

GOVERNMENT INTERVENTION IN STREET VENDING ACTIVITIES IN GUAYAQUIL, ECUADOR: A CASE STUDY OF VENDORS IN THE MUNICIPAL MARKETS



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Resumen

In the past three decades, development economists have not only acknowledged the existence of what has been named the urban informal sector, but have emphasized its impact on rural to urban migration, GDP growth rate and urban poverty. Important questions that economists have about this sector are: how should governments in developing countries approach a growing informal sector? Does affirmative government intervention raise the incomes of participants in this sector who directly benefit from such intervention? Does helping this sector lead to an increase in rural to urban migration? We examine some of these issues by profiling the participants in this sector and analyzing the impact of government policies to organize street vendors in the city of Guayaquil, Ecuador. Seventy-six vendors in the City Council markets were surveyed for this purpose. Our survey analysis reveals some surprising results and confirms some stylized facts about vendors in the informal sector in Guayaquil, Ecuador.

Keywords: urban Informal Sector, Street vendors, Government intervention, Ecuador.

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Resumen

En las últimas tres décadas, los economistas no sólo han admitido la existencia de lo que se ha denominado sector urbano informal, sino que han enfatizado su impacto en la migración rural-urbana, el crecimiento del PIB y la pobreza urbana. Las cuestiones que se plantean son: ¿cómo deben tratar los gobiernos de los países en vías de desarrollo el creciente sector informal? La intervención afirmativa del gobierno de si hace subir los ingresos de los participantes en este sector, ¿quienes se benefician directamente de tal intervención? ¿Resulta un aumento de la migración rural-urbana si se ayuda a este sector? Examinamos algunos de esos asuntos y analizamos el efecto de las políticas gubernamentales en la organización de ambulantes en Guayaquil, Ecuador. Con ese propósito, hicimos encuestas entre 76 ambulantes en los mercados del ayuntamiento de la ciudad. Nuestra encuesta revela resultados sorprendentes y confirma algunos hechos del sector informal en dicha ciudad.

Palabras clave: sector informal urbano, ambulantes, intervención gubernamental, Ecuador.

Résumé

Pendant les trois dernières décades, les économistes ont non seulement admis l'existence de ce qui a été dénommé secteur urbain informel, mais ils ont mis l'accent sur son impact dans la migration rurale urbaine, dans la croissance du PIB et dans la pauvreté urbaine. Les questions posées sont: comment les gouvernements des pays en voie de développement doivent-ils traiter ce croissant secteur informel? L'intervention affirmative du gouvernement pour savoir si elle fait monter les revenus des participants dans ce secteur, qui se voit bénéficié directement par cette intervention? est-ce que le fait d'aider ce secteur provoque une augmentation de la migration rurale? Nous examinerons quelques uns de ces points et nous analyserons l'effet des politiques gouvernementales dans l'organisation des itinérants à Guayaquil, Equateur. C'est dans ce but que nous avons fait des enquêtes parmi 76 vendeurs itinérants dans les marchés du secteur municipal de la ville. Notre enquête révèle des résultats surprenants et elle confirme certains faits du secteur informel.

Mots-clés: secteur informel urbain, itinérants, intervention gouvernementale, Equateur.

Resumo

Nos últimos três decênios, os economistas não só admitiram a existência do que tem se denominado como setor urbano informal, senão que enfatizaram seu impacto na migração rural-urbana o crescimento do PIB e a pobreza urbana. As questões que se expõem são: como é que os governos dos países em desenvolvimento devem tratar o crescente setor informal? A intervenção afirmativa do governo de se incrementa os ingressos dos participantes neste setor. Quens serão diretamente beneficiados por tal intervenção? Resulta um aumento da migração rural-urbana se ajuda-se a este setor? Examinamos alguns destes assuntos e analisamos o efeito das políticas governamentais na organização de ambulantes em Guayaquil, Ecuador. Com esse propósito, fizemos enquestes entre 76 ambulantes nos mercados do ajuntamento da cidade. Nosso enqueste evidencia resultados surpreendentes e confere alguns fatos do setor informal na cidade.

Palavras chave: setor informal urbano, ambulantes, intervenção governamental, Ecuador.

Introduction

The urban informal sector has long been a source of debate among development economists. It has been argued that direct government intervention that aids this sector will encourage rural to urban migration and lead to further strain and deterioration in living conditions in the urban areas of developing nations. Others have argued that this sector deserves government help as often more than 50% of the urban labor force is employed by this sector. They assert that often, these individuals live and work in urban slums that exhibit squalid living conditions. Thus, any efforts at improving the living conditions of the people in the developing nations must include the participants of the urban informal sector. In addition there is also some controversy about the demographics of the participants of this sectors and their income-earning capacities (Armstrong and McGee 1985; Cross 1998; McGee and Robinson, 1995; Nwaka 2005; Orlando 2001; Tokman 1989).

The primary purpose of this paper is to study the informal sector in Guayaquil, Ecuador. The study focuses on former street vendors and examines the demographics of the vendors and the characteristics of the informal sector. It also examines the economic impact of government policy to create municipal markets for street vendors in Guayaquil. The fieldwork for this study was conducted in the city of Guayaquil, Ecuador in Summer of 2004. This study seeks to shed light on the following questions:

- Who are the people who participate in the activities of the informal sector and what are their demographics? Are they mostly women and ethnic minorities, recent immigrants with low levels of education and skill formation?
- Is there significant underemployment among the workforce in this sector?
- Has affirmative government intervention resulted in an influx of rural workers to the urban areas?
- How does the income level of the participants in the informal sector compare with those in other sectors of the economy?
- How has government intervention affected the socioeconomic status of the participants in the informal sector?

The Urban Informal Sector

The term *informal sector* was first recognized and coined by Keith Hart in 1970. Hart's work on the informal sector in Ghana, suggested an alternative to the *modern* development



models, which usually involved the state and official businessmen working together. A textbook definition of the informal sector would describe it as a “loose amalgam of organizations that escape the coverage of many regulations and do not receive access to privileged facilities (Ray 1998)”. Nonetheless, when analyzing the informal sector a textbook definition becomes inconclusive. This is not only because of the heterogeneous activities that take place within this the sector, but also because economists, as well as other experts, continually redefine the informal sector, its characteristics, its levels of legality, the reasons for its existence, and continued growth.

As outlined by J.J. Thomas (1995) in “Surviving the city: The informal sector in Latin America”, different experts have contrasting approaches regarding this sector. For instance, in the 1970s, the International Labor Organization (ILO, 1972) used its Kenya study as a basis for the creation of a set of characteristics that would differentiate the informal and formal sectors of the economy. According to the ILO’s report, the informal sector is characterized by “ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale production, labor intensive and adapted technology, skills acquired outside the formal schooling system and unregulated and competitive markets (Thomas 1995:20).” The informal sector is also characterized as “a cheap way to encourage micro-business growth and self-employment opportunities” (Cross 1998). The ILO report describes the formal sector of the economy as exactly the opposite. This mode of differentiation between the informal and formal sectors has been continually challenged and changed. This is because it assumes that the informal and formal sectors of the economy are extreme opposites, when in fact several studies have proven that these sectors are highly interconnected.¹

Separating formal activities from informal ones based on the idea that informal activities are unregulated and/or illegal is a problematic task. One of the reasons for this is that informal businesses can have different levels of *legality*. To exemplify this issue, it is useful to look at the survey of enterprises conducted by Víctor E. Tokman in Mexico in 1990 (Tokman, 1992). Tokman’s survey reveals that out of all the enterprises surveyed, only 18.2% had fulfilled all the requirements and paid all the contributions necessary to be considered legal, while the rest were considered restricted, partial or illegal depending on the number of legal requisites the enterprise had fulfilled. Thus, one can envision the possibility of two businesses, one considered formal and the other informal, which may be performing the same activities. Consequently, separating formal and informal sector businesses using the idea of legality is challenging at best.

¹ Authors like Thomas (1995), Teltscher (1994), De Soto (2000) and Loayza (1995) have observed that: 1) in many cases formal sector enterprises have sub-contracts and other agreements with informal sector enterprises and workers, 2) often the formal and informal sectors use inputs and goods produced by the other and 3) several workers in the formal sector also hold informal sector jobs.

Other approaches used to describe the informal sector involve identifying the demographics of the people working in the informal sector, looking at levels of income of workers in the informal sector, as well as the number of hours worked by them in this sector. Using this approach there have been claims that women and minorities are trapped in dead-end jobs in the informal sector due to “discrimination, culture of poverty and imperfect information” (Teilhet-Waldorf and Waldorf, 1983). Furthermore, it has been argued that workers in the informal sector have a flat “age-earnings profile” and hence gaining skills to increase income is not an option (Teilhet-Waldorf and Waldorf, 1983). Studies conducted in Thailand, India, Ivory coast, and South America in the 1980s, have dispelled some of these claims as they found that: *a*) the informal sector is quite heterogeneous; *b*) earnings of unskilled workers in this sector can be higher than those of unskilled workers in the formal sector due to skill development in the informal sector; and *3*) women in the informal sector often did not face discrimination, but ethnic minorities did (Bangasser 2002; Teilhet-Waldorf and Waldorf, 1983; Oberai and Singh, 1984). Several other studies also demonstrate the complexity and heterogeneity in the informal sector (Fields, 1990; Maloney, 1996, 1997; McLaughlin, 1990; Psacharopoulos and Steir, 1988). For these reasons, generalizations related to demographics, income and number of hours worked are all oversimplification of this sector.

In brief, none of the approaches mentioned above have allowed economists or other experts to come up with a generalized description of the informal sector that can cope with all the observations and empirical evidence found when studying this sector. Nonetheless, the methodology of the social sciences often uses generalizations that can provide insights about the world they try to describe, which may not apply to all cases. Hence, the various descriptions of the informal sector discussed above, although not without flaws, allow the reader to get an idea about the informal sector, its legal status and its complexities.

From the discussion above it is important keep in mind that:

- The line between informal and formal activities is blurry. That is to say, businesses can go back and forth between the formal and informal sectors depending on their level of legality, firm size, etc.
- Informal activities can have a very small scale, like that of a corner cigarette street vendor, but they can also be large enough to accumulate capital and even sell imported goods (Teltscher, 1994).

The first wave of case studies on the urban informal sector explored the cities of Calcutta, Abidjan, Jakarta, Sao Paulo, Lagos, and Bogotá in the 1970s and 80s (Bangasser, 2002). These studies focused primarily upon measuring the size (and content) of the



urban informal sector. The results on share of employment in the informal sector was surprising as some of these studies reported numbers as high as 40-60% of the entire urban labor force (Bangasser, 2002). During the '70s and early '80s the "general consensus in the literature" was that the informal sector was large and made up of poorly paid "refuge" occupations for passive economic actors who could not find a job in the formal sector (Bairoch, 1973; Bromley, 1978a).

The debate took a twist in the late 1980s, when a number of economists argued that the large and growing informal sectors in developing nations were products of inefficient and bureaucratic regulatory systems (De Soto, 1989; Cross, 1999; Emmerij, 2005). Hernando de Soto (2000) and Norman Loayza (1995), in their studies, indicate that excessive regulations on the part of the government, combined with lack of enforcement, led to an increase in the size of the informal sector. This is because workers were not able to afford either the "entry-cost of legality" or the costs of maintaining that legality through time. In addition, there have been recent developments in the literature on the urban informal sector that attribute its growth to three specific factors: avoiding tax burdens, avoiding regulation intensity, and a deteriorating quality of public sector services (Schneider, 2005). Of these three factors, there is little debate about the first two factors but the third factor, deteriorating public sector services has been controversial. Theoretically, the decline in public sector services can have a multiplier effect on the urban informal sector. For example, an increase in the urban informal sector could result in a reduction of state revenues, which could in turn result in a reduction in the quality and quantity of public goods provided by the state. In such a scenario, if the state raises tax rates and/or regulations to compensate for the deterioration of public goods, this could result in a further increase in the size of the urban informal sector.

Another recent development within the informal sector literature is formalizing the treatment of this sector with respect to development models such as the two-sector dynamic equilibrium model by Busato and Chiarini (2004). Having noticed what appears to be a negative correlation between formal and informal sector growth, they hypothesize that in times of formal sector recession, rational agents will re-allocate at least some of their labor to the informal sector. In a sense, the existence of an informal sector acts as an "insurance or risk-saving opportunity" which allows individual agents to mitigate the damaging effects of the business cycle. However, as Naylor (2005) points out in his work, one needs to be very cautious when using figures such as GNI and GNP while defining and measuring the urban informal sector. It may very well be that there is some correlation between tax rates, formal sector recession, and urban informal sector growth, but that does not necessarily imply causality. It is quite possible that the measured changes in the informal sector could be the result of structural changes in the economy, autonomous shifts in the mood of compliance, and even the rapid expansion of non-profit groups in

recent decades. All of these factors could end up being mistakenly lumped into the “urban informal sector variable” using modern statistical analysis. For the most part, the existence of the informal sector has been fully integrated into the urban economic development literature, although some economists continue to dispute the size and relevance of the sector (Naylor, 2005; Tanzi, 1999; Tokman, 2001).

Studies of the relationship between local and national governments and the informal sector have focused on the question of whether the government should help to enhance the performance of the informal sector or work to control and discourage its growth. Experts who claim that the government should aid the informal sector to become more productive argue that the poorest people in urban areas make up this sector and, as a consequence, allowing the informal sector’s development will help to reduce poverty (De Soto, 1989; McGee and Robinson, 1995). On the other hand, arguments against government aid to the informal sector concentrate on the idea that a growing informal sector will attract rural workers to migrate to the city. This would in turn hinder the development of the city by causing over-crowding, lack of housing and increasing numbers of slums that lack basic amenities as well as further unemployment (Bairoch, 1973; Bromley, 1978a and b, McGee, 1973). John Cross (1998) provides an excellent summary of this debate in the literature.

The literature since the 90s generally recognizes the role of the informal sector in urban employment and GDP, such that the ILO in its 1991 conference proposed specific strategies for a better protected informal sector that include: establishing appropriate regulatory framework for this sector, improving basic facilities and amenities to this sector, organizing the informal sector workers and provision of credit and training of workers in this sector (Leonardos 1999; UNESCO and ILO 2002).

In Latin America the informal sector has been cause for much violence and protests in cities where vendors have been taken out of the streets by force.² Interestingly, there has not been much debate and dialogue regarding the informal sector within national governments in this region. It has been difficult to find studies that relate the informal sector with political processes in Latin America. Also, the informal sector is an issue that is often discussed by local and city governments as opposed to the national government which can truly help frame national policy with regards to this sector.

To achieve the primary objectives as stated in the introductory section of our paper, we chose the city of Guayaquil, Ecuador because in 1999, the City Council of Guayaquil established policies to organize street vendors. As part of the scheme of reorganization, the City Council used local tax money to build markets for the vendors in different parts of the city. The following section describes the city and the city government’s reorganization plan in more detail.

² From several Issues of *Reforma*, Jan. 2005 at www.reforma.com and *El Universo*, Jan., 2005 at www.eluniverso.com



Guayaquil: The Informal Sector and the City Council Market Network

Guayaquil is particularly representative of a large city in a developing country where the local government has intervened in the operations of the growing informal sector. Guayaquil is Ecuador's largest city (Quito, the capital, is the second largest city), with over two million inhabitants, and it has one of the largest informal sectors in the country. In fact, Guayaquil's informal sector employs over 50% of the city's population (Todaro and Smith, 2003).

The growing size of this informal sector became a major concern for the City Council of Guayaquil throughout the 1990s. During this period concerns regarding the informal sector led to the signing of several reformatory documents to regulate this sector and to create a network of Municipal Markets that would eliminate street vending. The process began in 1992 but the final implementation methods for all the policies were expedited in 1999 and was meant to exercise control over street vendors of vegetables, meats, poultry, sea food, flowers, arts and crafts, and any other activity approved by the City Council in the next few years.³

The network of Municipal Markets developed by the City Council was developed to control informal vending activities until 2015 (Diario *El Universo*, 2005). The scheme of reorganizing the informal sector consisted of several mechanisms: *a*) building markets for the former informal vendors; *b*) creating a large "mercado mayorista" (wholesale market); and *c*) moving the informal vendors from the streets into the municipal markets. As of January 2005, 42 municipal markets were being used by former street vendors —38 of them are in the metropolitan area of Guayaquil and four in the surrounding areas of Posorja, Progreso, Cerecita and Tenguel (Oleas, 2005). This number includes one large wholesale market from which, on a daily basis, smaller vendors buy products for resale. The number of vendors that work in these markets has been estimated at 18 226 (Olmos and Vicuña, 2005).

The municipal markets differ in size, *i.e.*, each can hold a different number of vending spots. The spots rented for vending are of the same size, approximately 3 meters by 2 meters or 10 feet by 6.5 feet, in all the markets. Each spot in the market costs US\$ 152 annually which must be paid in quarterly installments of US\$ 38 (Oleas, 2005).⁴ In addition,

³ Municipalidad de Guayaquil (City Hall of Guayaquil), Ordenanza Reformativa y Complementaria de Mercados Municipales y de las zonas de Espacio Público Destinados para el Funcionamiento de Mercados Informales y Ferias Libres, <http://www.guayaquil.gov.ec/downloads/cabildo/ordenanzas/ordenanza13.pdf>

⁴ The currency denomination used throughout this paper is U.S. dollars as Ecuador switched its currency to the U.S. dollar in September 2000. President Jamil Mahuad adopted the U.S. dollar as the nation's currency as Ecuador faced its worst economic crisis in 70 years. This crisis was characterized by hyperinflation, with the sucre soaring from 7 000 to 25 000 to the dollar in a short period of 18 months, and crumbling financial markets (Wyss, 2001).

vendors must obtain a permit to be in the network of municipal markets. Obtaining the permit involves several requisites. First, the vendor has to go to the City Council offices and pay US\$ 38 for the first 3 months of operations. Then with the paid receipt the vendor must present an application form, photocopies of his/her identification card, health and voting certificates, a wallet-size photo and a certificate confirming that his/her city taxes have been paid (Oleas, 2005).

The process to obtain a vending spot may seem rather simple, however many vendors cannot go without working for even a single day to file paperwork and pay the fees because their income for everyday necessities depends on the money made each day. As we will show in the following sections of this paper, all the vendors that were interviewed worked seven days a week. In addition to the fee and permit, the vendors in the municipal markets must follow several rules from the City Council of Guayaquil.⁵ Nonetheless, as street vending opportunities are slowly being phased out—as they are deemed as illegal activities—the permit in a City Council Market is becoming increasingly necessary to stay in the vending business as the vendors are left with little choice.

Research Objectives and the Description of the Data

The focus of this section is to identify specific characteristics and hypothesis that have been derived from the discussion on the informal sector in the literature that we wanted to test and analyze.

Characterization # 1: Women and ethnic minorities are over represented in the informal sector.

Characterization # 2: Most participants in the informal sector are relatively recent migrants who are seeking jobs in the formal sector.

Characterization # 3: The educational level and skill levels of participants are average to low when compared to the overall labor force.

Characterization # 4: Participants in this sector are underemployed.

Hypothesis # 1: The creation of these markets has encouraged the influx of rural workers to Guayaquil.

Hypothesis # 2: Average wages in the informal sector are lower than wages in the formal and agricultural sector.

Hypothesis # 3: The intervention of the City Council of Guayaquil has positively affected the economic status of the vendors.

In order to characterize the informal sector and test the three hypotheses we surveyed seventy-six vendors in the City Council Markets. To obtain a diverse and unbiased data

⁵ Such rules include sanitation codes and codes that regulate the treatment of food products.

set, the authors surveyed nine different markets located in different parts of the metropolitan area of Guayaquil. There are a total of 37 retail markets located in this area. Originally 10 markets were randomly selected based on geographic locations. However, ultimately only 9 markets were surveyed, which represents approximately 25% of the markets in the metropolitan area.⁶ For details on the markets see Appendix 1. The 76 vendors who were interviewed in these municipal markets were also randomly selected.⁷ The current sample size allows us to estimate with a 90% perfect confidence ($Z = 1.645$) that the sampling error will not be greater than 5 percentage points, assuming the estimated proportion of success and failure of 0.5. The Summary Statistics detailing the data that was collected is presented in Table 1 and Table 2. Data pertaining to children are presented in Tables 3 and 4.

The average vendor is 45 years old and married with a working spouse (Table 1). They have an average 8.5 years of education, 1.6 children and were not born in the city of Guayaquil. 43.4% of the vendors have no children. They sell the same product in the market as they did on the street and have been selling product on the street for an average of 15.44 years. They have been in the market for an average of 2 years.

In comparison, the average female vendor is younger and more likely to be from a minority group (Table 2). She is also less likely to be married than her male counterparts. Of those female vendors that are married a larger percentage answered that their spouses work. They have fewer children and are marginally less education than the men in the sample. A higher percentage of female vendors were born in Guayaquil (39.5% compared to 31.6%) and a larger percentage answered that their families had moved with them (78%) compared with their male counterparts (46%).

⁶ The metropolitan area of Guayaquil was divided into four quadrants. Three markets each were randomly selected from the Southeast and Northwest quadrant that represent the more densely populated areas of the city. Two markets each were randomly selected from the Northeast and Southwest quadrant. However, while conducting the surveys one of the markets from the Southwest quadrant was excluded, as the number of vendors in this particular market was very low. Including this market would have biased our results (most stores in this market were unoccupied). Given our timeline we were unable to substitute another market from the Southwest part of the metropolitan area. The following markets were included in our field work: Mercado de Artículos Varios, Mercado Oeste, Mapasinge, San Francisco de Asís, Sauces 9, Nuevo San Jacinto, Batallón del Suburbio, Asiscló Garay, and Sauces 4.

⁷ Our original goal was to survey 100 vendors from 10 markets. These 10 vendors from each market were randomly chosen based on the vendors' store front numbers that were obtained from the city council of Guayaquil. However, we had to drop one of the markets from the Southwest quadrant of the city and so we were down to 90 vendors from 9 markets. Of the total of ninety vendors who were asked to participate in the survey, several vendors chose not to participate due to various reasons (they were busy, unavailable, did not want to talk to strangers). Unfortunately, we could not replace these vendors with additional alternates because of the logistics of going back to the city council office and selecting additional alternate vendors randomly, which would have delayed the time line that we had to maintain.

Table 1
Summary Statistics of the data

<i>Variables</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Minimum</i>	<i>Maximum</i>
Age of Vendor (years)	44.92	14.04	20	75
Female (%)	50			
Indigenous or Black (%)	27.9			
Married (%)	53.95			
Spouse Works (%)	71.79			
Number of children under 18	1.25	1.48	0	6
Number of children under 6	0.3467	.647	0	3
Education (years)	8.51	3.951	0	17
Vendor born in Guayaquil (%)	35.53			
Years lived in Guayaquil	28.53	13.81	0	62
Family has moved with them (%)	61			
Sell same product on street (%)	64.47			
No. of years sold product on street	15.44	13.49	0	60
Years in the market	2.07	1.47	.25	5
Hours Worked (%)				
More than 40 hours a week	98.7			
Less than 40 hours a week	1.3			
Customer treatment of vendor				
1 treatment is better	1.6	.494	1	2
2 treatment is the same				
3 treatment is worse				
Average monthly income (\$)	248.76	185.68	0	866.7
Income has increased because of market (%)	20			
Income is sufficient to meet basic needs (%)	19.44			
Has overall situation improved	2.33	.765	1	3
1 improved				
2 the same				
3 worsened				
Product Group #1:	26.32			
Hygiene, cleaning products and packaged food (%)				
Average monthly income (\$)	245.6	118.59		
Product Group #2:	7.9			
Seafood: fish, shrimp, etc. (%)				
Average monthly income (\$)	277.33	104		
Product Group #3:	22.37			
Fruit and Vegetables (%)				
Average monthly income (\$)	217.34	169.24		
Product Group #4:	17.11			
Meat products (%)				
Average monthly income (\$)	378.83	282.63		
Product Group #5:	11.84			
Clothing and beauty products (%)				
Average monthly income (\$)	156	155.35		
Product Group #6:	14.47			
Others (%)				
Average monthly income (\$)	206.82	176.39		



Table 2
Summary Statistics of the data by Gender

<i>Variables</i>	<i>Females</i>		<i>Males</i>	
	<i>Mean</i>	<i>Standard Deviation</i>	<i>Mean</i>	<i>Standard Deviation</i>
Age of Vendor (years)	43.21	14.11	46.63	13.95
Indigenous or Black (%)	34.48		21.88	
Married (%)	47.37		60.53	
Spouse Works (%)	83.33		61.9	
Number of children under 18	0.9459	1.246	1.55	1.63
Number of children under 6	0.2973	0.52	0.3947	0.755
Education (years)	8.37	4.1	8.66	3.85
Vendor born in Guayaquil (%)	39.47		31.58	
Years lived in Guayaquil	29.52	14.2	27.65	13.67
Family has moved with them (%)	78		46	
Sell same product on street (%)	60.53		68.42	
No. of years sold product on street	14.95	14.14	15.92	13
Years in the market	2.09	1.52	2.05	1.45
Customer treatment of vendor	1.57	0.504	1.633	0.49
<i>1 treatment is better</i>				
<i>2 treatment is the same</i>				
<i>3 treatment is worse</i>				
Average monthly income (\$)	213.39	174.81	283.21	191.71
Income has increased because of market (%)	23.53		16.67	
Income is sufficient to meet basic needs (%)	19.44		19.44	
Has overall situation improved	2.44	.746	2.23	.77
<i>1 improved</i>				
<i>2 the same</i>				
<i>3 worsened</i>				
Product Group #1:	31.58		21.05	
Hygiene, cleaning products and packaged food (%)				
Average monthly income (\$)	237.79	134.59	257.29	97.20
Product Group #2:	0		15.79	
Seafood: fish, shrimp, etc. (%)				
Average monthly income (\$)	0		277.33	104
Product Group #3:	23.68		21.05	
Fruits and Vegetables (%)				
Average monthly income (\$)	167.92	96.03	266.77	215.81
Product Group #4:	15.79		18.42	
Meats products (%)				
Average monthly income (\$)	328.25	310.62	422.19	273.14
Product Group #5:	18.42		5.26	
Clothing and beauty products (%)				
Average monthly income (\$)	182.62	168.69	62.833	3.06
Product Group #6:	10.53		18.43	
Others (%)				
Average monthly income (\$)	112.67	105.02	260.62	192.5

Table 3
Frequency Distribution of children under the age 18

<i>Number of Children</i>	<i>Percentage of vendors with children under age 18</i>
0	43.4
1	21.1
2	14.5
3	9.2
4	7.9
5	1.3
6	1.3

Table 4
Frequency Distribution of children under the age 6

<i>Number of Children</i>	<i>Percentage of vendors with children under age 6</i>
0	72.4
1	19.7
2	5.3
3	1

Who are the Vendors in the Municipal Markets in Guayaquil, Ecuador?

Characterization # 1: Women and ethnic minorities are over represented in the informal sector.

In the study, out of the seventy-six vendors who participated, 50% were females and approximately 27.8% were part of an ethnic or racial minority group. Upon examining the demographics of the region, as indicated by the last census, Ecuador has a population of 50.5% women and 28% ethnic minorities (Instituto Nacional de Estadística y Censos, 2005a). These figures are very similar to our numbers regarding the gender and racial composition of the vendors. This might suggest that the percentage of women and minorities that among the informal vendors is similar to the demographics of the region. However, a closer look at the statistics relating to female labor force participation rate reveals that this is not necessarily the case. In Guayaquil, only 34.2% of the economically active population is women (Instituto Nacional de Estadística y Censos, 2005a). Hence, the 50% female participation-rate among all vendors in the municipal markets indicates that the informal sector employs a large proportion of women relative to their overall labor force participation rate in the economy and indicates that women are indeed over-represented in this sector. This may also be the case for racial or ethnic minorities; however, data related to the percentage of the economically active population that are ethnic minorities is not available to make any such definitive conclusion.

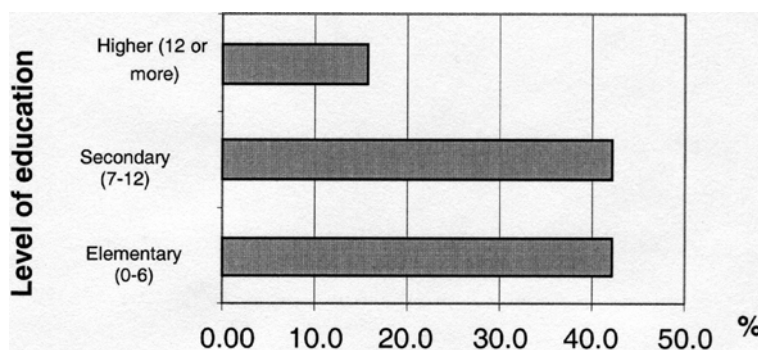


Characterization # 2: Most participants in the informal sector are relatively recent migrants who are seeking jobs in the formal sector.

On the issue of migration, the results of this study are partially in agreement with our hypothesis. On average, 35.5% of the vendors are originally from Guayaquil, which leaves the great majority, 64.5%, of vendors as immigrants to the city. This figure is again not surprising, as other studies have indicated that the informal sector is usually comprised of former rural workers who have immigrated to the city looking for a better future. What is surprising in our study, however, is the number of years vendors have lived in Guayaquil as well as their reasons for migration. On average, the vendor who works in the market has lived in Guayaquil for 28.53 years. Only 2 of the immigrant vendors interviewed, or 4.1% of the sample that were immigrants, had lived in Guayaquil for 4 years or less. Thus these are not recent migrants to the city as suggested in the literature. In addition when asked about the reasons why they migrated when they did, most of the younger vendors interviewed indicated that they were brought to Guayaquil by their parents when they were young and that they have continued the family business. On the other hand, the majority of the older adults indicated that their reason for migrating with their families was that the profits of the agricultural sector had declined either due to *El Niño* or other external shocks, which made their economic situation in the rural areas worse compared to an average year.

Characterization # 3: The educational level and skill levels of participants are average to low when compared to the overall labor force.

Our expectation before we undertook this study was that the level of education among the vendors in the market would be average or below average when compared to the educational attainment of the total labor force. The average year of schooling for adults over the age of 15 is 6.4 years in Ecuador (World Bank 2005). However, in our sample of the vendors in the municipal markets we found that a majority of the vendors had finished elementary school and the average years of schooling was 8.5 years.



Graph 1. Education level of vendors.

Breaking this down further, as can be seen in graph 1, we found 42.1% of the vendors had six or less years of education, 42.1% had between 7 and 12 years of education and 15.8% had received some university education. This again, contradicts one of the commonly held perceptions about the informal sector. In general, theory suggests that informal sector workers are rural immigrants who do not have the skills to find a job in the formal sector and hence find a way to survive in the informal sector. However, after interviewing the vendors in the municipal markets, who formerly sold in the streets, we found this not to be the case.

Why do these individuals, with fairly high levels of education work in this sector of the economy? One of the main reasons is the lack of jobs available in the formal sector. The official unemployment rate in Ecuador was reported at 9.7% in the year 2002 (Country Watch, 2005). This high unemployment rate forces educated people to take any job that is available regardless of whether their skill-level is higher than what is necessary to perform the job. In addition, one of the most interesting stories we heard came from a vendor who had graduated as a teacher of Geography and History. What he shared [with us] was that his meat selling *spot* earned him more money than what his fellow classmates, who worked as teachers in the State sector schools, made. In fact, he often made loans to his friends because their wages were so low. Analogous to this teacher, many individuals with high levels of education that work in these markets mentioned that they do so because they can make more money as vendors than in a job related to their field of study.

Characterization # 4: Participants in this sector are underemployed.

Theoretical models of the urban informal sector often suggest that workers in this sector are underemployed (Lewis, 1954; Harris and Todaro, 1970). Underemployment is basically “a situation in which a worker is employed, but not in the desired capacity, whether in terms of compensation, hours, or level of skill and experience (Investor Words, 2005).” Nonetheless, after interviewing the vendors in the City Council Markets this hypothesis was proved wrong at least in terms of hours worked. This is because only one of the vendors interviewed worked less than forty hours a week. In fact the majority of these vendors, 75 out of the 76 interviewed, work all seven days of the week between six and nine hours per day. However, working long hours does not mean that these vendors are fully employed, as many hours may have been spent just waiting for customers. Customarily however, this is not considered as underemployment. Nonetheless, in terms of skill-levels and compensation there appears to be some underemployment. As mentioned earlier, 42.1% of the vendors had some level of secondary education and 15.8% had received some university education and in some cases had even completed their degrees. These figures show that many of the vendors have educational qualifications that should enable them to have jobs that better utilize their skills. Thus there appears to be some evidence of underemployment and inefficient allocation of human capital in this sector.



Hypothesis # 1: The creation of these markets has encouraged the influx of rural workers to Guayaquil.

While we cannot directly test this hypothesis with our survey methodology, indirect evidence indicates that the creation of these markets has not encouraged the influx of rural workers to Guayaquil. No vendor in our sample had moved to Guayaquil in the years following the change in government policy. It may be argued that new migrants may not be financially prepared to take advantage of the creation of the new municipal markets and thus are not reflected in our survey. Unfortunately, we cannot adequately address this question. However, when we asked the survey participants the following questions: "Have you or any of your acquaintances brought family members or extended family members to Guayaquil since the creation of the markets?" and, "Do you or any of your acquaintances plan to bring any family members or extended family members from other parts of the country to Guayaquil?", one hundred percent of the vendors answered "no" to both questions. Some of the reasons cited for not wanting to bring their immediate or extended families to Guayaquil included, insufficient jobs that are available in the city and the view that economic situation in the city was not considered to be healthy. In addition, the cost of having a family in the city was much more expensive than in the country. When asked if they had witnessed increased migration into the city from the rural areas in recent years, again all vendors answered "no". Some additional reasons are also explored when discussing hypothesis 2, concerning income levels.

So, why is it that the migration of vendors has stopped/slowed since the market opened? Why are the younger generations not migrating in the great numbers that were seen before? Why did the older vendors migrate only when agricultural profits went down instead of flowing into the city regularly? These concerns could be the reason for yet another study of this sector; however, these results are in themselves valuable as they contradict several important theories of the informal sector such as the Todaro migration model.

Hypothesis # 2: Average wages in the informal sector are lower than wages in the formal and agricultural sector.

The average monthly income of the vendors in the market in Guayaquil at \$248.76 is higher than both the minimum wage and the income earned by individuals involved in agricultural, fishing and ranch activities as well as those employed in domestic service and the overall informal sector based on 2002 figures.⁸ The only sector with higher income was the modern sector at \$339 per month. It may be argued that the vendors in the market experience higher incomes than street vendors and thus the above claim regarding higher incomes for all vendors in the informal sector is invalid. However, interestingly, only 20% of the vendors said that their incomes were higher since the creation of the markets, while 80% said that either their income had declined or was about the same as before

⁸ Appendix I: Average Monthly Income by Economic Sector and Sex in Major Cities, 2002.

Table 5
Frequency Distribution of the monthly income of vendors

<i>Income Range (\$)</i>	<i>Percentage of vendors</i>
0 - 50	8
51-100	9.3
101-150	13.33
151-200	20
201-300	12
301-400	20
401-500	9.3
501-900	6.67



when they sold on the streets. The frequency distribution of monthly incomes of vendors is presented in Table 5. As one can see from Table 5, 8% of the vendors earned less than \$50 per month, with 3.9% reporting no income at all. To make ends meet some of these vendors went to the moneylender, known as *culquero*, to borrow money for household expenses. Also, the standard deviation for the average monthly incomes of vendors is fairly high at 185.7.

Next we examine gender differences in income amongst vendors in the municipal markets of Guayaquil. There is strong evidence that income differs significantly between men and women. The average income of female vendors was \$213.39 compared to \$283.21 for male vendors. In addition we also found some significant gender-based differences in the products sold in the market. For the purpose of our analysis we created six different product groups based on the type of products sold by the vendors:

Product Group #1: Hygiene and cleaning products (toothpaste, shampoo, floor cleaning products, detergent, etc) and packaged food (ketchup, tuna, spices, etc).

Product Group #2: Seafood: fish, shrimp, etc.

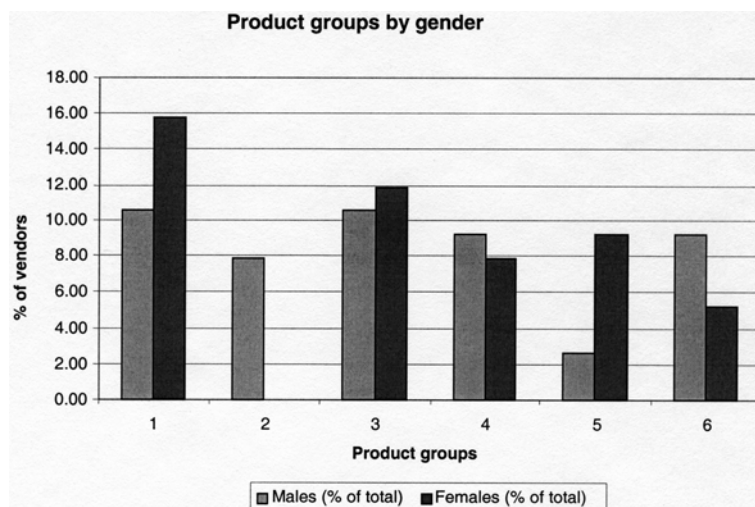
Product Group #3: Fruit and Vegetables.

Product Group #4: Meats and related products, both red and white meats: chicken, beef, pork, goat, etc.

Product Group #5: Clothing and beauty products: included clothing for all ages, shoes, lingerie, cosmetics and perfumes, etc.

Product Group #6: Others: includes anything that is not in the other groups such as dairy, electronics, cooking ware, towels & blankets, plastics, school supplies, meals and cooked products (lunches, sandwiches, fresh squeezed juices, etc.)

Before we analyze vendor and product groups, we must mention the caveat that most of the product groups have fewer than 16 vendors in each classification. Thus we must be cautious that we do not read too much into this section, as its statistical validity is questionable. Nevertheless, we wanted to include this section as we feel that this still gives us some insights into product segregation by gender.



Graph 2. Product groups by gender.

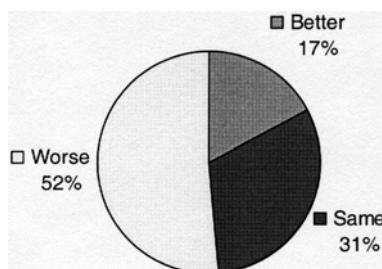
As indicated in Table 2 and Graph 2, the product groups where female vendors dominate are groups one and five (Hygiene/cleaning products and Clothing/beauty products). On the other hand groups two and six (Seafood and other products) are mostly dominated by male vendors, particularly product group two, which had no women at all working within it. Groups three and four are more evenly distributed (Fruit/Vegetables and Meat).

Overall vendors selling product groups 2 and 4 had the highest income (Seafood and Meat), while vendors selling product group 5 had the lowest income levels (Clothing/Beauty products). However, female vendors' selling product group 6 (Other products) had the lowest level of income. Overall, higher income product groups were more likely to be dominated by male vendors than female vendors. However, once again we must point out that the number of vendors in each of these product groups is small and thus we cannot make any strong assertions related to income levels and product groups based on gender.

*Examining the impact of the intervention
of the City Council of Guayaquil
on the socioeconomic status of the vendors*

Hypothesis 3: The intervention of the City Council of Guayaquil has positively affected the overall status of the vendors.

In general, the majority of the vendors feel that the construction and implementation of the Network of Municipal markets has not worked to their benefit. Only 20% of the vendors reported an increase in their income since moving into the markets, while 80% reported that either their income levels had not changed or it had actually declined.



Graph 3. Economic Situation Since Opening of the Markets.

Furthermore, as shown in Graph 3, approximately 52% of the vendors felt that their overall economic situation had worsened since they moved into the markets, while only 17% reported that their overall situation had improved, with 31% claiming no change in their situation at all. In addition, only 19.1% of all vendors reported that their income was enough to suffice for their basic needs, with 80.9% reporting that their income was insufficient.

There are several factors that vendors identified as the cause for the decrease in income. One of the biggest factors was the loss of consumers who pass by on the streets of Guayaquil. When the vendors worked on the streets they were able to scream and yell in order to call attention to the people passing by, which in many cases led to a sale. These customers have now been lost because, by being in the markets, vendors are now confined to one location and the only customers they have are those who specifically come to shop in the market.

Another factor that has led to lower incomes in this region for vendors is the increasing number of privately owned corner stores and supermarkets. As outlined by Miguel Zamora (2004), "the supermarkets' chains in Ecuador increased their share in the retail market in the last six years and almost doubled their number of stores, from around 85 in the middle of 1998 to around 160 in August of 2004. Almost 55% of the stores from the three largest national chains are located in the two main cities of the country, Quito and Guayaquil." This increasing popularity of supermarkets has hit the profits and income levels of the vendors in the municipal markets hard because these vendors cannot compete with the cleanliness, services, advertisement campaigns, and in many cases lower prices offered by the large chains.

While carrying out the surveys many of the vendors added their own comments on the situation of the markets and the informal sector itself. The following briefly describes some of the concerns of vendors in the Mercado de Artículos Varios market. This market is located in south-central Guayaquil and sells a variety of articles ranging from furniture to electronics to lingerie. One of the main issues relating to this market is that it is located in an area that was known in the past for a high crime rate and the sale of stolen items.

Vendors described a time in which they had to pay a local mafia that controlled the streets in order to be able to sell their merchandise more or less safely. Currently many of the vendors perceive that customers do not visit the market because they feel it is still unsafe and also because there is continuing presence of street vendors in the vicinity. Their suggestions include further marketing and advertising the safety of the market and the items that are sold in it.

Conclusion

The urban informal sector has long been an area of interest for development economists for the past three decades. Economists acknowledge the important contribution made by this sector to the formal economy and the participants who rely on this sector for employment to earn a living and support their families.

The primary purpose of this study was to examine the informal sector in Guayaquil, Ecuador, in particular those who were formerly involved in street vending activities. We wanted to understand “who are the vendors in the municipal markets and how does their income compare to the rest of the participants in the labor force.” Specifically we wanted to examine the impact of the City Council of Guayaquil’s decision to create municipal markets for street vendors to clean up the city sidewalks and to rehabilitate the vendors in a government sanctioned market.

For this purpose we interviewed seventy-six vendors from nine different municipal markets in Guayaquil. The results of our study draw attention to some very interesting findings. First we found that vendors represent a larger percentage of women (50% in our sample) compared with the economically active female population in Guayaquil (34.2%). We also found that 96% of the vendors were not recent migrants to the city but had lived in Guayaquil for many decades. The average number of years that the vendors had lived in Guayaquil was 28.53 years. In addition, a majority of the vendors had higher education than the average adult in Ecuador (8.5 years compared to 6.4 years for the nation). In fact 58% of our sample had more than 7 years of formal education. With respect to underemployment, we did find significant underemployment among the vendors, not with respect to hours worked, as 99% of the vendors worked more than 40 hours a week, but with respect to the educational attainment of vendors and the skills required in their jobs. All this suggests that while some of the commonly held perceptions of the informal sector were reflected in our sample, such as overrepresentation of women and underemployed participants, we did not find this sector to employ either undereducated workers or recent migrants to the city.

We also found that affirmative government intervention has resulted in no substantial influx of workers from the rural to urban areas. While we were unable to directly test this hypothesis with our survey methodology, no vendor in our sample had moved to Guaya-

quil in the years following the change in government policy. Also, when asked if they or their acquaintances had brought or were planning to bring extended family members to Guayaquil from other parts of the country to Guayaquil,” one hundred percent of the vendors answered “no” to both questions.

With respect to the question about the average income level of the vendors in Guayaquil, we found that the income (\$248.76 per month) was higher than both the minimum wage and the income earned by individuals in all sectors except the modern sector (\$339 per month). However, interestingly, only 20% of the vendors in our study said that their incomes were higher since the creation of the markets.

Lastly, we find that only 17% of vendors reported that their overall situation had improved since they had relocated to the municipal markets. 31% of vendors claimed no change in their situation at all, while 52% said they were worse off because of government intervention.

Although the current laws of the city of Guayaquil require that all vendors join the municipal market chain and move out of the streets, a large number of vendors remain out of the markets (official or unofficial estimates of these numbers are not available). In our opinion, the primary reasons for this are *a*) many vendors do not have the resources in terms of money, time and information to join the municipal markets and *b*) as the results of our research show, the majority of the vendors (80%) reported that their incomes had either declined or stayed the same since they joined the market. In fact, many markets have empty sections because some vendors have actually left the markets and gone back to sell in the streets even if it means selling illegally. Furthermore, there have been several violent encounters throughout the past year between the police and street vendors that refuse to move out of the streets and risk losing money in the city council markets.

In conclusion, our study confirms that the informal sector is extremely complex and generalizations are hard to make. However, some stylized facts are confirmed and some new information about this sector in Guayaquil is exposed. In the future, we plan to broaden this study to not only include a larger subset of vendors in the municipal market but also the vendors who are still on the streets, so that we can compare the two subgroups to see if there are significant differences in demographics, skill-levels and income-levels between the two groups. In addition, it may also be insightful to get some customer responses with respect to their shopping preferences. Do they prefer the municipal markets to street vendors? If they do not, then, government policy to build municipal markets may indeed be misdirected, and a different and more effective public policy measure towards the urban informal sector must be sought.



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Appendix I

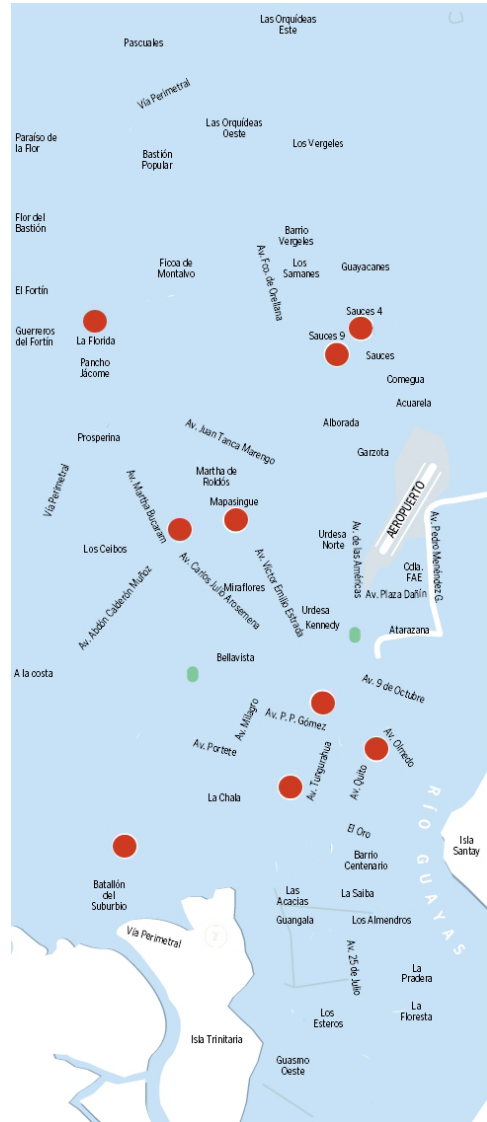
Brief Description of the Markets where the Fieldwork was Conducted

The following section briefly describes the nine markets that were the sites of this research:

Mercado de artículos varios: Located in south-central Guayaquil, this large market is one of the newest markets in the city and has vending spots for a variety of articles ranging from furniture to electronics to lingerie. This market is located in an area that was known for a high crime rate and the sales of stolen items in the past. In fact, the vendors described a time in which they had to pay a local mafia that controlled the streets in order to be able to sell their merchandise more or less safely.

Mercado Oeste: Located on south-central Guayaquil it is among the oldest markets in the city. In fact, there was an old market establishment before the intervention of the City Council of Guayaquil. The intervention for this market consisted of renovation and reorganization; however there was a previous structure here. Most of the articles sold in this market are food items.

Asiscla Garay: Similarly to the Mercado Oeste, this market was simply reorganized and re-constructed by the City Council of Guayaquil in the nineties. Previously, vendors gathered in this same location in south-central Guayaquil to sell their products and worked under an old market structure that had been left forgotten since the late sixties. Nonetheless, in the past they had to pay local gangs that controlled the market area for their spots. Therefore, as the vendors put it, paying the City Council has not hurt their profits and they feel safer now than they did in the past.



Mapasinge: Located in western Guayaquil, this market was built to gather vendors that sold outside in what is known in Ecuador as *ferias libres* (free fairs). What a *feria libre* entails is basically a large gathering of vendors in the streets that would be selling to the public together on set days and times. In the Mapasinge neighborhood many vendors had participated in *ferias libres* around the area for many years and now work together in the City Council market.

San Francisco de Asís: Also in western Guayaquil, the San Francisco de Asís market gathered different street vendors that had sold in and around the neighborhood. One of the most important problems that the vendors in these markets described was the fact that there is an increasing number of corner stores in the area which have taken away their trade.

Sauces 9 and Sauces 4 markets: These two markets are quite interesting due to their closeness and the fact that many of the vendors used to share adjacent workspaces when they worked in the streets. The story behind these two markets had to do with the fact that the city council wanted to move vendors that located themselves on the streets of the Sauces neighborhood (which is divided into several sections) in northeast Guayaquil to hold *ferias libres*. As a result of the intervention, the vendors were grouped into the two Sauces 9 and Sauces 4 markets.

The most important differences between these two markets are size, type of products sold and location. Firstly, the Sauces 9 market is much larger than the Sauces 4 market and it is located on a major avenue, which gives it a relative advantage when competing with the nearby Sauces 4 market. In addition the Sauces 9 market for the most part has vendors that sell perishable food products and products for the home. On the other hand, the Sauces 4 market has more stands selling various products like clothing, school supplies, party supplies and the like. Many of the Sauces 4 vendors that were interviewed had complaints regarding the location of the market because they are working in a back street that is harder to find as well as the competition of the larger, better located Sauces 9 market. In addition they argued that they cannot compete with 1) the informal vendors that are still working in the adjacent streets and have refused to join the program and 2) the corner stores that have continually grown in this neighborhood.

Nuevo San Jacinto: This market works under very unique conditions because of its location. It is located in the northwest of Guayaquil and is in close proximity to the wholesale market that delivers products to all the other markets in the City Council Market Chain. The problematic aspect of this location is that customers get angry when they find that the prices here are higher than those of the nearby wholesale market. The vendors in the Nuevo San Jacinto market feel that the wholesale market should be open only to the vendors of the City Council Market Chain and not to the general public. This would allow for higher profit for the vendors in the City Council markets and the chain of markets could prosper better.



Batallón del Suburbio: The last market that was included in the study involved the vendors in the Batallón del Suburbio market located on the south-west side of Guayaquil. This market is in a relatively high-crime, low-income area of the city. The majority of the products sold in this market are food products including meats, vegetables, fruits, ketchup, tuna, etc, as well as other products for the home like cleaning supplies and ketchup.

Appendix II

Average monthly income by economic sector and sex in major cities-2002 US\$

<i>Economic Sectors And Sex</i>	<i>C i u d a d e s p r i n c i p a l e s</i>			
	<i>Quito</i>	<i>Guayaquil</i>	<i>Cuenca</i>	<i>Machala</i>
Major Cities	317	252	241	219
Men	383	295	297	256
Women	226	175	171	150
Modern Sector	384	339	315	297
Men	422	385	356	331
Women	312	244	247	206
Informal Sector	261	188	193	181
Men	317	216	240	208
Women	187	134	140	140
Agricultural, Fishing And Ranch Activities	355	146	84	221
Men	510	147	124	225
Women	76	135	50	196
Domestic Service	95	107	79	84
Men	74	133	–	77
Women	96	103	79	85

From: Instituto Nacional de Estadística y Censos, 2005b, http://www.inec.gov.ec/interna.asp?inc=enc_tabla&idTabla=299

Minimum wage in Ecuador in 2001 – US \$ 85.7 plus benefits per month

From: Banco Central del Ecuador, 75 Años de Información Estadística, Banco Central del Ecuador, 2002.