

Discussion Paper – December 18, 2018

## Local Economic Development, micro-enterprise and crime reduction: **Lessons from Cali, Colombia**



### 1. Introduction

This Policy Brief argues that successful initiatives to tackle Cali's exceptionally high homicide rates also have potential for local economic development, and suggests ways that the significant value-added by informal enterprises can be harnessed to achieve wider economic objectives. It examines innovations in supporting micro-enterprise and crime reduction in Cali and the lessons for local economic development (LED), local government policy and NGO agendas.

The brief draws on research by the Observatory of Public Policy (POLIS), Universidad Icesi, and a recent study by POLIS and Cardiff University. The report also builds on previous work of UN-Habitat's Urban Economy and Finance Branch, including the 2017 publication, *Enhancing Productivity in the Urban Informal Economy* (UN-Habitat, 2017) which demonstrates that micro-innovations can transform working lives and contribute to sustainable and inclusive urban development. This policy brief first sets the context, examining the global extent of informal enterprise and challenges of urban violence, and the context and economy of Cali. It then presents case studies from Cali, which illustrate the potential of data sharing, policy inclusion, enhanced municipal revenue, public space, financial inclusion, and open dialogue in urban LED.

### 2. The informal economy world-wide

More than 60 per cent of the world's employed population work in the informal economy. Informality exists in all countries regardless of the level of socio-economic development, although it is more prevalent in developing countries (ILO, 2018). In the global south, the informal economy provides over 50 per cent of urban employment and most new jobs particularly for women and young people (ILO, 2018). Many informal enterprises pay considerable revenues to the state through daily tolls or market licenses (Brown, 2006) and urban economies are often globally connected. Yet, state policy often marginalises the informal economy and its workers are vulnerable to harassment or eviction (Mackie, Bromley & Brown 2014). In cities suffering violence and conflict, problems for informal economy workers can be acute.

The global community is seeking to tackle problems of persistent poverty and inequality through the 2030 Agenda for Sustainable Development, particularly its Goal 11, which seeks to make cities and human settlements inclusive, safe, resilient and sustainable, and Goal 16, which seeks to promote peaceful and inclusive societies. An important follow-up is the New Urban Agenda (NUA), agreed at the 2016 United Nations Conference on Housing and Sustainable Urban

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Development – promoting decent work for all and opportunities for decent and productive work for crisis-affected people in urban settings. A key agenda led by the International Labour Organization sees decent work as a global development goal and promotes gradual transition from the informal to the formal economy, thus increasing access to social protection and improved working conditions. This brief argues that policy inclusion for informal workers and incremental improvements can provide short-term benefits towards this wider development goal.

### 3. Tackling urban crime and violence

Urban conflict is now an every-day reality for many urban residents with protests, riots, and violence costing 13.3% of global GDP (IEP, 2015). Moreover, security and conflict have worsened over the last decade (IEP, 2016): Two billion people live in countries affected by fragility, conflict and violence (WB, 2018). Urban conflict is triggered by multiple causes, e.g. political instability, resource scarcity, tensions of rapid urban growth, migration, marginalisation or poverty. Armed conflict and violence are also major causes of development reversals, where development prospects are ‘pushed back by decades’ (ICRC, 2016). Yet, relatively little is known about the ways cities relate to contemporary conflicts, and can transition from crisis to reconstruction and development, in particular, how improving security can be captured as a tool in economic inclusion and recovery, which the Cali case studies address.

### 4. Cali – the city's potential and challenges

Cali (officially Santiago de Cali) is a city of contrasts; a major economic hub in the Colombian Pacific region, but facing endemic violence as a result of its strategic location on Colombia's southern drug trade routes. Cali is the third largest city in Colombia, with a population of about 2.4 million (DANE, 2015a), with strong industrial sectors based on food and beverages, pharmaceuticals and agro-industries. However, since the 1980s the city has been renowned for drug trafficking, and by the 1990s it was considered one the ten most violent cities in the world, with urban homicide rate reaching more than 100 per 100,000 inhabitants per year (Otero, 2012; World Bank, 2002) (Figure 1). Concerted government action in the 1990s against the major exporting drug cartels led to a rapid fall in homicides but homicide rates then gradually increased as members of cartels replaced their lost income from exports by engaging in petty crime. Since 2013 the homicide rate has again reduced as a result of sustained efforts coordinated by local government (Fandiño et al., 2018) but small-scale drug rings still operate in the city tapping a local market and crimes such as theft, assault and extortion are increasing.

Figure 1: Homicide rates (per 100.000 habitants)

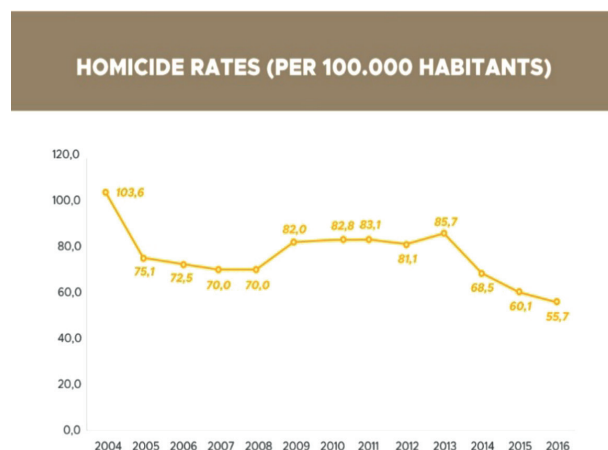
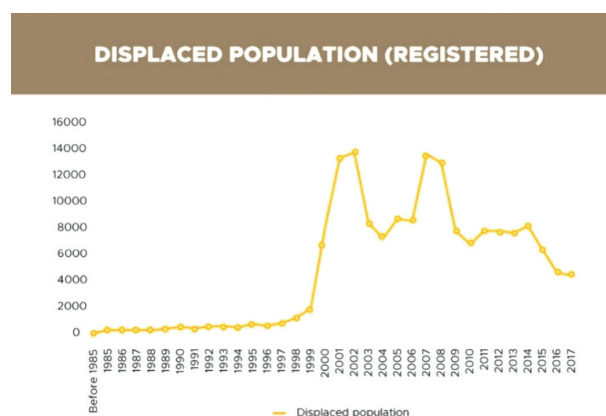


Figure 2: Reported thefts by citizens and businesses, 2010 - 2017



The city has also been a magnet for migration as rural residents fled the armed conflict, which affected the country for over 50 years. According to official sources, between 1985 and 2017 Cali received over 170,000 victims (GdC, 2018), although under-reporting means that the number may be significantly higher. Between 1990 and 2015, the city's population grew from 1.7 million to about 2.4 million, and according to some estimates, almost half of the population growth is due to the relocation of people affected by rural conflict (Poveda, 2011).

Figure 3. Displaced population (registered) settled in Cali 1985 – 2017



In-migration has created social tensions and widened inequality in the city, and economic opportunities in the city are becoming scarcer. The urban poor, newcomers, victims of conflict and the recent influx of Venezuelan migrants often have little choice but to work in the informal sector.

Like all major cities of Colombia, Cali's informal economy is hugely significant as a source of jobs, employing an estimated 48 per cent of the urban workforce in line with the rest of Colombia (DANE, 2015b).



Informality is heterogeneous and includes unpaid family workers, workers in companies with less than five employees, and own-account workers such as trash pickers, street vendors, domestic employees, and farmhands (ILO-FORLAC, 2014).

Many informal workers are victims of the armed conflict, and many have limited formal schooling. Sector-based studies suggest that there are over 3,000 trash pickers in the city (Estrada et al., 2017) and over 10,000 street vendors (Martínez et al., 2018). Cali's informal sector also attracts illegal activities such as money laundering, smuggling and micro-drug trafficking. Thus, informal workers operate in a complex environment, dealing both with government restrictions and coercion from criminal gangs.

## 5. Lessons for Local Economic Development

Despite its challenges, since the mid-2000s the Cali Government, in partnership with NGOs and academia, has made dramatic progress in both reducing homicide rates and supporting LED. Several inspirational mayors were behind this transformation, notably Rodrigo Guerrero, whose two terms in office from 1992-1994 and 2012-2015, focussed on improving security in the city.

The following section outlines several initiatives undertaken and highlights the key lessons for local economic development.

### a) Understanding urban crime – Cali's urban observatories

Cali has been a pioneer on data driven policy intervention in Colombia. During his first period in office, Mayor Guerrero developed an epidemiological approach to urban violence prevention, setting up a 'violence observatory', studying when, where and how crime was committed in the city, and sharing data across agencies. The initiative was highly successful and has helped to curb the high homicides rates (The Economist, 2018), and several regional and urban observatories have now been established, which contribute to peace building and better urban planning and political control. Current mayor Maurice Armitage promoted the creation of a peace-building observatory. Universities and private sector also contribute to other initiatives by financing and promoting urban observatories to contribute to a better policy making in the city such as **Cali Como Vamos** and **POLIS**.

While some data on the informal economy is now being gathered, notably by POLIS under its CaliBRANDO programme (Martínez, 2017), there is clearly need for coordinated cross-agency data collection by the Alcaldía, universities and NGOs, to build a picture of the extent, economic contribution and vulnerabilities of Cali's informal economy.

### b) Policy inclusion

Various policy interventions in Cali have sought to improve working conditions and quality of life for informal economy workers with some success (Martínez and Short, 2017; Estrada et al., 2017). Among the most innovative is the programme launched in 2018 by Metro Cali S.A. (Metro Cali), the mass bus transit company, to organize street vendors who worked on the buses and around bus stations. The programme

seeks to enable vendors to continue operating on the new rapid transit system and to improve their working conditions. Initially, over 500 street vendors already working on the buses were the target beneficiaries, with the intention that the pilot programme will then be scaled up. Street vendors are invited to register, given an ID card, and offered a specially-designed pocketed vest and wheelie bag. Three additional initiatives have also been established to help participating vendors earn extra revenue:

1. Mecato popular (popular goodies) provides elderly street vendors with a special stand to sell sweets and snacks in the lobbies of public buildings.
2. Loncheras (lunch box): using contacts with the private sector, street vendors are provided with reduced-cost lunch boxes for school children.
3. Ventas multi-nivel (multi-level sales); women street vendors can work as agents for participating companies – at present they sell beauty products from catalogues, which offer better working conditions and the same flexibility as street vending.
4. Proposed initiatives include access to micro-credit, street food trucks and the inclusion of street vendors in some work in the bus stations, including information, security and operating public restrooms.

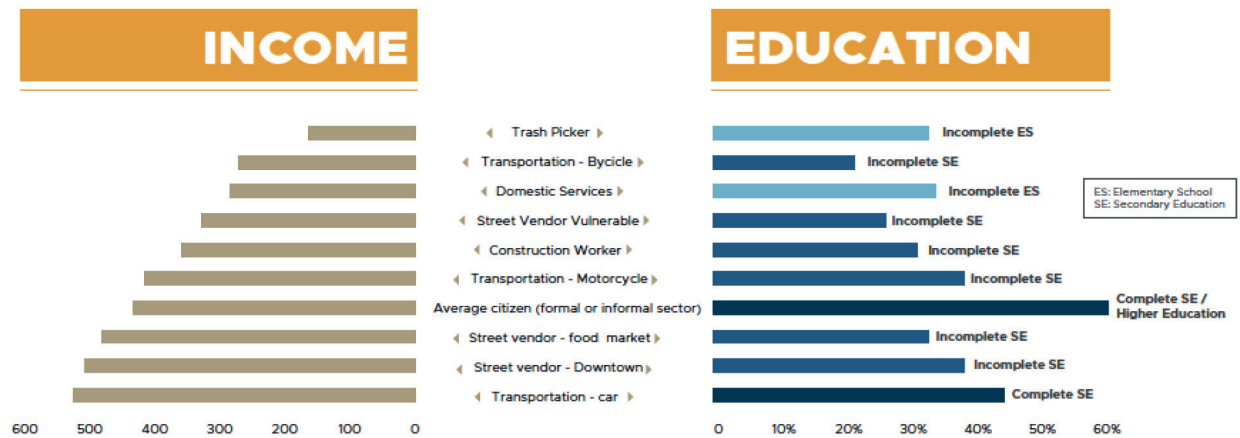
The initiative by Metro Cali illustrates how recognition of the employment potential of micro-enterprises, and imaginative provision for street vending, can provide employment for vulnerable street traders, facilities for customers, and 'eyes on the street' – enhancing both the security and the vibrancy of bus stations.

### c) Strengthening municipal revenue

The revenue-generating potential of informal enterprise is not fully captured, and regulations on subsidised healthcare and housing provide perverse incentives that discourage people from moving from informal into formal sector work. In Cali, the average urban worker (in the formal or informal sector) earns about USD395/month and pays standard tax contributions covering health insurance and pension payments. The workforce is well-educated, and over 60 per cent of the working age population has finished secondary education and over 40 per cent has tertiary or college education (POLIS, 2017).

Data shows that informal workers often have lower education than the norm. Many also earn less than the average wage, for example a trash picker who generally has not finished elementary school earns about USD125/month, which is below the national poverty line of USD128/month (Estrada et al., 2017). For some groups of informal workers such as trash pickers, domestic servants, constructions workers and some street vendors, limited education compounds their vulnerability. However, others – particularly street vendors of food and in downtown areas, and taxi drivers – earn well above the average income. However, government programmes to informal workers providing cash transfers, free health insurance, free education, and other programmes mean that it is uneconomic for them to work formally as they would lose these benefits.

Figure 4. Income and educational attainment of informal workers and the average citizen in Cali



Source: Observatorio de Políticas Públicas – POLIS. Income shown in US Dollars. 1 Dollar = 2000 Colombian peso

Understanding perverse incentives such as those in Colombia which discourage a transition to formal employment is crucial, if a transition to more secure work is to be achieved. In Cali, this means collecting better data on informal work and, for example, developing intermediary and simplified taxation regimes that capture income earned, either on an individual basis or through area-based associations, to ensure that state benefits are targeted at those most in need.

#### d) Securing livelihoods in public space

Public space is an essential livelihood asset for many low-income workers, such as trash pickers and street vendors, taxistas, or small-scale manufacturers, who need to capture passing trade or have limited space in the home. In Colombia, street vendors have been particularly effective in claiming their right to work in public space through the constitutional mechanism of the tutela to protect their rights to vend in public space. The tutela is enshrined in the 1991 Constitution and allows any citizen to claim their constitutional rights when these are violated by a public entity (Carrera Silva, 2011). The application process is simple – applications are free and subject to constitutional rulings. In Cali, as a consequence of tutelas submitted by trash pickers, the Alcaldía is required to enable trash pickers to become small-scale entrepreneurs and then include them in solid waste management plans for the city. As a consequence of tutelas in Bogotá street vendors cannot be removed

#### e) Financial inclusion

Financial exclusion is a critical problem faced by informal workers, leaving them open to unscrupulous money lending, which in Cali is often operated by drug-related gangs for money laundering. Informal workers are not able to access the regulated banking system because of the lack of stable income or assets against which to borrow. Other microfinance provision usually requires regular repayments which are difficult for street vendors to achieve (Martínez and Rivera-Acevedo, 2018). With irregular cash flow, street vendors may turn to money lenders for high-interest loans (gota a gota) with extortionate interest rates often around 20% per month. Moneylenders are relentless in collecting debts, often armed, and sometimes require vendors to sell drugs, leaving vendors trapped in a cycle of extortion. Elsewhere in Colombia, the government has sought to promote financial inclusion for informal workers, for example in Medellín, where the Bancuadra was set up 15 years ago to provide financial services to the poor.

In contexts of violence, informal workers are vulnerable to extortion from criminal networks, particularly where these are associated with the drug trade. In Cali, as in other conflict-affected cities, there is an urgent need to provide alternatives to gota a gota loans, to enable street vendors to avoid criminal extortion.

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