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Supporting The Informal Sector:  
Micro-Level Interventions With A Macro Perspective

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**SUPPORTING THE INFORMAL SECTOR:  
MICRO-LEVEL INTERVENTIONS WITH A MACRO PERSPECTIVE**

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**A. Introduction**

The informal sector has played historically an important role in the process of labour absorption in Latin America. In spite of rapid growth and employment creation in modern sectors, the share of employment in the informal sector on total employment expanded from 16.9 to 19.3 per cent between 1950 and 1980, while its share on non-agricultural labour force remained constant around 30 per cent. To this long-run role an additional buffer function has been added in the 80s, during the international crisis which affected the Region. The economic recession affected the capacity of modern enterprises to create jobs, and in some cases adjustment meant a reduction in the absolute number of jobs available; while the labour force continued to grow. The result was an accelerated growth of informal employment between 1980 and 1985. The number of persons expanded by 39 per cent and its share in non-agricultural labour force increased by 4.6 percentage points.

The outlook for the future is not optimistic. Most of the forecastings available coincide that the international economy will be less dynamic in the 90s than in the 70s, while in the Latin American case the still unsolved problem of the heavy foreign debt is added to the poor expectations of rapid economic growth, which is a necessary condition for increasing employment creation. The reduction of the size of the informal sector will be then a slow process, both because the transfer of labour to the rest of the economy will be less dynamic but also due to its enlarged size after the crisis. The main consequence is that any policy for growth and equity cannot avoid the issue of how to increase employment and to raise productivity of informal jobs. There is then a need for supporting informal activities.

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There is also more feasibility today to design a national policy, more than it has ever been in the past. After 15 years of continuous research on the employment characteristics of a significant and growing number of people who, because of lack of better job opportunities, had to perform low productivity and badly remunerated activities and of pilot supporting programmes implemented by some non-governmental organisation (NGO's), today the situation has changed. Governments and private representatives are showing increasing interest on, and political will towards, this issue. This is reinforced by a more clear support at the international level by international organisations and financial institutions and private foundations.

The reasons for this change are severalfold. On the economic side, the crisis of the 80s brought forward an explosive expansion of the informal sector, particularly of its most visible segments, illuminating the long-run failure of the trickle-down strategy to create sufficient jobs in spite of rapid growth. There is also today, as a result of the crisis, growing concern about poverty conditions in developing countries and the need for targeting on the persons most affected. It is recognised that the poor are not only those unemployed but mainly also those working in informal activities. In 1980, between 75 and 80 per cent of those employed in the informal sector received incomes lower than the minimum. Practical pilot experiences and studies available have also shown that these policies do not need large amounts of resources to be implemented, a finding which in times of acute resources scarcity is very appealing. Capital-labour ratios in these activities are low and the financial support required usually involve very small amounts which, even if the programmes reach a large number of units, will involve less resources than alternative financial support for the modern sector. Other policies such as legal regulations revision, training and technical assistance can also be undertaken with a reduced financial outlay.

There are also non-economic causes. The emergent unregulated economy in the central countries, although different from the informal sector of the periphery, gives universal acceptance to the discussion of this issue. The increasing violence in big cities associated to poverty conditions and informal employment, adds another reason of concern. Also the return to democratic regimes in the majority of the Latin American countries allows for more open pressure of these groups, and a control of the repressive action of public authorities in the need to enlarge the political constituency and because they have to assume the responsibility for the results of their policy decisions. There is finally an increased awareness that in developing countries the mass of people employed in the informal

sector constitutes a social actor that cannot be ignored. By some, they are seen as potential entrepreneurs whose expansion should be promoted by avoiding the excessive and inadequate State intervention (De Soto, 1986). By others, they constitute a natural enlargement of the organised workers movement (Bhatt, 1988). In any of the interpretations, the result is an increased awareness of traditional social actors (i.e., employers and workers organisations) about this issue.

There is need to support the informal sector and it is today more feasible. Hopes should not however, be overexpanded. The development of Latin American countries is and will continue to be determined outside the informal sector where most of the accumulation takes place. Support for the informal sector could contribute to a better efficiency in allocation and distribution, but growth will mostly depend of adequate development and macro-economic policies. In addition, not all informal activities are productive. Some of them are only a refuge for the unemployed in countries without social protection. Hence, productive support can only benefit a part of those employed in the sector.

In this paper we will explore two issues. The first will be the conceptual base for policy design which requires some clarifications about the characteristics, the role and the heterogeneity of the informal sector. The second will refer to policy guidelines for a selective policy.

## B. Conceptual basis for policy design

### 1. Nature and genesis of the informal sector

The genesis of the informal sector in Latin America is linked to the development process of a peripheral region which unlike the central countries, incorporates imported technology which does not take into account their factor endowments. Indeed, on the contrary, they reflect relative factor scarcities of developed countries and changes in goods consumed whose demand is transferred via imitative consumption. In addition, technological incorporation takes place in a different structural setting. Capital is scarce and more concentrated, while labour is not only abundant but also growing at fast rates. The result is that consumption is highly concentrated in those groups which obtain higher incomes due to their privileged access to capital resources, who closely follow the consumption patterns originated in the centres. On the production side, this results in a heterogeneous productive structure because of the extreme goods diversification and differences in productivity between sectors and size of establishments. Employment generation is insufficient to absorb the rapidly increasing labour force and

the benefits of economic progress cannot reach a large part of the population because market imperfections do not allow for price reductions and well remunerated opportunities are scarce.

The relative surplus labour force which cannot find well remunerated employment, has to create its own employment opportunities given their need to obtain an income for survival. These are partly determined by the scant or no availability of financial and human capital of this group of the population which leads to activities where there are no restrictions to entry and results in production units characterised by low levels of technology, small size, low capital requirements, limited social division of labour. The informal organisation of production and of the labour process is also reflected in its institutional characteristics. The majority of the activities take place beyond the limits of the present institutional framework, since these are unable to fulfill the established requirements while in most cases, the government cannot enforce them even if there is a will to do so. Labour relations are not protected because laws concerning contracts, social security and minimum wages cannot be applied and the productive unit does not meet the existing legal registration and tax requirements.

Easy entry also means more competitive markets and average incomes become the variable of adjustment to changes in the employment level. Informal employment will increase until the income per person approaches the opportunity cost of labour which will be close to the subsistence level. The situation is, however, more complex since not all markets register an equal access capacity nor are they related to the rest of the economy in a similar manner. In addition, not all the members of the surplus labour are uniformly deprived of capital. The growth process of the informal sector will imply increased differentiation among subsectors with different roles in the economic system and among units within the sector, since the initial capital endowment differences can be enlarged by the capacity of accumulation, although generally at low levels, of small firms organised on quasi capitalistic or family basis. The adjustment process will not be restricted to variations in labour incomes but will also include returns on capital. The income obtained will be in many cases the return to an indivisible package which characterises small firms, where the entrepreneur offers its managerial and capacity, that of his family and some capital. Capital is in many instances, partly non-transferable since it serves a dual purpose of being a household and a productive asset, as is the case of shops installed in the household premises or vehicles serving both purposes. Labour is neither easily available for fulltime jobs since family labour share their work in the firm with occupations outside the labour

market (house care and school). In these cases, the relevant income will be the total received by the family and mobility of both labour and capital will be restricted.

The income per person in the informal sector will be generally below the comparable income in modern activities. Given the size of the labour surplus and the limited job opportunities outside the sector, average income will be determined by the share of the sector in total incomes and this is linked to the type of inter-relationships which prevail with the rest of the economy.

## 2. Informal-formal inter-relationship

Discussion about the kind of inter-sectoral links which prevail presents a diversity of approaches in the literature (Tokman, 1978). They vary from assuming dependency and exploitation to the assumption of the existence of benign relationships. The former approach sees the informal sector as the result of subordination prevailing both at international and national levels. In this approach the market for informal sector activities is subordinated, residual and without possibilities of expansion. Given this conceptual framework, informal employment expansion results in decreasing income per person since the market share cannot expand because of its dependent relationship. Informal sector growth can then be only, involutory.

The second approach assumes that informal activities are complementary to those of the modern sectors and that they will benefit from output expansion. Complementarity is derived from the sector's efficient use of resources available and by playing an important role in different aspects of the economic process. According to this approach, the informal sector can increase its size by autonomous growth or by expansion induced by growth in the whole economy. Evolutionary growth is then possible.

Subordination is the characteristic of underdevelopment; the informal sector analysis is one way of looking at a more comprehensive phenomenon. The problem is to determine how strong is the subordination and whether there is room left for evolutionary growth. The subordination of the sector as a whole is the result of different processes occurring within it. It should distinguish those informal activities operating in sectors where modern activities have an oligopolistic structure from those where that is not the case. This division will generally, though not always, coincide with the breakdown of activities according to type of product (manufacturing goods, personal services and services linked to distribution and finance).

The different type of inter-relationships that a group of activities within the informal sector has with the rest of the economy will determine its share in total income and its evolution. The analysis suggests three main subgroups of informal activities. The first operates at the base of concentrated markets where cost differentials can be significant. This is the case of manufacturing industries which account for around 20 per cent of informal employment. A second subgroup operates in markets where product differentiation and location are important, but operative costs are similar; mostly the cases of retail commerce, repair shops and semi-skilled services accounting for around 30 per cent of informal employment. The rest of informal activities, mostly constituted by personal and domestic services operate in competitive markets. In all these cases only normal profits can be expected in most informal activities while a diminishing trend of the share of the informal sector's output in the total can be envisaged in the long run. Such a trend may not be stable and its rhythm is difficult to forecast given the mechanisms of resistance which exist, the cyclical fluctuations of economic activity and the unpredicted technological changes as for instance, the present decentralisation of production which is being registered in some leading manufacturing sectors.

### 3. Heterogeneity within the informal sector

A third important aspect for policy formulation concerns the degree of heterogeneity within the informal sector. Contrary to the prevailing image of a decade and a half ago to the effect that the informal sector was of a homogeneous nature, it is clear today that there are different segments within this sector. If the form of organisation is taken as the main variable to define an informal activity, a difference should be established between those units using additional labour (whether paid or unpaid) and those representing activities performed by only one person. In addition, although on the average capital is scarce, it is not evenly distributed among all informal activities. In some, like domestic services or street-vendors, very little capital or none is required. In others, like taxi-drivers or small shops, more capital is involved in the operation. Hence, income resulting from informal activities is in some cases restricted to labour remuneration while in others, it also includes earnings on capital.

Most of the surveys available show that the lowest income is received by domestic servants (Tokman, 1987). The next occupation is that of waged workers in informal firms, who obtain between double and triple the pay for domestic services. The

self-employed receive around 50 per cent more than wage-earning workers in informal activities, while the owners of the informal shops make more than double the level of the workers employed in their own firms. When compared with the wages in the formal sector, it is clear that the self-employed receive incomes that are similar or even slightly above the wages of workers in small establishments of the modern sector, while definitely below those perceived by workers in larger establishments. The owners of small establishments, however, gain larger incomes than all of the workers, except those employed in the public sector but they earn of course less than the average income of owners of larger establishments and self-employed professionals with university degrees.

Income differences when adjusted by problems of estimation seem to suggest that in spite of heterogeneity, incomes tend to be determined within a limited range. However, differences in forms of organisation as well as in income determination rules also give support to the idea of dividing segments within the sector. The discussion on this topic has advanced less than in the other fields, particularly because there seems to be a mixture of analytical categories with regard to markets of products and factors.

The analysis has been concentrated on the unit of production, while labour market aspects received less attention in spite of its relevance for a significant part of the informal sector. An important issue to consider in this perspective is the pattern of mobility, since policy design should take into account individual's behaviour. A study for Costa Rica (Tokman, 1987) suggests that the mobility patterns differ according to each occupational position. Self-employed and the owners of small shops register little mobility, but their pattern of development is tied to the growth possibilities of their unit of production. They are entrepreneurs. At the other extreme, workers in domestic services, perform in the labour market, moving from domestic services to waged work in formal establishments. Workers in larger modern establishments do not become informal owners, save for a small proportion. However, the pattern of mobility of workers in informal shops or in small establishments of the formal sector shows mixed indications. Some of them become self-employed or owners of informal shops, thus being retained within the informal sector. Others, move through the labour market to be hired as workers in larger establishments.

C. Specific actions in a comprehensive policy framework

The analysis above shows that policy designing for the informal sector is not a simple task. The structural genesis, the nature of the inter-relationships and the heterogeneity prevailing in the sector requires a comprehensive policy framework. There are not easy answers to complex development problems. But possibilities for action exists.

There is always the attraction of searching for what McKee (1988) denominates "the missing piece strategy". That is, to identify a single constraint which, when removed, will allow a more productive and profitable livelihoods of the beneficiaries. At macro level the most popular "missing piece" is excessive or inadequate State regulations and bureaucratic intervention. Removal of this constraint would allow for diminishing transaction costs and would improve access to the economy. At micro level the most common "missing piece" identified for direct assistance programmes is credit. While this is not assumed as the only constraint it is considered to be a significant one in such a way that making capital available would allow for the creation and expansion of small enterprises.

The "missing piece strategy", both at macro and micro level, is also attractive because of the expected automaticity of the effects. Both policy interventions are necessary components of a more comprehensive package, but isolated they will only produce partial and in many instances, marginal results. Inadequate regulation is only one characteristic of informal production, the main underlying constraints being structural ones. Access to capital is also a key factor to explain low incomes of the informal producer, but it fails to recognise other significant economic constraints as access to skills and more dynamic markets. In addition, policy interventions cannot be limited to the informal sector since the most important determining factors are in the rest of the economy. Which policies are followed for the economy as a whole will affect the outcome of micro level interventions.

Because of this, a necessary requirement is a series of measures that may be mutually reinforced. In this section we shall explore four ways to support the evolutionary growth of the informal sector, three of them directly targeted on the informal units, and the other on development policies.

1. Direct policies for the informal sector

a) The productive assistance package

It has been identified that one of the main constraints of the informal sector is its restricted access to productive resources (capital and skills) and to more dynamic markets. Because of this, the first priority is to set up mechanisms to permit access to them and eliminate the discrimination which this sector suffers in practice by being excluded. This implies the design of at least three types of measures. The first measure proposed is to improve access to product markets. This can be done by examining the systems whereby the State invites bids from suppliers, to eliminate the restrictions that prevent the informal enterprises from acting as such and, even, facilitate their participation. Subcontracting relations could also be promoted to ensure expanded markets as well as technological upgrading of informal activities. In addition, their competitive capability will be reinforced by the two following measures, which may also result in their increased share in public and private markets. The second measure should be to facilitate access to both investment and working capital in order to reduce the high interest rates confronting the informal producers when, because of their exclusion, they have to resort to parallel credit channels. This necessarily leads to the conception of collateral mechanisms not linked as at present to individual assets, by means of the introduction of insurance schemes or trusts to serve this purpose. The third measure proposed is to train the informal producers in the use of accounting and managerial procedures. They and their dependants would benefit from their improved expertise in production matters, which at the same time could become suitable vehicle for the introduction of new technologies.

b) The welfare package

Given the heterogeneous nature of the informal sector, a productive assistance action has, however, some limitations in terms of potential effects. The two main ones are that productive assistance may only be directed to the more organised productive units that constitute the central nucleus (mainly in industry and some non-personal services) and that within them the benefits derived from this assistance may involve a larger income for the entrepreneur, which may not necessarily be transferred to the informal workers. What conspires against improving remunerations is the large existing labour supply and the scant or non-existent negotiation capacity of this sector of workers. However, its productive reinforcement may imply an increase in the hours worked per week, or the creation of new jobs and in

this more indirect way, the benefits would be transferred to the informal workers.

This leads to three consequences. First, that if the policy for supporting the informal sector is limited to this instrument, it should not be justified in terms of the full size informal employment, since it will overestimate the reaching capacity of these policies. Second, the policy will be more efficient in terms of its productive results rather than on its impact on extreme poverty in the short run. Informal entrepreneurs, particularly those of the core activities which will be the direct beneficiaries, receive the higher incomes, while wages will probably not be affected and the employment effects will require time to mature. A third consequence is that a significant proportion of the informal sector will therefore be excluded from the benefits of productive support, since to a large extent they depend on their own work force and carry out activities, particularly services, which are unlikely to receive this type of support. For this reason, measures tending to improve the welfare levels of the population are also required, in order to ensure that their basic nutrition, education, health and housing needs may be duly satisfied. It is obvious that such an assistance policy will have to tackle the constraints imposed by the availability of resources in almost all the countries, but this situation makes it imperative, on the one hand, to focus the present social spending on these target-groups and, on the other, to study the possibility of increasing it by cutting down on other spending which may be socially inefficient.

The improvement in the welfare levels of the poorer groups, a vast majority of which can be found in the informal sector, will also have productive effects. It will permit to reinforce their capacity to compete for better jobs by preventing the minimum requirements which are more frequently demanded (mainly in health and education) from becoming barriers excluding those employed in the informal sector. There is also an additional dimension that may make the combination of the welfare package and the productive assistance package more effective. The informal units are characterised by their dual home-enterprise nature and the resources available are allocated to both uses. The reinforcement given to the needs of the home will free resources for productive purposes and in this way a "virtuous" circle of expansion will be generated.

c) The legal-institutional package

The "illegality" of informal activities is the result and not the cause of its operation modality. Owing to this, the actions adopted in this field do not solve the deeper problems

that determine the low incomes prevailing in the sector. However, there are measures that can be adopted and that in conjunction with the use of the former packages should contribute to reach the desired target.

There are three aspects of "legality" that should be distinguished. The recognition of legal existence, tax and labour legality. Each of them should be analysed in a separate way since they pose different problems and options. They are, however, inter-related since, for example, legal recognition is a pre-requisite to regularise both tax and labour status and is also important for the application of the productive assistance package in its different dimensions.

We shall deal in the first place with the aspects related to legal recognition and here, we must distinguish between two situations. The first one occurs when "illegality" has been the result of a prolonged bureaucratic process to meet the multiple legal requirements. This involves such a high cost in terms of resources and time that, in fact, it constitutes what De Soto (1986) calls the "paper wall", which is equivalent to a prohibition to operate legally. In this situation it is necessary to revise and simplify both norms and procedures in order to facilitate and not impede the progress of informal activities towards legality. The second situation occurs in such cases where there is regulation on the part of the State with the purpose of protecting the general interests of the community. The municipality must watch, among other things, over the easy flow of traffic in the city, over its aesthetic harmony and over the population's access to a safe and efficient transport system. Because of this, the municipality regulates building permits, trading licenses, transport licenses for public transport (taxis or others, which is jointly done with the national transport bodies). On regulating, it generates benefits that favour some protected groups, or it alters the rules of competition with respect to a situation in which there is no intervention. However, economic calculations should also incorporate protecting the common good which can be affected with de-regulation.

Neither does regulation seem to be effective if this is not observed or if, on the contrary, reality outgrows it as it is the case of peddlers, unlicensed taxis or buildings with no permits, among others. The answer is not increased coercion by means of, for example, the police force to deal with street vendors. However, the effectiveness of control is variable and the causes of non-compliance are different. In cases such as public transport, control is feasible and desirable. In others, such as housing, it will be necessary to differentiate between housing that does not comply with current legislation for real reasons,

as happens in shanty towns, or because of reasons of convenience, as happens with zoning laws in medium and high-income areas. The latter must most certainly be controlled; the former call for a revision of the regulations and procedures to prevent and unrealistic institutionalities from being detrimental to such people who are not in condition to comply. Finally, there is little or nothing to be done with such clearly overflowing sectors as street peddling. It is always feasible to apply transitory measures that alter the situation in a temporary way. However, sooner or later it reverts to its former state because, in fact, its permanent nature is determined by the existence of a structural labour surplus that will only decrease when sufficient productive employment is generated. Until this happens, and since due to the crisis rock-bottom has been reached, the tension produced as a consequence of the action generated when an increased degree of coercion is seen as necessary, will be inevitable.

The second aspect of legality has to do with taxes. Within it, it is necessary to differentiate between direct taxes which, given the income and profit levels at which the informal sector operates are not important, and indirect taxes. In particular, among this group we shall refer to value added tax (VAT), of almost universal application in Latin America and whose rates increase more and more given the existing fiscal tendency to assign a greater importance to this tax rather than to direct taxes. With regard to this issue we shall restrict ourselves to point out three aspects that should be taken into account on designing the fiscal policy. The first one refers to the need to incorporate VAT exemptions for small commercial transactions. The second one has to do with the need for increased control at all levels, not restricting it only to the last links of the chain, but incorporating the intermediate producers. Finally, in connection with the nature of this tax, it will be necessary to advise the informal producers on the mechanics of this type of taxation, in which payments made in previous stages are deductible. If this tax is duly worked out, the net amount to be paid is considerably reduced.

The third aspect has to do with some features of the labour regulations. The cost that complying with correct labour regulations would involve represents almost all the legalisation costs, and would absorb the small profit margin generated by the informal activities. It is necessary, therefore, to reconcile the objective of protecting the workers and their families with the need to preserve this source of employment which, precarious as it may be, is preferable to open unemployment.

The answer may be sought by exploring different avenues. One part of labour protection is to cover situations of illness or accidents that the worker and his/her family may have, which should be directly attended to by the welfare system. Another part of the legalisation cost goes towards financing a series of national activities which, in the long run, derive in benefits for the workers and which, therefore, are partly financed with the workers' contributions deducted from the payroll. This is the case of, among others, training and housing contributions. Given their incapacity to pay, it seems advisable that the informal enterprises should be exempted from this type of tax.

The problem is, therefore, restricted to social security and family allowances. Within the former, if we exclude such aspects as labour accidents and health, what remains is job security and pensions. The usual conception of these systems assumes an employment relation whose nature is that of long-term permanence. The regulation only tries to ensure that this should be so by reducing the chances of insecurity and safeguarding the interests of the workers in case of changes in activity. The informal sector jobs lack these characteristics. On the contrary, insecurity is one of their main features and for this reason, it is necessary to adapt the regulation either to make an exception in this type of units or in part of them (as occurs in practice in several countries) or to introduce special modalities that may take into account their operational characteristics. Another possibility is to revise the form in which the social security system is funded and that instead of making a contribution on the payroll, such funding should come from another type of taxation, be it production, sales or capital. The effect of this may imply a growth of employment in general and releasing or, at least, reducing the number of informal sector enterprises from this obligation and may make it possible to protect their workers.

## 2. Development policies

The previous measures would create necessary conditions for an increase of average income in the informal sector. The final result will depend on the evolution of structural factors which are related to the overall development. Three main areas which can illustrate the importance of this issue are employment creation in modern sector, capital concentration and income distribution. If employment creation outside the informal sector is not sufficient, there will be an increased surplus labour entering into the informal sector compensating any benefits that might be obtained by better supporting policies. Increase job opportunities in modern sectors is then also a key component of a comprehensive strategy.

A second factor is the degree of capital concentration, since capital scarcity in the informal sector is not a marginal problem but if massively confronted, would involve a better allocation of capital in the whole economy. A third policy area is income distribution since equity apart from being an end by itself, could generate more employment given the changes that would imply in the structure of consumption and in foreign exchange requirements. In particular, an increased demand for wage goods would enlarge market possibilities for informal sector production.

Policies in areas like the three mentioned before, relate to development and macroeconomic management and hence, open a wide field of discussion which goes beyond the scope of this paper. It would be however sufficient to note that the effects of micro level interventions in the informal sector will depend on the overall policy framework and a policy for supporting it should, from its own perspective, examine the implications of different policies set.

D. A final comment on complexity and intervention

The policy outlined could convey the impression of being a proposal for a multiple programme of State intervention. The issue of intervention is usually discussed with a highly ideological content, where biases of different signs impede a pragmatic approach to this important question. Our objective in this paper is to search for ways to improve the efficiency of the State's intervention without getting mixed up with the ideological aspects. In the present context this could imply to rationalise public intervention in some cases, to reduce or eliminate it in others and to increase it in a few cases.

It is a multiple programme since there is no single factor which can explain by itself the low income generated in the informal sector. There are several constraints which to make things even more complex, not only exist at micro level but refer to the overall policy framework. This should not deter those advocating policy support for the informal sector to suggest better macro policies, since experience has shown that wrong macro economic management cannot be compensated by a successful micro intervention.

The degree of State intervention cannot be determined a priori, since it could be discussed at different levels. When State intervention, such as in some cases of inadequate regulations or heavy bureaucratic procedures, hinder possibilities of expansion they might be revised and simplified.

This does not ensure that the end objectives will be automatically reached and could well require more intervention, not necessarily of the government. A case which clearly illustrates this aspect is the credit for the poor producers. The successful ventures in this field have created a new institutionality, since access to the conventional financial outlets is restricted by many constraints. Indeed, an important one is the need for collateral which can be solved by solidary guarantees or other means; there are more affecting the whole procedure. Only when the new way has been successfully implemented, it can be transferred to other conventional institutions. The several cases available of this kind of intervention are mostly operated on private basis.

Another level of intervention can be found at the credit allocation. One criteria generally followed in massive programmes is to avoid getting involved in picking up the winners; while in other more restricted programmes a feasibility analysis of potential borrowers is undertaken. There are arguments in favour and against any of these strategies, being simplicity and lower cost the more outstanding pros of the former. Whatever the procedure selected, there will still be need for having a clear diagnosis of sectoral inter-relationship and macro policies more conducive to informal sector evolutionary growth. This of course, could be located at a different level, since a successful NGO intervening at micro level cannot become responsible for national policies which constitute government's obligation. This role of government cannot be delegated, since a comprehensive approach requires the design and implementation of macro policies which orient sectoral and micro initiatives as well as, the decrease of tensions arising from the action that the different social actors take in pursuing their own objectives. In a democratic society, this is perhaps, the main challenge which any government confronts.

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