugar, and a salami I had brought from a grocery in Virginia. All of these were quietly and graciously received except the sugar, which caused a stir. They explained that this far from town there were no stores, only a house down the road that sold a few basic provisions, and the stocks of sugar had run out a few weeks before.

Ana soon returned with coffee, amply sweetened. "The coffee comes from our own plants," she said. "We have a few out back." The coffee was followed by heaping plates of rice,



Sean Sprague

A child sits on the cement block that caps the new well. Crews will outfit the well with a pump and electrical lines as soon as the rains end and trucks can maneuver the roads.

beans, corn tacos, and pieces of chicken. We ate silently, plates propped on our laps, contentedly watching the noonday sun climb to its zenith.

In early afternoon, as the muggy heat approached the boiling point, members of the cooperative strolled by to sit in the shade and talk about their plans for the future. Much had already been decided. When the pump and piping are installed in December, at the start of the dry season, the cooperative will plant about 75 acres of flat fields with subsistence crops such as corn and beans, and a few vegetables, including tomatoes and onions, to diversify family diets. Since this represents less than half the land owned by the members, much of which is terraced on steep hillsides, they will farm it together during the dry season. Citrus trees and *achiotes* (large bushes that yield a commercially valuable spice, natural food preservative, and red dye) will be planted along the road. During the wet season, each family will farm its own plot as usual.

Extending the growing season will guarantee that food is on the table year-round, but plans have also been made for channeling whatever additional profits are earned from the two

extra harvests. Some of the money will be set aside and divided among the members, depending on the amount each has worked, but the first priority is gaining independence from bank loans. Rising interest rates for production credit to buy seed and fertilizer have been outstripping the increase in crop prices, trapping farmers in a mire of red ink. One nearby cooperative, for instance, found its unpaid debt mushrooming from 2,000 to 30,000 cordobas in less than a year.

Two strategies for dealing with this problem have been proposed. The first is simply to open a savings account at the bank in town, and use it as a revolving credit fund. If the account begins to devalue from inflationary pressure, an alternative plan may take up the slack. Some of the harvest will be set aside, and stored in the cooperative house, to provide seed for the next crop. And if prices are low at harvest time, some of the harvest can also be stored to sell later when the rate of return is highest. This will not only permit the co-op to replenish supplies of fertilizer, and begin to think of other capital investments, it will also allow families to increase their buying power for basic necessities. At present, if the bean crop has been good, one *manzana*, approximately an acre and a half, will yield about 700 pounds, earning about \$37. Fertilizer costs for that same *manzana* run about \$26. A typical family used to make from \$100 to \$300 per season, but now it is much less. There is little left to buy tools, shoes, clothes, salt, kerosene, and medicine—items always in short supply and whose costs keep rising rapidly.

Although the members were enthusiastic about the changes that were about to take place, they also realized that serious challenges lay ahead. No one had any experience managing an irrigation system, for instance. How much and how often should crops be watered? Which crops would grow best and what ratio of diversified crops would earn the highest profits? Everyone was counting on continued advice from INPRHU, or perhaps from the Ministry of Agriculture, but the co-op was also responding on its own. One member had been selected to find out as much as possible about pro-



duction techniques, another was responsible for learning about training, a third would be named to coordinate marketing.

Far from being cowed by all that they did not know, these farmers seemed inspired by the challenge of learning. As an outsider who has seen many grassroots projects fail, I wondered if this self-confidence was naive since actual changes in production had yet to occur. And yet, the lack of bluster suggested that their confidence rested on something solid. As I gently probed for the bedrock underlying their conviction, the conversation kept returning to La Lucha, the way the struggle for water and the cooperative had become intertwined, tying together scattered farmsteads into a community. As one elderly man explained, "La Lucha—which is no more than we ourselves—has made us feel as though we are somebody, and that makes you think in a different way. You begin to look at problems not as something to be endured alone, but as something that

might be handled together."

Others emphasized that the cooperative had become more than just a way of organizing work; it was a civic institution. This isolated patch of countryside is miles by horseback or oxcart from the nearest town. There are no stores, not even a church. Weekly co-op meetings have given neighbors a chance to mingle, sharing information not only about work but about their families and each other. One of the chief hopes for the future involves extending the electricity line to the cooperative house so that community activities do not have to end with daylight. There is talk of setting up a study hall for their children, organizing sewing classes for the women, having a place for Bible discussion groups to meet, of holding Saturday night dances.

The cooperative, then, has become a force not only for mobilizing energies to tackle local problems, but also for galvanizing the very notion of community. Membership has nearly

Members of La Lucha cultivate a field. With the new irrigation system in place, the cooperative will collectively farm 75 acres of land during the dry season, guaranteeing food year-round, and providing profits from two extra harvests each year.

doubled in the past four years to include 24 families, and another six to eight are anxious to join. Members are acutely aware of La Lucha's importance not only to themselves but to neighboring settlements. The new well will provide drinking water at a nominal cost for everyone during the dry season, and if more labor is needed to farm the extra crops, non-members will be invited to participate on the same terms as members. Most important of all, though, the members of La Lucha realize the potential their struggle has for inspiring others to take the initiative for themselves.

That was the final note of our conversation, as afternoon lengthened toward evening, and the last member

of the cooperative who had dropped by to visit straggled off towards home. Turning to me with a mischievous smile, José said, "You know, the farmers around here are getting ready to descend on this place to see for themselves what all the noise has been about. And we are getting prepared to show them something."

When I woke up the next morning at 4:30, everyone else was already up, and out. The wooden shutters were still closed, and the acrid smell of smoke (which had filled the house the night before from the kitchen hearth doing double duty—driving off insects as our supper cooked) hung in the air. Hearing the roosters scold the late risers about the need to weed the fields, bring the cow in for milking, and start the coffee pot boiling, I thought about my boyhood on a farm in Iowa. Remembering how, yesterday, some of the campesinos had expressed a wish to someday visit the United States or have U.S. farmers visit them to share experiences, I thought about my parents and their neighbors, about their reverence for the land they tilled, not bucolically, but in full appreciation of the sweat, and aching muscle, and dull perseverance that was required to bring a season's hope to fruition. The rhythms of that life instilled a modesty so quiet it verged on ferocity, and bred an innate suspicion of the lingo used by city slickers, particularly politicians and their silky talk.

Strapping on my watch, the only one for miles around, I roused myself to greet the day. Ana and Angela were preparing breakfast when I entered the all-purpose living room, and we made small talk as I admired the tiled floor (brought, with considerable effort, from a cousin's house being torn down in Masaya) and examined the walls adorned with portraits of Christ and the Virgin Mary, magazine photos of Major League baseball players, and farming posters detailing how to combat crop pests and how to plow a better furrow.

After a hearty breakfast of fresh milk and a heaping plate of rice and beans, topped by a fried egg, José escorted me through a final tour of the nearby fields. Dark clouds were already gathering above the horizon to

the south and east. Shaking his head, he pointed to the rotting bean roots exposed by last week's rain. "In these low spots, the crop will be bad," he said, "but we should be all right in most of the field if the rains let up some."

I commiserated with him about the irony of having too much water when it wasn't needed, and he asked if I would like to see what really heavy rains could do. Walking further along the lane by which I had arrived, we followed a steady downward slope, where the well-worn ruts of wagon wheels had deepened into gouges. At the bottom, we emerged into a canyon of sorts, perhaps 500 feet wide and deep. "This used to be a path when I was a boy," José muttered, "and it is getting bigger with each flood."

Looking around, I could see mighty trees strewn across the canyon floor, most of them dead, but some, hanging precariously near the rim of the dropoff, still had green shoots.

Making an arch with his hands and breaking it apart, José said, "Last year, the bridge we had built over this gulch was washed away. And with it went a yoke of oxen and a cart full of rice. One ox was found downstream, impaled on a dead tree; the other vanished altogether. Hopefully, the fish got the rice."

A few days later, after my departure, Hurricane Juana crisscrossed Nicaragua, dealing the area around La Lucha a glancing blow. Reading the reports in the papers, I remembered José's story about the oxcart and wondered what, if anything, had been lost. Making inquiries with the Foundation representative responsible for supervising the grant, I discovered that all the humans, houses, and beasts had survived the high winds and heavy rains, but nearly half the crops were ruined. The irrigation system would now be more vital than ever, for in another month, the sky would not produce even a cloud, and people and animals would have to be fed and would need water.

When the representative asked how I thought the co-op would shoulder this latest setback, I shared a doubt that had occurred to me the afternoon I left La Lucha. A group of campesinos had gathered outside the

cooperative building to say goodbye. While we waited for José's son Diego to arrive with a spare mount, someone mentioned that this same Diego had been to technical school and had learned to shoe horses and repair hoes. Someone else mentioned how it might someday be necessary to repair a tractor.

Diego soon rode up with an extra horse, and after a final round of handshakes, we began picking our way carefully up the miry path toward the hard road beyond. Looking back, I saw the small group still standing between the co-op building and the old well, the two tangible fruits, to that point, of La Lucha. There they were, standing by a tiny building and a dry well, talking about a tractor. The whole time of my visit I had seen only one true agricultural implement—a plow with a straight wooden spike. The curved harrow that revolutionized European agriculture centuries ago, much less the iron one that opened the bounty of the American Midwest in the last century, were unknown here, where the hoe and machete were kings. For a moment I wondered at the audacity of dreaming of one day owning a tractor. Assuming they could ever save enough to buy the machine, considering the spiraling inflation and depressed crop prices, would they be able to find an equitable way of maintaining and sharing it? And then I saw the well. I imagined José smiling sagely, saying nothing but telling me in so many words that anyone who could stand at the bottom of a well and look up to find light was unlikely to be defeated by the challenge of a tractor.

Soon enough La Lucha will bear other fruits—mangoes, oranges, papayas, and limes watered from the co-op's new well. But all of them can be traced to that first well, the one that brought me to visit these people three years ago. That well, so patiently and confidently constructed, transformed isolated farmers into a new community and made the second well, and all the dreams that follow, possible. ◇

ROBERT W. MASHEK, former executive vice president of the Inter-American Foundation, is currently an independent consultant based in Washington, D.C.

A Social Policy Without Paternalism

Enrique V. Iglesias

Latin America is living through a sad decade, a decade of crisis whose measurement is just beginning. Last year, per capita production fell by 1.5 percent, slashing living standards back to the levels that prevailed at the end of the 1970s. Fixed investment in productive capital fell by 35 percent between 1980 and 1985. The story is the same or worse for social investment. The overwhelming debt burden of many countries has been worsened by the reappearance of a traditional scourge—price instability in the domestic economy. Unlike the crisis of the 1930s, the erosion of human capital has severely affected the middle class, further reducing the political leeway of governments to manage the crisis. And as we look ahead to the next century, the pressure only grows. The region has one of the highest rates of population growth in the world, and the number of jobs will have to be doubled during the next two decades just to keep pace.

We must not allow this crisis to become a time of despair. It is time to examine the economic, social, and institutional wreckage around us in order to find the roots of creative change. In the 1950s, policymakers in the region hoped that rapidly modernizing economies would produce the resources needed to solve the social problems of poverty and unemployment that accompanied accelerated urbanization. When it became apparent during the next decade that economic growth was transforming the continent but bypassing many of its citizens, the state assumed responsibility for creating jobs and lifting people out of poverty. This statist approach to social policy was not a Latin American invention; we simply imported the

Keynesian theory prevalent in much of the rest of the world since the 1940s. Unfortunately, despite great efforts at redistribution, these policies failed to reach the poorest 20 percent of the population, and in many cases led to increased concentrations of wealth. The poor were left to pick up the crumbs of the educational, health care, and housing benefits the state delivered to the middle and upper classes.

The welfare state not only failed to deliver services, it often eroded

services has not been well administered, and that improved services depend not so much on increased spending, which will have to come with national economic growth and stability, but on greater efficiency. We must spend better as well as spend more.

This new way of doing things must tap the creative energy that has begun to manifest itself at the very roots of Latin American society. Formerly there were few mediating institutions between the state and its citizenry. Today, Latin American civil society is a complex tapestry of pressure groups, opinion groups, and other organized groups ranging

It is time to examine the economic, social, and institutional wreckage around us in order to find the roots of creative change.

the very foundation of fiscal discipline, creating severe inflationary pressures that further intensified existing social inequalities. In many respects, the fiscal deficit presents a structural challenge to economic and social recovery, so that the larger crisis that now surrounds us has become the crisis of the Latin American state. It is not only a question of finding the right macropolicies to stabilize economies and increase productive investment; there must be a new social policy as well.

This policy will require institutional reform, especially of the state, which must not only be downsized but must operate more efficiently. No country in the region can escape this arduous task. Fortunately, awareness of the necessity for such restructuring exists in all sectors of society and spans the ideological spectrum. It has become obvious that previous funding of social poli-

from rural cooperatives to barrio associations. This new social dynamic contains a wealth of ideas, ranging from religious creeds to the feminist movement, from the ideas of cooperatives to the expression of Indian and minority rights. It is a reality organizing itself around ideas, which are steadily evolving and becoming more articulate in response to the democratic current sweeping across the continent.

It is important to understand that this vast array of organizations has emerged not only in response to the needs of specific groups for services but in response to incentives for production. In response, governments must design a social policy that encourages this process, not only speaking to people's needs but providing incentives for people to produce more and raise their standards of living. This design must depart from general visions, which have caused a great waste of resources in

the past. Instead, it must be a decentralized policy geared to tapping and expanding the dynamism expressing itself at the grassroots. Above all else it must be a nonpaternalistic policy that unleashes the creativity of social organizations and the ingenuity and resourcefulness of the potential entrepreneur.

This new social policy must address the role of microbusinesses and the informal economy. For too long the informal sector has been ig-

build a foundation for future progress. The Bank is aware that the road ahead is difficult, and it does not intend to work alone. Governments must revise legal codes that limit people's access to the formal economy, and there must be increased access by the informal sector to investment credit, technical assistance, and training. As the bank of the region, with a proud heritage of prior involvement in solving Latin America's social problems, we in-

For too long the sector has been ignored, perhaps because it was felt that programs would only stabilize, not eradicate, poverty.

nored, perhaps because it was felt that programs in this area would only stabilize, not eradicate, poverty. It is time to stop wringing our hands and start recognizing that in recent years the informal economy has been growing three times faster than the formal one—7 percent versus 2 percent annually—and that nearly 30 percent of the region's economically active population is employed there. Thanks to studies in Colombia, we now know that \$1,000 invested in a productive microenterprise can generate one job, that \$400 invested in a service microenterprise can generate another, while \$10,000 must be invested in a formal sector manufacturing firm to accomplish the same thing. In a time of scarce resources and high unemployment, we can no longer afford to ignore the informal sector.

The Inter-American Development Bank has lent \$81 million to finance 191 projects for microproducers in the informal sector during the past decade, of which 133 projects benefited rural microproducers and 58 projects benefited urban microproducers.

It is time to tap that experience to

tend to restructure and decentralize our operations so that we can join with governments and nongovernmental organizations to discover the best means of accomplishing that task together. ♦

ENRIQUE V. IGLESIAS was elected president of the Inter-American Development Bank in April 1988. He was previously minister of external relations of Uruguay, executive secretary of the United Nations' Economic Commission for Latin America and the Caribbean, and chairman of the conference that launched the Uruguay round of trade negotiations under the aegis of the General Agreement on Tariffs and Trade in Punta del Este, Uruguay. This article was adapted from his keynote address to the Seminar on Assistance to Microproducers in Latin America, recently held at the IDB headquarters in Washington, D.C.

Opinions expressed in this column are not necessarily those of the Inter-American Foundation. The editors of *Grassroots Development* invite contributions from readers.

AGROECOLOGY CENTERS FORM CONSORTIUM

After decades of effort in Latin America, it is clear that no one discipline or methodology can adequately address all the biological, cultural, and socioeconomic factors that affect rural development among small farmers. However, many nongovernmental organizations (NGOs) throughout the Hemisphere have acquired the expertise to successfully adapt and design specific technologies for local conditions. These NGOs seek to develop and promote production techniques that build upon successful traditional practices to increase yields while making efficient use of local resources, controlling erosion and water run-off, and enriching the soil. Aware that most technical innovations over the past 40 years have been designed for monocrop, large-scale agriculture requiring intensive use of expensive agrochemicals beyond the reach of most small farmers, innovative NGOs are drawing increasingly on the principles of agroecology to enable small farmers to rationally hus-



Marcelo Montecino

Women dig raised beds for community gardens, a CET-sponsored project in Batuco, Chile.

Notes

band limited resources, ensure their own survival, and boost their proportion of national food production.

This common orientation and the desire to exchange experiences and obtain training for their staffs has created strong ties among several NGOs. Their networking crystalized in January 1989 when eight institutions in seven South American countries formed the Consorcio Latinoamericano sobre Agroecología y Desarrollo (CLADES). To develop and disseminate agroecological approaches in rural development, the consortium is organizing forums for sharing experience, information, and materials. These exchanges are intended to train personnel in concepts of sustainable agriculture, facilitate a research program for scientifically grounding new technologies, influence policymakers and economic planners on the potential of agroecology for rural development, and enhance public awareness of the interrelationships among poverty, the environment, and development.

The members of CLADES and other similar Latin American NGOs have worked together before. One common thread is their work with the Centro de Educación y Tecnología (CET), a Chilean institution whose model farm near Santiago has been the site of innumerable seminars and training sessions for the staff of Latin American rural development organizations.

CET, with IAF support, is currently running a series of four seminars for personnel of IAF grantee institutions. A total of 35 representatives from 26 organizations in 10 countries attended the first two seminars, which took place in Chile in October and November 1988. The first of these 10-day events was tailored to groups helping the poor grow food on small urban plots, while the second was designed for groups working in rural develop-

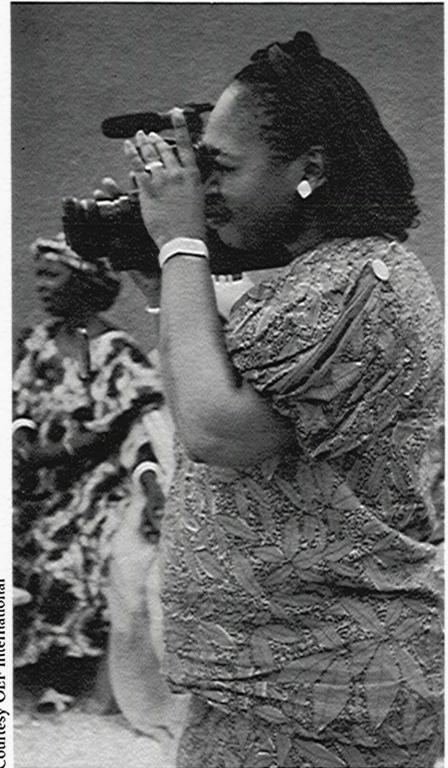
ment. The third meeting, held in June in Costa Rica, focused on agroecological techniques in tropical settings. The fourth seminar, planned for late 1989 in Chile, will convene executives from the NGOs that sent field staff to one of the previous three seminars to consider broader issues of program design and country context in implementing development programs. Although planned originally as a component of CET's four-part series, the final seminar will now be co-sponsored by CLADES to inform organizations using agroecological techniques about the possibility of collaborating with the new network.

—Diane Edwards La Voy

BRINGING THE PICTURE HOME

Given the communications revolution sweeping the world, it was only a matter of time before video emerged as a primary tool in development education. Teachers across the country who attend global education conferences are clamoring for videos to bring the reality of development into their classrooms. Hearing that message, an increasing number of development organizations are responding with an array of approaches as varied as the agencies themselves.

OEF International, for example, is using videos to enable women in the United States and the Third World to speak directly with each other, to explore commonalities in their lives, and to search for solutions to shared problems. Currently in its first year, the program has allowed women in Chicago, Illinois, and Knoxville, Tennessee, to compose "video letters" in which they relate personal stories of how training and credit programs helped them start or strengthen their own businesses, how life has improved for them and



Courtesy OEF International

A Senegalese woman learns to use a video camera to compose a "letter" to her counterparts in the United States.

their families, and what their hopes are for the future. The "letters" will be shared with the communities of M'bao and Ngodiba in Senegal. At the same time, the Senegalese women will be preparing a similar video letter for women in the United States. From these exchanges, OEF will produce a documentary highlighting what was learned.

The Inter-American Foundation, which launched its "Grassroots Development Video Series" three years ago, has chosen to focus its video productions on several projects planned and carried out by its Latin American and Caribbean grantees. The three award-winning videos include *The Women's Construction Collective of Jamaica*; *A Cooperative Without Borders: The First Step*, set in Mexico; and *Alpacas: An*

Andean Gamble, filmed in Peru. To date, an estimated three million viewers in the United States have seen the videos. Teachers' guides will soon be available for classroom use.

Many students in the United States have become increasingly aware of environmental issues through the activism of rock groups and rock stars such as Sting. The students are asking for more information, and, as a result, educators are turning to development organizations for materials on the relationship between the environment and development. Among the first groups to respond, CARE's Office of Education has recently released *The Last Forest*. The video explores the dim prospects for tropical forests if current exploitative practices continue and suggests possible actions that concerned students can take.

Clearly, these development agencies have decided that bringing the picture home is key to development education.

—Carol A. Craig

CREATIVE APPROACHES IN DEVELOPMENT

Making development projects work when resources are scarce calls for creative problem-solving. With technical assistance from the Intermediate Technology Development Group (ITDG), a mothers' club in the 3 de Octubre community of northeastern Peru discovered that an old bicycle chain was the missing link needed to significantly increase and simplify their production of peanut butter.

ITDG, a London-based organization that tailors simple intermediate technologies to local needs, was contacted in March 1988 by the Centro de Promoción Comunal del Oriente (CEPCO), a Peruvian non-governmental organization assisting the mothers' club and other groups in Peru's Amazon Basin to raise

family incomes. CEPCO had been experimenting with peanut butter production using a hand-operated mill, which proved too cumbersome for all but the strongest women.

The new grinding machine was developed by ITDG's Peruvian engineer Edgardo Rojas, who used a simple system of gears, made from ratchets and an old bicycle chain, to revolutionize the community's production process. The new machine requires nearly 60 percent less manual energy to operate, allowing even young children to work it efficiently.

La bicicleta, or the bicycle, as the women of 3 de Octubre have dubbed the new grinder, may serve as an impetus for farmers to diversify their crops into peanuts. While the technology is still in a developmental stage, increased capacity for peanut butter production offers the promise of a new and larger cash crop for local farmers, and a new source of protein to help balance family diets, which now depend heavily on rice and maize.

Projects such as this one show how appropriate technology applied creatively can not only streamline traditional methods of production, but make innovation itself a growth industry. A mechanical rotary toaster has now been developed that makes peanut roasting six times faster. There are also plans to manufacture yet a third machine for shucking peanuts, a process now done manually. All of these technologies can be produced in and repaired by local workshops, creating new job opportunities.

Comments Roderick Edwards, ITDG project manager in London, "Our aim is to work with local engineers and local resources. We find this a much more sustainable solution than increasing an organization's dependence on expensive and inappropriate imported technologies."

—Michelle Huber ◇

IAF GRANTEES IN THE NEWS

The *Folha de São Paulo*, a Brazilian daily newspaper, reported that three audiovisuals produced by the **Associação Brasileira Interdisciplinar de Aids (ABIA)** to inform the public about this insidious disease will be used by the World Health Organization in 160 countries. • According to the Inter-American Development Bank's newsletter, *The IDB*, **Manos del Uruguay** will be exhibiting their hand-dyed wools and sweaters this fall at a



Patrick Breslin

Members of Manos del Uruguay display a new line of sweaters.

retail knitting store in Washington, D.C. The newsletter also announced that the **Asociación Perú-Mujer** received funds from the IDB's Small Projects Program to provide agricultural extension services and training to a women's farming group for producing and marketing traditional Andean grains. • *Acción*, published by the World Association for Christian Communication, reported that **Rede Mulher** has recently formed a grassroots theater group to promote education and help build a network of women's organizations in São Paulo.

Inside IAF

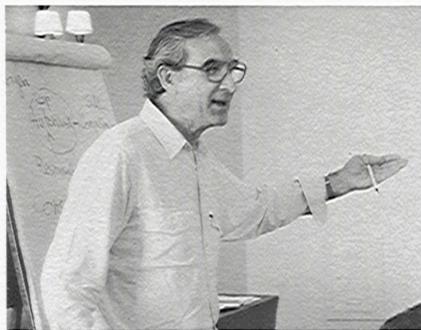
Formalizing the Dialogue

With the creation of the ICS Council following a regional meeting in Rio de Janeiro last March, a process set in motion five years ago has come to fruition.

Since the IAF made its first grant in 1971, Foundation representatives have counted on the talents of qualified local professionals to provide support to grantees. The relationship between the IAF and these local consultants remained informal, however, until 1986 when the first In-Country Support (ICS) offices were set up. Heralded as "one of the most significant methodological changes in the Foundation since its beginning," there are now 24 offices in 22 countries staffed with consultants selected by the Foundation representatives. ICS teams visit grantees three or four times a year, troubleshooting when necessary and providing regular feedback to the representatives.

The need for a central council to enhance the work of the 24 offices occurred to IAF president Deborah Szekely during the first round of regional ICS meetings last fall. "The idea came while listening to all those dynamic people," she says. "If we didn't get together again as a group for another two years, so much would be lost." To keep the energy and communications flowing, a seven-member council was appointed to meet twice a year and channel information both ways—from the IAF to ICS offices in the field and, equally as important, from the field back to the IAF. "The seven were picked for their divergent backgrounds and talents," says Szekely. "Together, they will give us a Hemisphere-wide perspective."

The recently formed council, usually referred to by the acronym



Photos by Kathryn Shaw

CONSAL members at Rio meeting discuss future goals.

CONSAL, will advise IAF executives in a number of areas, such as policies and procedures affecting the ICS system, ways to improve services to grantees, and how the IAF can expand activities related to the "training of trainers."

"The IAF has always had an advisory council of prominent North Americans," says William Barbieri, one of two senior Foundation representatives who sit on the new council, "and now with the creation of CONSAL, it has a Latin American

advisory council as well."

In addition to its advisory responsibilities, CONSAL will publish a newsletter, facilitate exchange visits between ICS offices, and produce a manual to serve as a basic operating guide for all ICS systems.

During the organizational meeting in Rio, it was also suggested that the council could take a leading role in coordinating conferences on topics of concern to IAF grantees. "Having the council puts things on another level," says Ramón Velázquez Nazar of Honduras. "Now we can tackle issues of Hemispheric importance."

Several possible conferences were proposed, including a meeting in Honduras of small coffee producers from Mexico, Central America, and the Caribbean. Plans for this event were finalized at a follow-up meeting at IAF headquarters in Rosslyn, Virginia, in July. The conference, hosted by the Asociación Hondureña de Productores de Café, was scheduled for the first week in September. At press time, some 50 IAF grantees from several networks of small coffee producers were expected to attend. Their primary goal would be to exchange ideas on small farmer organization strategies in light of falling prices on the international market, and other problems of mutual concern.

Typical of any new organization whose role is still evolving, questions remain about the scope of future activities. Should the group be primarily a consultative one? What types of activities, other than conferences, should it initiate? How are the lines of communication to be drawn between council members and Foundation staff?

No doubt some of these issues will be discussed at the next meeting in early December. "For now, the mere fact that the council exists is important," says Szekely. "It's like a baby. We're not quite sure which way it's going to walk." ♦

Reviews

LA MUJER EN EL SECTOR INFORMAL: TRABAJO FEMENINO Y MICROEMPRESA EN AMÉRICA LATINA, edited by Marguerite Berger and Mayra Buvinić. Caracas: Editorial Nueva Sociedad, 1988.

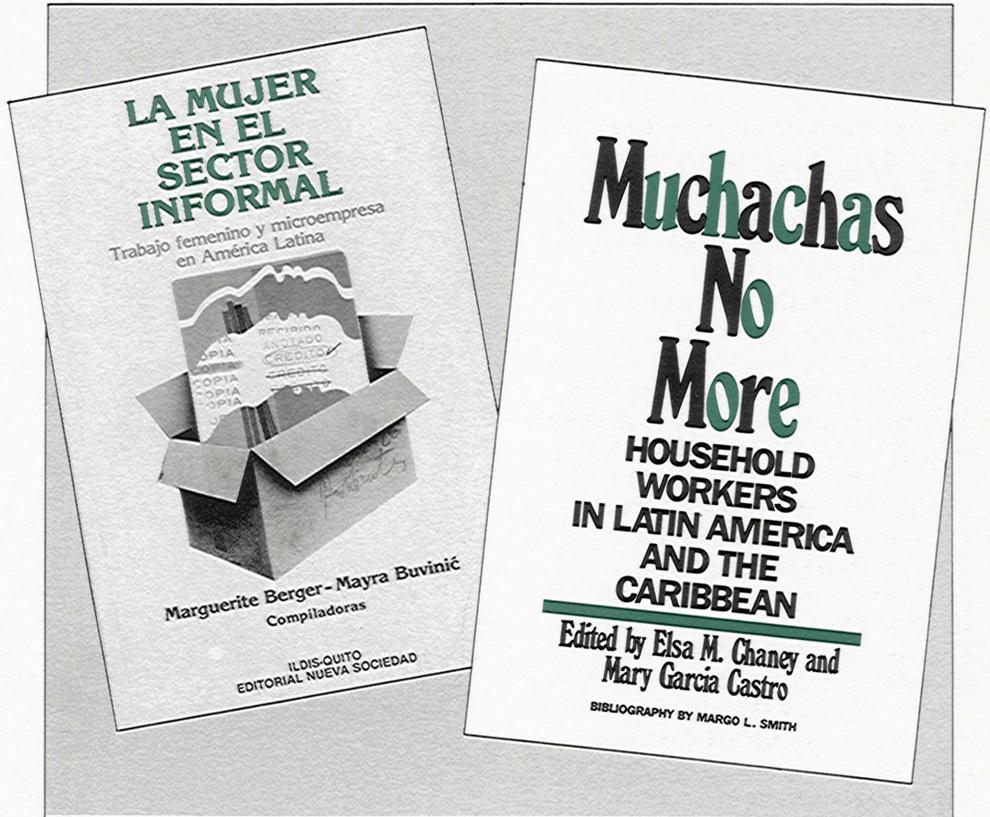
MUCHACHAS NO MORE: HOUSEHOLD WORKERS IN LATIN AMERICA AND THE CARIBBEAN, edited by Elsa M. Chaney and Mary Garcia Castro. Philadelphia: Temple University Press, 1989.

Emily DiCicco

Although the informal sector of the economy is "underground," escaping government regulation and statistical tabulation, it is anything but hidden. It pervades every facet of daily life in Latin America and the Caribbean—from the street corner vegetable seller and the neighborhood seamstress to the domestic worker in the homes of the rich and not so rich. The sector also provides the sole employment option for millions of women.

With the publication of *La Mujer en el Sector Informal* and *Muchachas No More*, the development community has two collections of papers that bring women's involvement in this important realm to the forefront for analysis and action. Such attention is long overdue since informal sector growth has paralleled the striking increase among women in the labor market. The female labor force between 1950 and 1980 has tripled as a result of several complementary factors: urban migration, expanded educational opportunities, the need to participate in the modern cash economy, and the growing number of households headed by women.

Most observers agree that women form a large portion, perhaps a ma-



majority, of informal sector workers. For example, studies conducted by the Programa Regional de Empleo para América Latina y el Caribe (PREALC) in major Mexican cities during the 1970s revealed that women accounted for as much as 62 percent of informal sector employees if domestic service is included, and 37 percent if it is not.

La Mujer en el Sector Informal, edited by Marguerite Berger and Mayra Buvinić, explores the needs of this emerging work force and questions whether or not traditional development programs are adequate. The chapters, based largely on papers presented at an international seminar held in Ecuador in 1986, cover four areas: an overview of the microenterprise component of the informal sector; assistance strategies, especially credit and training programs; case studies of specific

programs; and a gender-based evaluation of microenterprise programs.

One major issue discussed in several of the papers is the potential conflict between the goals of employment creation and income generation. Evaluations of credit programs for microvendors often show that while borrowers' incomes rise, few new jobs are created. Microproducers, however, tend to channel loans into hiring workers to boost output. This disparity has led some donors to channel money toward micromanufacturers and away from commercial microenterprises. Since women are more likely to be vendors than producers, many economically active poor women are being left out.

Chapters 13 and 14 suggest that the statistics are misleading. Among new participants in a credit program in Ecuador that supported both

microvendors and microproducers, for instance, the women reported lower revenues than men. One year later, the disparity in net incomes remained, but women had increased their hourly incomes more than men because as they increased their incomes, they reduced their working hours. The loans enabled women entrepreneurs to work more efficiently and productively, freeing time for their families. According to the authors of the gender-based evaluation, this is an "understandable strategy" for women who have multiple responsibilities. We are reminded that the bottom line in development is not only business expansion and job creation, but the additional social resources that are produced by women able to efficiently attend to the health, education, and well-being of their children.

Ironically, however, the Berger and Buvinić book itself overlooks a large group of women working in the informal sector. *Muchachas No More*, edited by Elsa Chaney and Mary Garcia Castro, fills that gap by presenting 22 essays examining different aspects of domestic service by women. The essays provide valuable historical background and probe today's reality, raising questions that challenge and deepen the feminist perspective, reviewing governmental efforts to protect domestic workers, and allowing domestic workers to speak directly about their own lives. An interesting section of the book is devoted to a selection of pamphlets, posters, and training materials gathered from domestic worker organizations in several countries.

Considering the large number of women employed as domestics, scant attention has been paid to their situation. Housework is undervalued both socially and economically. The workers are poor, minimally educated, often indigenous. They work alone or with, at

most, one or two others, and are isolated from their peers, making organization difficult. That isolation has been compounded because their counterparts in the trade union and feminist movements have been blind, for the most part, to their cause. Consequently, domestic workers have been excluded from most labor legislation that would benefit and protect them. Even where such laws exist, the isolation and low status of these women make enforcement nearly impossible.

The book also cites examples of how domestic workers can be organized and programs developed to improve their conditions. Two noteworthy cases are included from Colombia: the National Union of Household Workers (SINTRASEDOM), and "Actions to Transform Socio-Labor Conditions of Domestic Service in Colombia," a project sponsored by the Asociación para el Estudio de la Población (ACEP).

The link between these two books is even greater than the fact that they both examine women's roles in the informal sector. Indeed, the street corner vegetable seller and the neighborhood seamstress discussed in Berger and Buvinić's book probably arrived in the city to find their first jobs as domestic workers. This reflects two stages common in women's employment histories. As Margo L. Smith reminds us in Chapter 6 of *Muchachas No More*, "The former servants who become street vendors make essentially a lateral socioeconomic move; their lives remain economically precarious, but they no longer have the social stigma of being servants."

Both books argue that organization is a key to improving the precarious positions of women in the informal sector. Associations, organizations, or unions—whatever format best suits the participants them-

selves—offer both domestic workers and microentrepreneurs the best opportunity to gain access to resources, win legal protection and benefits, and better their lives. These two books lay the foundation for future analysis, policies, and action as development programs move to address the needs of everyone—men and women—in the informal sector.

EMILY DICICCO, former director of Latin America and the Caribbean at OEF International, is currently a Washington, D.C.-based consultant on women in development. The English version of La Mujer en el Sector Informal will be published by Kumarian Press in October 1989.

THE INFORMAL ECONOMY, edited by Alejandro Portes, Manuel Castells, and Lauren A. Benton. Baltimore: Johns Hopkins University Press, 1989.

Charles A. Reilly

This is an important and timely anthology that challenges the conventional wisdom of development practitioners and social scientists alike. For those in the development business, these pages remind us of informality's limitations, just when many are uncritically celebrating its arrival on center stage. For the research community, this volume marks the retirement of many outmoded conceptual tools, whether Marxist or Weberian, and embarks on an intellectually stimulating journey to create new ones. Merging macro- and microviews of development with legal and structural approaches to informality, *The Informal Economy* connects the "heights" of political and economic systems with the "substratum of life and work on which (such) larger structures rest."

Some readers may be surprised to learn that informality is a growing worldwide phenomenon, a fact re-

flected in the broad scope of this book. The informal economy in 14 cities of 10 different countries is described, including cases from the industrialized West, the Eastern bloc, and the Third World. Examples from Bolivia, Mexico, Uruguay, Colombia, Malaysia, the Soviet Union, Spain, Italy, and England, and from Miami, San Diego, and New York City in the United States drive home how productive and service activities are being transformed throughout an interconnected world.

The case studies do not settle for a safe definition of the informal economy as "the unregulated production of otherwise licit goods and services." Instead, their authors probe beneath the surface to spell out how poor people, often abandoned to their own devices, find unique and ingenious survival strategies outside traditional rules, regulations, and organizational arrangements by building on pre-existing ties of kinship and friendship.

Not all of the chapters are equally strong, but that is to be expected. The phenomenon of the informal economy is diverse, while its boundaries are shifting continually. It is a mark of the editors' integrity that there were no artificial attempts to force congruity—their respect for complex reality enhances, rather than detracts from, their work.

Although diversity is the rule, the case studies contain converging threads. Among the most compelling is the way formal and informal economics are increasingly becoming integrated and complementary. For instance, traditional forms of work relationships are re-emerging in very high-tech industries (such as "homework" arrangements in producing semiconductors). Such subcontracting has become a key mechanism facilitating informalization in increasingly decentralized and mobile industries. The implication is that informality, which is of-

ten linked to migration, whether in the First or Third World, is increasingly being defined as a phenomenon of evolving internal labor markets rather than as a retrograde response by an "imported residue" from outside.

Many of the contributors highlight the integration of formal and informal economies. Among the most prominent are Roberts' study in Guadalajara, Benería's work in Mexico City, and Blanes Jiménez' study of the impact of cocaine distribution in Bolivia. A chapter on Colombia's housing industry offers the sole exception to the trend toward linkages between the two sectors.

Some of the most striking lessons emerge from the chapters on the informal economies of U.S. cities. Each of the U.S. cases, influenced by labor market studies, examines distinct industries, and is more effective as a result. The Fernández-García chapter, for instance, looks at women in both the garment and electronics industries, uncovering how government agencies can work at cross purposes. The understaffed department of industrial relations of the state of California, charged with enforcing the labor code, has a very different view of "homework," for example, than do the tax collectors of the Internal Revenue Service.

The book is properly modest in its claims for broad policy guidelines, given the diversity of the settings where the informal economy operates, but the importance of positive intervention by the state is emphasized. Countering much prevailing wisdom, the editors argue that a necessary, if not sufficient, condition for a dynamic informal sector is active state support for small-scale entrepreneurial activities. As the editors point out in the conclusion, "A positive official posture toward these activities, plus training, credit, and marketing support programs, emerge, in every instance, as a con-

dition sine qua non for their development."

In creating this climate, the editors emphasize that monetary resources are not as important as the opening of opportunity to persons of modest means. As suggested in the conclusion, "Albeit few in number, informal economies of growth demonstrate the creative potential of common people once threats to their very survival are removed and once they are enmeshed in contexts that promote autonomy while protecting them from unbridled competition." The contributors also recognize that government must play a role in erecting new social pacts to plug the loopholes in the welfare safety net that accompany informalization.

These policy recommendations, however, tilt toward First and Second World nations. Third World policy options, where the desperate need for job creation to accommodate new workers eclipses issues like worker displacement from formal to informal enterprises and where social legislation has seldom benefited more than a tiny minority of labor, receive insufficient attention.

Despite its occasional shortcomings, *The Informal Economy* will greatly enrich the current debate by stretching how we think about informalization. By repatriating the concept to the industrialized world, development and welfare policy are thrown into new light, suggesting the poverty of previous approaches. Acting alone, neither states nor markets can solve the problems of the poor. Keeping the state in the game, encouraging an entrepreneurial environment, and finding new ways to link work places with social benefits are all needed to expand the resource pie and give the poor a seat at the table.

CHARLES A. REILLY is the IAF vice president for Learning and Dissemination. ◇

Three New Series from ACCION

ACCION International has launched a new series of publications on microenterprise development, including discussion papers, monographs, and manuals that cover a broad range of topics.

To date, two discussion papers have been published. The first, *ACCION International/AITEC: A Methodology for Working with the Informal Sector*, by Mirtha Olivares, summarizes the most significant methodological aspects of ACCION's work with microenterprises. It focuses on the operational issues that are key to program development, including expansion, self-sufficiency, and growth among beneficiaries. The paper also raises some of the broader contextual issues relevant to organizations working in microenterprise development.

The second paper, *Microenter-*

prise Assistance Programs: Their Benefits, Costs and Sustainability, by María Otero, provides a framework for defining the benefits and costs of a program at the beneficiary, institutional, and contextual levels. It also analyzes the three keys to project sustainability: volume, institutional capacity, and a program's repayment rate.

The monograph series begins with *A Handful of Rice: Savings Mobilization by Microenterprise Programs and Perspectives for the Future*, also written by Otero. It addresses the importance of savings mobilization among the poor and provides guidelines for structuring a savings component in a microenterprise program.

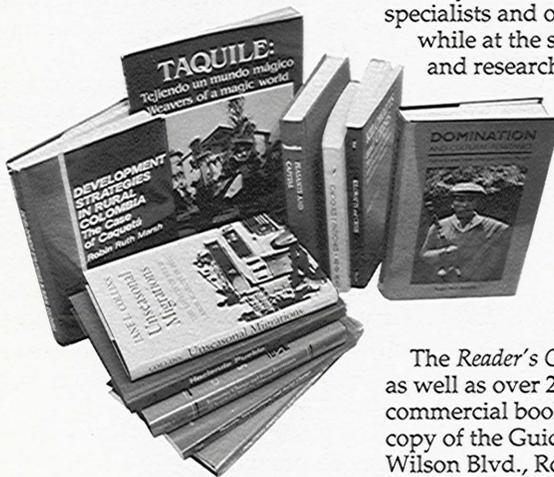
ACCION's manuals provide practical information for implementing microenterprise programs. The first, *An Operational*

Guide for Microenterprise Projects, published in 1988, provides an in-depth look at structuring and designing microenterprise programs. The second, *Financial Manager's Manual for Micro Business Credit Program Operators*, is geared toward senior-level managers of microenterprise programs in local, nonprofit development organizations, as well as microenterprise development practitioners. It presents tools for analysis in four major areas: financial analysis of the program; information systems; interest rate calculations; and budget and financial projections.

All ACCION publications are available in English and Spanish, and can be purchased through ACCION, 1385 Cambridge Street, Cambridge, Massachusetts 02139. (617) 492-4930.

Reader's Guide Now Available from Fellowship Office

For 16 years, the IAF Fellowship Program has been generating information useful to specialists and organizations involved in Latin American and Caribbean development, while at the same time preparing a new generation of development practitioners and researchers committed to alleviating poverty at the grassroots level.



Prestigious university and development-oriented presses in the United States and Latin America have published 17 books by IAF Fellows on various development topics examined during original field research in Latin America and the Caribbean. A sampling of U.S. publishers includes The Johns Hopkins University Press, Princeton University Press, Stanford University Press, and Westview Press. Latin American publishers include Arius, S.A. (Peru) and the Centro de Estudios de la Realidad Económica y Social (Bolivia).

The *Reader's Guide to Grassroots Development Literature by IAF Fellows* lists these books, as well as over 200 journal articles, dissertations, and master's theses available in commercial bookstores and public libraries throughout the Hemisphere. To obtain a copy of the Guide, please write: Fellowship Office, Inter-American Foundation, 1515 Wilson Blvd., Rosslyn, Virginia 22209.

Resources

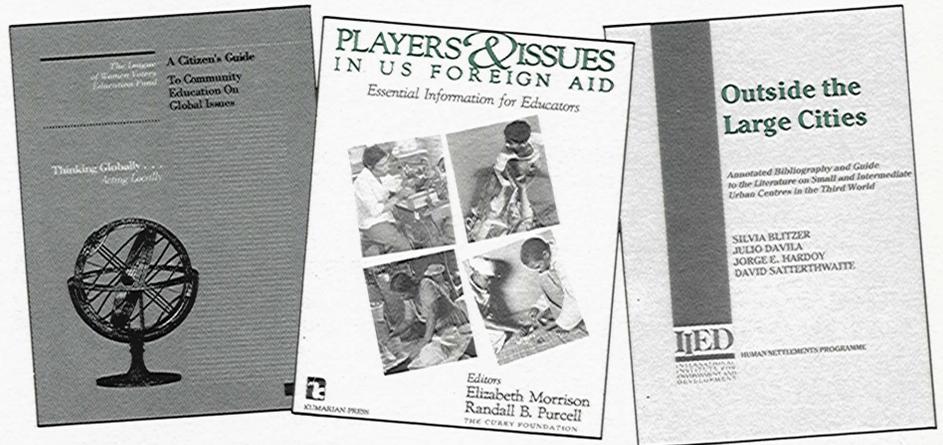
With the advent of a new administration in Washington, the prospect of changes in foreign assistance programs—the backbone of U.S. development efforts—has sparked interest among development practitioners, the U.S. Congress, and concerned citizens.

While continuing to build on many development programs of the previous administration, the Bush administration plans to overhaul others. The World Bank and the Inter-American Development Bank are launching new programs and are also significantly altering the focus of their lending operations.

A ferment is also taking place among many private development agencies, which are critically examining traditional programs and proposing new strategies. Some of the recommendations are likely to be incorporated in official government programs; others will help set the tone for future efforts by private voluntary organizations.

This Resources column features some of the most recent material to emerge from the quest for development solutions. Although primarily intended for development specialists, much of it has wide application and interest for others, including educators and the media. Some of the material was expressly designed to deepen public- and private-sector awareness of major development issues.

Edited by Elizabeth Morrison and Randall B. Purcell of the Curry Foundation, *Players & Issues in U.S. Foreign Aid: Essential Information for Educators* will engage old and new development hands alike. This sophisticated users' manual, which was recently published by Kumarian Press, steers the reader through the labyrinth of development assistance, tracing the interconnecting routes among government agencies and private groups in a straightforward



fashion. Prepared as a "briefing" for journalists, teachers, and development specialists on U.S. foreign aid, it provides a useful overview of and reference guide to the personnel and policies of the foreign assistance community.

The contributors, all of whom are recognized development specialists, include several from the Third World. The perspective of the latter gives balance to a wide range of issues, allowing programs of multilateral development institutions to be evaluated from the points of view of donors and recipients alike. In its quest for balance and depth, the book also examines U.S. foreign assistance programs from the standpoint of their economic impacts.

Development professionals interested in exploring these and other issues in greater detail are advised to peruse additional Kumarian Press offerings. This relatively small press is aggressively mapping out both micro- and macrodevelopment issues as its own turf, targeting the Third World as a market for its publications.

Its AskARIES Knowledgebase, for example, is a PC-format database designed around common problems of Third World microenterprise development. AskARIES includes an annotated bibliography of key documents in the enterprise development field, and over 1,000 citation-only

entries. AskARIES was created at the Harvard Institute for International Development, with funding from AID. For further information about these and other materials, contact Kumarian Press, 630 Oakwood Avenue, Suite 119, West Hartford, Connecticut 06110.

Thinking Globally... Acting Locally: A Citizens Guide To Community Education On Global Issues was prepared by Sherry Rockey and Alice Hughey for the League of Women Voters. This detailed guide is a nuts-and-bolts primer for organizing grassroots groups around global issues such as arms control, military policy, U.S. relations with developing countries, regional conflicts, and international trade. The handbook is designed to encourage grassroots participation and is careful to avoid value judgments. Its opening chapters on "Getting Started" and "Framing the Issues" offer practical advice on getting media attention, in addition to step-by-step instructions for organizing. A sample community survey is included, for example, as well as suggestions for project follow-up activities to build momentum.

The guide concludes with appendices on obtaining help and financing. U.S. publications and organizations that span the political spectrum

are listed so that groups can choose appropriate funders. *Thinking Globally* is available for \$5.00 (plus \$1.75 for postage and handling) from The League of Women Voters/Publication Sales, 1730 M Street, NW, Washington, D.C. 20036.

Outside the Large Cities zeros in on the problems facing a little-known development sector—geographic areas that are neither rural nor urban in which millions of people live. The annotated bibliography was edited by Silvia Blitzer, Julio Dávila, Jorge Hardoy, and David Satterthwaite, who culled development literature for the best regional examples and have presented knowledgeable and substantial digests of selected works focusing on the special problems of small and intermediate urban centers in the Third World. The works cited point out, for example, how the health problems of people living in squatter settlements are linked to the dearth of multisectoral programs. Citations to recent publications amplify how these geographic zones can and do play a role in stimulating or supporting regional, rural, and agricultural development, and how basic services can be expanded to reach more people.

The bibliography was compiled by the International Institute for Environment and Development (IIED), now the Center for International Development and Environment of the World Resources Institute, as part of its Human Settlements Programme. Since 1977, IIED has organized a collaborative program of human settlement research, evaluation, publications, and seminars with the Center for Urban and Regional Studies (CEUR) in Buenos Aires, Argentina; the Sudanese Group for Assessment of Human Settlements (SGAHS), Khartoum University, the Sudan; the Hu-

man Settlements Unit, University of Lagos, Nigeria; and the International Institute for Development Research (IIDR), Allahabad, India. Production of *Outside the Large Cities* was directed from Buenos Aires.

Its editors write, "Although commercial publishers were interested in publishing this volume, none would do so at a price that we felt would be affordable to those for whom the volume is intended—teachers, researchers, and students. Thus, we arranged for the volume to be printed ourselves." For further information, write to IIED, 3 Endsleigh Street, London WC1H 0DD.

Supported by a three-year grant from AID, the Pan American Development Foundation (PADF) and the Distributive Education Clubs of America (DECA) have collaborated to produce an ambitious promotional package, "The Way Up From Poverty: Microentrepreneurship in Latin America & the Caribbean." This multimedia extravaganza is designed to bring the world of small-scale, Third World business people vividly to life in U.S. high school classrooms.

Using a videotape, posters, and a daily study guide for teachers, the kit provides an overview of economic conditions and standards of living in Latin America and the Caribbean. It identifies microentrepreneurs, noting their varied skills and common resource or technical needs, and describes the benefits of their business activities.

The packet's co-producers are unabashed boosters of microentrepreneurial activity. PADF is a nonprofit organization established in 1962 to promote economic and social development in Latin America and the Caribbean. DECA was created in 1947 as a membership organization of marketing students to promote free enterprise and entrepreneurship



Posters from the promotional package, "The Way Up From Poverty."

through secondary education. Their message mixes the ethos of Horatio Alger with behind-the-scenes glimpses into the Latin American business world.

The video and other instructional materials cost \$50, and are available from DECA, 1908 Association Drive, Reston, Virginia 22091. ♦

—Barbara Annis

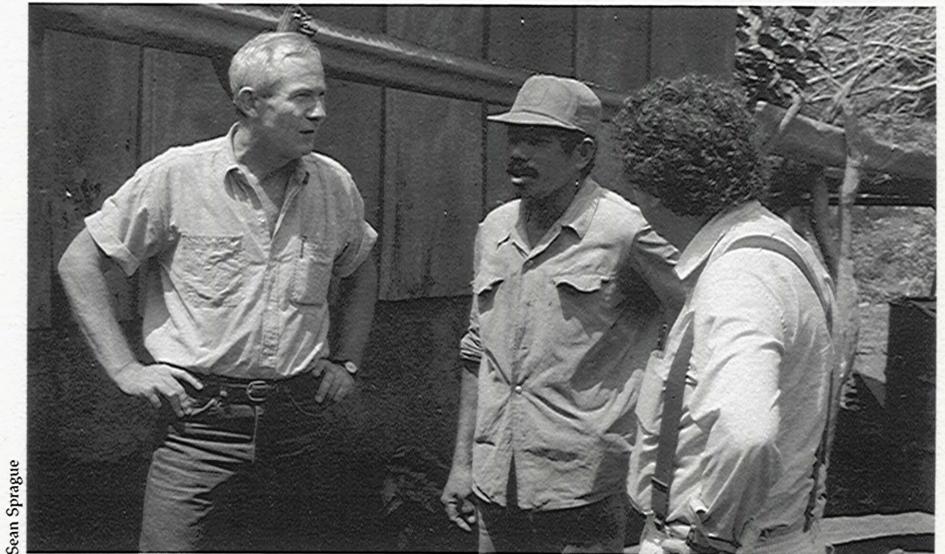
Postscript

When Robert Mashek dropped by my office recently to go over the photographs for his article "La Lucha: The Cooperative Struggle for Water" (see page 34), his admiration for the Nicaraguan campesinos he had written about was palpable. "Those people are evolving a completely different lifestyle," he said. "It goes much beyond just working together. Their new cooperative has set a whole socialization process afoot. It certainly would be interesting to follow their progress over time."

Such concern for the long-term gains of IAF grantees is nothing new for Mashek, who retired recently as executive vice president of the Inter-American Foundation. "Development has to be evaluated in human terms," he said, "and these can't be measured in just two or three years. After nearly two decades of development work in Latin America and the Caribbean, the IAF is now in a position to have followed some groups for almost a generation."

Indeed, Mashek could write the history of many an organization himself, having personally watched them evolve during his 17-year tenure at the Foundation. Before then he was an Office of Management and Budget (OMB) examiner reviewing U.S. assistance to Latin America. In that position he actually helped to staff the first IAF board of directors. He moved to the Foundation himself in 1971, rising from country representative to regional director to executive vice president—with a stint as interim president during 1983-84.

Given his depth of experience, the 53-year-old Mashek is often referred to as the Foundation's elder statesman. Although his youthful, lanky frame and ready grin are hardly typical of an august sage, few people are in a better position to comment on the Foundation's past and present than he is.



Sean Sprague

While we were looking over the photos of La Lucha, I asked him what he thought was the biggest change in the Foundation since 1971 when it first started disbursing funds. Unhesitatingly, he said it was in the area of lessons learned through the grantmaking process. "Although right from the beginning the IAF stated an interest in learning," he said, "it was a slow and at times painful process to figure out exactly what we wanted to learn. Now the 'what' has become more concrete. Through much closer monitoring of projects, you can tell the life story of a group and how outside assistance played a part."

Such a reply might have been expected from a self-avowed history buff. "I like a more historical and not such an immediate approach to evaluation," he admitted, adding that to him anything less than five years is "immediate."

Mashek's commitment to process-oriented evaluation led, in part, to his decision to leave the Foundation last year. In the rush of administrative responsibilities, there was little opportunity for him to do the detailed project analysis that he prefers. "As a consultant there is time

Robert Mashek talks with members of the La Lucha cooperative about their irrigation project.

to look in depth," he said. "It gives me a chance to focus more clearly on what I see before me."

The assignment to revisit La Lucha for *Grassroots Development* enabled him to do precisely that. "Staying overnight, with time to muse aloud, to drink with the members of the co-op, to sing and to dance while Hurricane Juana growled in the sky and spat upon us, to eat beans and rice together, and just talk about the weather—which isn't idle chatter out there in the countryside—allowed a dimension of experience beyond anything I had time for when I was working at the Foundation," he said.

We think you will agree that Mashek's appreciation of detail is evident throughout his description of La Lucha. We look forward to receiving your comments on his article, as well as on the others in this issue.

Kathryn Shaw

Inter-American Foundation

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IAF Fellowships

The Foundation has created three fellowship programs to support Latin American, Caribbean, and U.S. scholars researching development activities among the poor. Two of these programs support field research in Latin America and the Caribbean at the master's and doctoral levels; the third brings Latin American and Caribbean scholars and practitioners to the United States for advanced training.

Fellowship topics of primary interest are: 1) the nature of effective grassroots organizations among the poor; 2) the nature of effective intermediary or service organizations; and 3) systematic appraisals of local development activities such as studies of development programs and projects designed to reach the poorest populations, including small businesses in the informal sector, female-headed households, isolated indigenous populations, and artisanal fishermen.

Applications and inquiries should be directed to:

Fellowship Office
Inter-American Foundation
1515 Wilson Boulevard
Rosslyn, Virginia 22209
(703) 841-3864

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