

MICROENTERPRISES AND POVERTY

Evidence from Latin America

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EXECUTIVE SUMMARY

There are many unanswered questions regarding poverty in the microenterprise (MIC) sector: Are microentrepreneurs and their workers poor? Who are the poor within the sector? Are households with a high dependency upon microenterprise-generated income poorer than other households? This study assesses poverty in the microenterprise sector in Latin America. We examine these questions analyzing both household income per capita and individual earnings. Previous studies report that the sector is very heterogeneous and that there are radical differences in earnings: between owners and employees, by gender, and according to economic activity. The study is based on tabulations from household surveys prepared by the Inter-American Development Bank (IDB) for fourteen countries during 1998. We also use tabulations prepared by the Economic Commission for Latin America (ECLA) in 1997 which expand on some variables of interest. The analysis resulted in the following stylized facts:

- The MIC sector represented 54% of total employment in Latin America in the mid 1990's. Most MIC workers are self-employed microentrepreneurs.
- An average of 26% of all MIC workers in the region are poor. Poverty rates in the MIC sector have remained essentially unchanged in the last decade. The incidence of poverty is about twice as high for MIC workers as for NON-MIC workers during the 1990's. On average, the poverty gap between the MIC and the NON-MIC sector has *increased* in the last decade.
- MIC employees have the highest poverty incidence. Self-employed MIC workers also have a large share of poor earners.
- One of the vulnerable groups within the MIC sector is female earners, with an average poverty rate of 55%. Single female heads of household and young earners experience similar poverty rates as female earners.
- More than one-third of households (in a subset of Latin American countries) have at least 50% of their income generated in the MIC sector. Households with significant MIC income dependency tend to have higher poverty rates than other households.

- Employers in the NON-MIC sector register the highest earnings, which are 4.5 times the average earnings of all employees and more than twice the earnings of MIC employees. MIC employers earn more than NON-MIC employees. MIC employees are at the bottom of scale, earning half the wage of NON-MIC employees.
- In the MIC sector, the percentage of poor earners is greatest in the industrial sector and smallest in the commerce sector.
- Low earnings firms are more concentrated among firms with less than 2 employees than high earnings firms.
- MIC workers have lower levels of education than NON-MIC workers, which may partially explain MIC workers' lower levels of earnings and higher rates of poverty.
- MIC workers are older on average. The MIC sector employs more workers with more than 30 years of experience than the NON-MIC sector.
- Although women earn less than men overall, gender earnings disparities tend to be smaller in the MIC sector than in the NON-MIC sector.

I. INTRODUCTION

1.1. Microenterprises and Poverty

Microenterprises constitute the most dynamic and heterogeneous sector in Latin America. The contribution of microbusinesses, including independent (self-employed) workers, to the economy in the region has been documented extensively. According to the Inter-American Development Bank (1999), during the mid 1990's the microenterprise sector employed more than 50% of the labor force in most Latin American countries. Between 1990 and 1995, an average of 84 out of 100 new jobs in the region were generated by microenterprises. The GDP contribution of the sector is harder to estimate due to its scale and widespread informality. Measures of microenterprises' participation in GDP range from less than 10% to 50%, depending on the country and method of estimation.

There are two views of the microenterprise (MIC) sector, each one with different policy implications. The first one considers workers in the MIC sector as either underemployed or surplus labor. These workers cannot find a job in the formal sector due to their low skills and general unemployability (underemployment view). The second view focuses on the fact that some workers *choose* this sector for its flexibility and earnings opportunities (microentrepreneur view). While the existence of high levels of poverty in the sector is strongly suggested by the first view, poverty is not necessarily a permanent microenterprise condition according to the second view. Since the late 1970's, the IDB has adopted the microentrepreneur view, which posits that microenterprise development can be an effective mechanism for poverty reduction through market-driven, productive activities. Policies oriented towards supporting and promoting microenterprises have three major fronts: microfinance, changes in the regulatory framework, and business development services. There are also other policy interventions that have a positive impact on microenterprise development such as the provision of productive infrastructure and child care programs for female workers.

Microenterprise development is considered a mechanism for poverty reduction based on its capacity to generate employment and raise earnings. Tokman (1996) stresses the importance of the microenterprise sector as a safety net for displaced workers since the majority of

countries in the region cannot offer unemployment insurance. Moreover, this sector includes groups that are particularly vulnerable to poverty in significant numbers.¹ On the other hand, some studies indicate that the poorest of the poor are not necessarily microentrepreneurs (owners of the firm).² Therefore, a diagnosis of the incidence of poverty in the microenterprise sector is essential to evaluate the role of microenterprise programs in poverty reduction.

There are many unanswered questions regarding poverty in the microenterprise sector: Are microentrepreneurs and their employees poor? Is the poverty rate higher in the microenterprise sector than in the rest of the economy? Who are the poor within the sector? We examine these questions analyzing both household income per capita and individual earnings. Previous studies report that the sector is very heterogeneous and that there are radical differences in earnings: between owners and employees, by gender, and according to economic activity.

1.2. Objectives

This study assesses poverty in the microenterprise sector in Latin America, presenting stylized facts on potential poverty risk factors at the household and individual levels. Our goal is to describe the main trends in the region. The scope of the paper is limited to a descriptive analysis of poverty risk factors based on the nature of the data set (household surveys). Therefore, the study does not explore the causes of poverty in the MIC sector or the factors that determine whether an individual works in a microenterprise.³ The objectives and scope of this study are summarized in Box 1.

¹ According to Gulli (1998), between 30 and 60 percent of all microenterprises in Latin America and the Caribbean are owned and operated by women. Similarly, indigenous people, agricultural producers, and young workers are over-represented in this sector.

² According to the IDB (1998), a larger percentage of people living in *extreme* poverty is found among the unemployed.

³ Possible causes of poverty within the MIC sector are low levels of investment and of productivity. In order to explore these factors it is necessary to have information about the microenterprise as a productive unit.

Box 1: Objectives
<ul style="list-style-type: none">❖ Determine the incidence of poverty for the population employed in the MIC sector.❖ Compare the poverty rates in the MIC sector with the rest of the economy.❖ Analyze individual characteristics that are related to poverty in the MIC sector.❖ Determine the poverty rate of households with microenterprise income, comparing it to the poverty rate of other households.❖ Establish comparisons across Latin American countries.

1.3. Data Set

The study is based on tabulations from household surveys prepared by the Inter-American Development Bank (IDB) for fourteen countries in the region.⁴ We also use tabulations prepared by the Economic Commission for Latin America (ECLA) from national household surveys during 1994. This latter data set expands on certain variables for six countries: Bolivia, Chile, Costa Rica, Honduras, Paraguay, and Uruguay. This group includes three low income countries (Bolivia, Honduras, and Paraguay) and three moderate income countries (Costa Rica, Chile, and Uruguay). Household surveys allow us to assess poverty using household income per capita as the key variable. Both the IDB and ECLA data sets were designed to facilitate cross-country comparisons. The limitation of using household surveys is that they focus on workers rather than on the microenterprise as a productive unit. Thus, we do not have information on many important variables that impact microenterprise performance and income such as: degree of formality, amount of capital, location, access to credit, gross sales, net earnings, and inventories.

1.4. What is a Microenterprise?

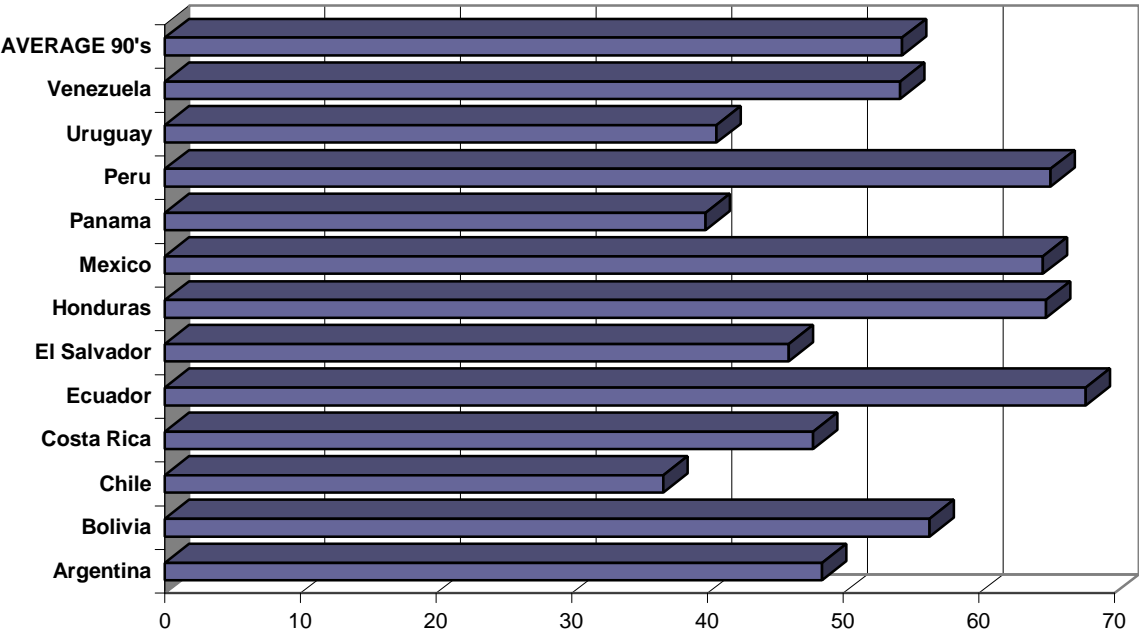
According to the IDB's working definition, a microenterprise is a productive unit employing 10 workers or less with total assets below \$20,000. Household surveys do not provide data on microenterprises assets; thus, our definition is based only on the total number of workers. In the ECLA data set, an individual is employed in the microenterprise sector if he/she works at a firm with less than 10 workers, including the owner. Microentrepreneurs are

included in the sector only if their occupation is *non-professional*. The exclusion of professional self-employed workers from the MIC sector is based on the fact that, in general, they have significantly higher levels of assets and human capital, which could distort our comparisons for poverty assessment purposes. The IDB (1998) tabulations used firms with 5 workers or less; however, their results are similar to studies using the 10 workers threshold because the vast majority of microenterprises in Latin America have 5 workers or less.

The percentage of the employed population working in the MIC sector, for the countries included in the IDB (1998) data set, is shown in Figure 1. The MIC sector represents 54% of total employment on average during the 1990's. Ecuador has the highest rate of workers in the MIC sector (almost 68%) while Chile has the lowest. The microenterprise share of the total employment tends to be lower in higher income per capita countries (Chile, Uruguay, and Costa Rica). The average microenterprise share of employment during the 1980's was approximately 57%. However, the change in the MIC employment share has been different across countries. In the case of Argentina and Venezuela, the percentage of workers in the MIC sector has increased in the last decade. On the other hand, the percentage of MIC workers has decreased in Bolivia and Uruguay.

⁴ IDB (1998). The tabulations were generously provided by Glenn Westley.

Figure 1: Percentage of Employed Population in the MIC Sector, mid 1990's



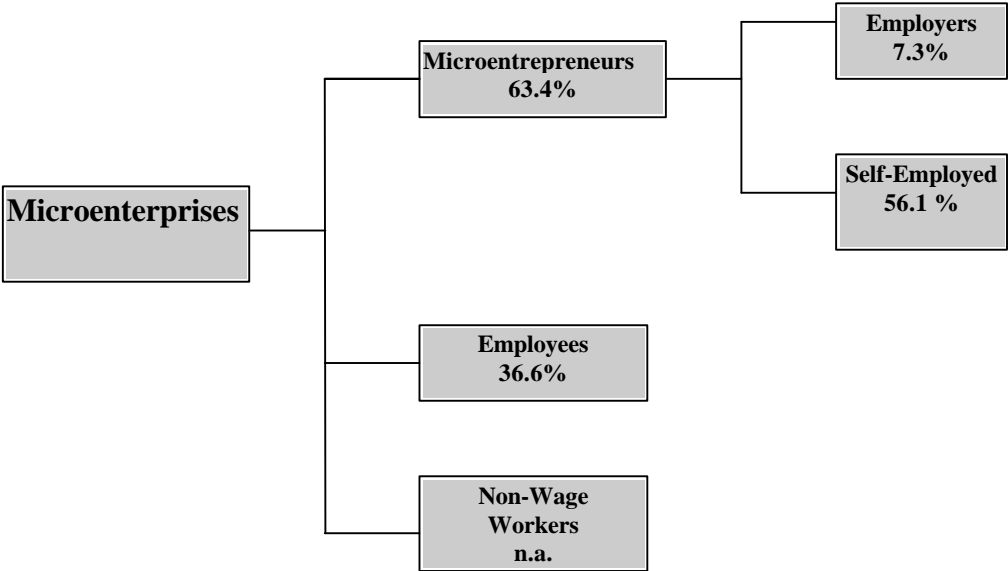
Source: IDB (1998)

Workers in the MIC sector can be divided into four categories according to their occupation: employers, self-employed, employees, and unpaid family workers. Both the self-employed and employers own the microenterprise; thus, they are considered microentrepreneurs. We designate as employers those microentrepreneurs who hire at least one other worker, while self-employed microentrepreneurs work independently as a one-person firm. Employees are employed by MIC owners for a salary. Non-wage workers are relatives or friends of the owner who work in the microenterprise without earning a salary. Usually, non-wage workers are compensated with food and shelter, education payments, gifts, merchandise, and pocket money.

Figure 2 presents the average MIC sector composition for the countries included in the IDB (1998) data set. More than 63% of MIC workers are microentrepreneurs, most of them self-employed. Most countries have a MIC sector composition that is similar to this average. In

the case of Bolivia, Honduras, and Peru, the percentage of self-employed workers is higher than the average while in Mexico the percentage of self-employed workers is only 24% and the percentage of employees is 72%. In the IDB data set we do not have information regarding non-wage workers. According to the ECLA data set, the average participation of unpaid family workers is around 4%, and varies significantly across countries. According to ECLA's estimates, non-wage workers represent 14% of MIC workers in Bolivia, while in Chile this figure is virtually zero. This large variation may be due to reporting problems in the surveys.

Figure 2: Average Composition of Microenterprises in Latin America, mid 1990's



1.5. The Poverty Line

The poverty line is the most widely used method for poverty assessment in a specific population. In general, it can be defined as the minimum amount of resources required for the satisfaction of an individual's basic needs. This general definition introduces diverse measurement challenges, generating a variety of empirical definitions of a poverty line. According to Lustig (1994), in the case of Latin America, it is not easy to determine whether poverty has increased, because different methods of measuring poverty give contradictory

results. The most common method is an *income*-based measure of the value of a bundle of food products and other basic needs for a specific country.⁵ Poverty measures are estimated using total *household* income per member. This standard definition assumes that pooled income and shared assets are managed to achieve basic needs of all individual members through intra-household resource allocation. This is a very simplistic assumption since it is probably common that there is conflict over resources within the household.⁶

The only poverty measure available to us in this study is the headcount index (percentage of individuals below the poverty line). Thus, we cannot analyze how poor these individuals are nor the income distribution among the poor. A more complete set of measures would also include the poverty gap (difference between the poverty line and the mean income of the poor) and the mean quadratic deviation (severity of poverty).⁷

In the IDB data set, the poverty line is calculated according to the World Bank methodology: US\$ 60 per month per person in 1985 purchasing power parity terms.⁸ According to this methodology, the incidence of poverty in Latin America has been slightly lower, on average, during the 1990's than in the 1980's. In Argentina and Venezuela, poverty increased sharply, while in Bolivia and Costa Rica it fell dramatically. Other countries registered relatively small reductions in their poverty indicators. Appendix 1 presents the percentage of the total population of earners living in poor households, which averaged 18% during the mid 1990's. The countries with the highest rates for earners poverty during the 1990's are Honduras (55% of the earners living in poor households) and El Salvador (36%). The country with the lowest incidence of poverty is Uruguay (2%). We do not include unemployed individuals or those not participating in the labor force, perhaps the poorest groups.

⁵ The use of income to estimate a poverty line has been source of a strong debate (see Jorgenson, 1998 and Triest, 1998), since well-being depends on consumption levels. The satisfaction of basic needs is also achieved through inherited property (houses and cars) and public services (health and education). However, income data are generally available for all countries while consumption data are difficult to obtain.

⁶ According to the literature on intra-household resource allocation, this conflict is resolved by bargaining mechanisms. See Katz (1997) for an excellent survey.

⁷ Foster, Greer, and Thorbecke (1984).

ECLA's poverty line is based on the cost of a basic bundle of food for each country in the urban areas. The cost of the representative bundle of food products is the *destitute* poverty line. Urban poor are defined as those households that do not have an income that is at least twice the cost of the representative bundle of food. According to this definition, an average of 35% of households in the six countries of the ECLA data set are poor.⁹

1.6. Organization of the Paper

In Section II, we focus on poverty measured as the percentage of workers whose *household income per capita* is below the IDB poverty line. We compare poverty rates of workers in the MIC sector with poverty rates of workers in larger firms (the NON-MIC sector), using the IDB data set. In Section III, we analyze poverty incidence of different groups of workers within the MIC sector. We also explore the relationship between household dependency on microenterprise-generated income and poverty using ECLA's data set. In section IV, we study earnings differentials between the MIC and NON-MIC sectors. Our objective is to evaluate the income generating capacity of the MIC sector. We also study earnings for different groups of workers according to their human capital level, gender, occupational category, and economic activity. Section V presents some concluding remarks.

⁸ To obtain the poverty line for any given year in local currency terms, one converts the \$60 per month to local currency terms (in 1985 prices) using the 1985 purchasing power parity exchange rate and then to a current price poverty line for other years using the local consumer price index.

⁹ Poverty incidence according to ECLA's methodology for the six countries in the sample is higher than the average using the World Bank methodology. ECLA's tabulations are limited to *urban* workers in the MIC and the NON-MIC sectors.

II. ARE WORKERS IN THE MICROENTERPRISE SECTOR POOR?

In Section 2.1 below, we focus on poverty measured as the percentage of workers whose *household income per capita* is below the IDB poverty line. We compare poverty rates of earners in the MIC sector with poverty rates of earners in larger firms (NON-MIC sector), using the IDB data set. In Section 2.2, we analyze the poverty rates of different groups of workers within the MIC sector, based on the *individual income* of the workers.¹⁰ Finally, in Section 2.3, we explore the relationship between household dependency on microenterprise-generated income and poverty using ECLA's data set.

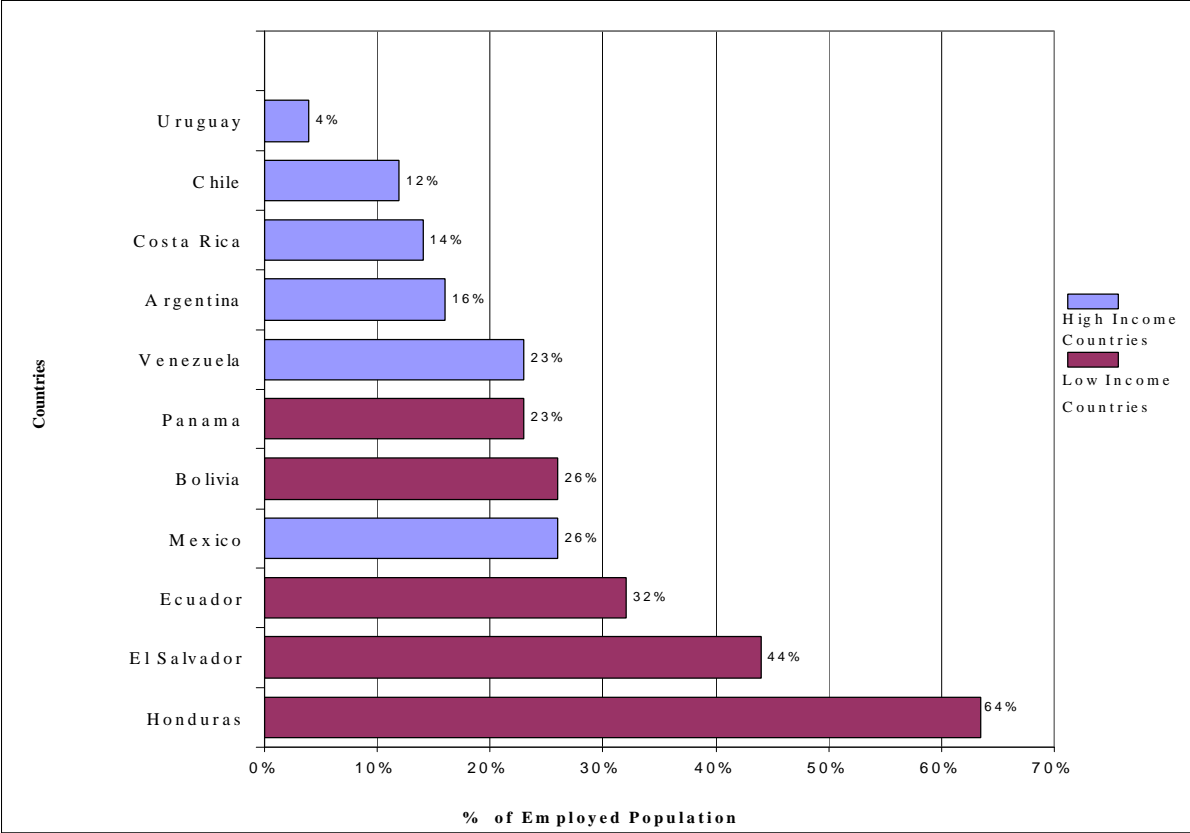
2.1. Poverty Rates for Earners in the MIC Sector vs. NON-MIC Sector

In Figure 3, we present the percentage of *earners* in the MIC sector whose household income per capita is below the IDB poverty line (IDB data set) during the mid 1990's. An average of 26% of MIC workers in the region are poor.¹¹ The range of poverty rates is wide: from 4% in Uruguay to 63% in Honduras. This wide range could be affected by specifics in the poverty line measurement for each country. In general, the MIC sector registers higher percentages of poor earners in low-income countries. The relatively low incidence of poverty in Bolivia's MIC sector may be the result of overall poverty reduction during the 1990's.

¹⁰ To obtain the poverty line for individual earners, we multiply the \$60 per month per person (expressed in local currency in the year of the survey) by the dependency ratio (=population/earners), which is calculated for each individual country from its household survey. These ratios typically range from two to three, and account for the fact that each earner supports a certain number of dependents. Finally, these poverty lines are compared to the income of each earner to determine whether or not that earner is classified as poor. For example, in a country with a dependency ratio of 2.5, an earner making less than \$150 per month (= \$60 x 2.5) would be classified as poor because he cannot support the average 2.5 people (including himself) who depend on him.

¹¹ MIC workers are *all* earners employed in the MIC sector.

Figure 3: Average Poverty Rates in the MIC Sector, mid 1990's

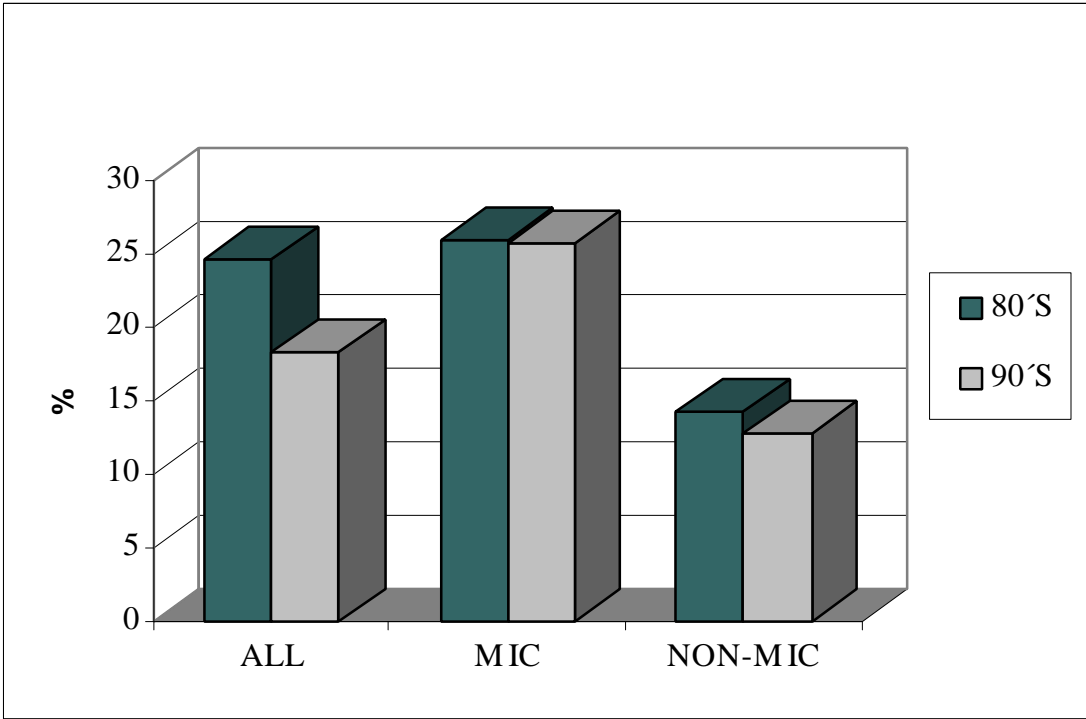


Source: IDB (1998)

Figure 4 shows the percentage of earners in Latin America whose household income per capita is below the IDB poverty line. On average, poverty has been lower during the 1990's compared to the 1980's. However, poverty rates in the MIC sector have remained essentially unchanged. In addition, the incidence of poverty is about twice as high for those employed in the MIC sector during the 1990's compared to those in the NON-MIC sector during the same time period. On average, the poverty gap (that is, the difference in the poverty rates) between the MIC and the NON-MIC sectors has *increased* in the last decade.

The previous general trends are consistent with the average reduction of poverty experienced by the region in the last decade. Considering the expansion of the MIC sector in absolute terms, the increase in the percentage of poor MIC workers suggests that this sector is particularly vulnerable to poverty.

Figure 4: Average Poverty Rates in Latin America, MIC vs. NON-MIC Sectors
(mid 1980's and mid 1990's)



Source: IDB (1998)

2.2. Poverty Rates for Earners in the MIC vs. NON-MIC Sector by Group

Poverty rates vary greatly for different groups of workers, according to their occupation, gender, and age. In Latin America, the groups that are more vulnerable to poverty are rural workers, women, and the young. Single women heads of households are also a group with characteristics that might be related to poverty. Approximately 60 percent of all earners in the region are included in at least one of these groups in the 1990's (see Appendix 2); thus, it is important to examine their situation in the MIC sector. Some patterns emerge when we analyze poverty rates by group in low income countries and high income countries (see classification in Figure 3).

2.2.1. Occupation

In the previous section we showed that most workers in the MIC sector are self-employed (see Figure 2). Table 1 contains poverty rates in the MIC and NON-MIC sectors according to occupation. On average, MIC employees have the highest poverty incidence (46%), which is about three times the poverty rate among NON-MIC employees. A large share of the self-employed MIC earners are also poor (40%). On the other hand, only a small percentage of microentrepreneurs who are employers are poor (11%). In general, employers in the MIC sector have somewhat higher poverty rates than employers in the NON-MIC sector (11% vs. 4%).

Honduras registers alarming poverty rates for the self-employed and for MIC employees (75% and 89%, respectively). Uruguay has the lowest overall poverty rate of all countries surveyed (12%), but still one-quarter of MIC employees and the self-employed are poor. Some countries have a different occupational and poverty structure than the one described in the previous paragraph. In Ecuador, Mexico, and Paraguay, poverty rates for MIC employees are lower than the poverty rates for the self-employed. In El Salvador and Ecuador, the poverty gap between MIC and NON-MIC employers is most pronounced.

Table 1: Poverty Rates in the MIC and NON-MIC Sectors by Occupation

Country	Year	All Earners	Employees		Firm Owners		
			MIC	NON-MIC	MIC	NON-MIC	
					Self-Emp	Employer	
Argentina	1996	23.2	41.6	13.1	34.5	2.5	0.0
Bolivia	1995	32.6	45.7	20.2	39.9	13.4	2.6
Chile	1994	21.5	41.8	18.4	21.9	1.6	0.3
Colombia	1995	13.4	n.a.	n.a.	17.7	n.a.	n.a.
Costa Rica	1994	14.4	31.0	4.0	28.5	13.6	7.3
Ecuador	1995	31.2	39.0	12.8	51.3	23.8	6.5
El Salvador	1995	55.4	75.9	43.1	67.1	23.4	5.4
Honduras	1996	64.1	88.9	47.1	75.3	20.9	11.1
Mexico	1994	25.1	31.8	3.9	49.0	17.4	-
Panama	1995	22.0	58.2	5.5	43.1	8.6	3.2
Paraguay	1995	18.8	15.3	3.1	32.5	0.9	0.0
Uruguay	1995	12.3	30.4	4.3	23.9	1.9	0.0
Venezuela	1995	22.6	47.8	9.7	34.7	8.2	9.8
AVERAGE 90's		27.4	45.6	15.4	40.0	11.4	4.2

Source: IDB (1998)

2.2.2. Female Earners¹²

Thirty seven percent of all earners in Latin America are women. More than one-third of women earners are employed in the MIC sector. Among the women employed in the MIC sector, the rate poverty rate in the mid 1990's is 55% (see Table 2); in the NON-MIC sector this rate is only 13%. In Honduras and El Salvador, poverty among women MIC workers is particularly widespread (poverty rates of 89% and 70%, respectively). Female poverty rates in the MIC sector are higher than the average rates analyzed in the previous sections. This is

¹² In this subsection we only refer to poverty rates for women and compared them to the average poverty incidence in both the MIC and NON-MIC sector. In Section III, we also make comparisons between earnings for women and earnings for men.

consistent with the low earnings of female workers in comparison to their male counterparts (see Section III). In addition, the poverty gap between the MIC and NON-MIC sectors is extremely wide for female workers, especially in Mexico, Honduras, Panama, and Ecuador. Poverty rates are generally very high for both female MIC employees and female self-employed, who represent almost the totality of female MIC earners (Appendix 3).

Table 2: Poverty Rates for Female Earners in the MIC and NON-MIC Sectors

Country	Year	All Female	MIC	NON-MIC
Argentina	1996	47.4	48.6	16.6
Bolivia	1995	48.4	49.9	11.0
Chile	1994	29.0	40.9	29.4
Costa Rica	1995	21.8	45.1	6.2
Ecuador	1995	42.8	57.3	6.9
El Salvador	1995	65.0	70.4	31.1
Honduras	1996	71.2	88.8	28.6
Mexico	1994	34.2	68.2	4.4
Panama	1995	28.9	65.0	5.8
Paraguay	1995	25.1	36.1	0.9
Uruguay	1995	19.6	37.4	6.9
Venezuela	1995	28.8	49.7	10.7
AVERAGE 90's		36.9	54.8	13.2

Source: IDB (1998)

2.2.3. Single Female Head of Household Earners¹³

Households with a single female head might experience high poverty rates for several reasons: reduced assets, not enough members who participate in the labor force, low wages of the family head, or insufficient hours worked by the head outside of the home because of the time devoted to household responsibilities. About one-third of all women earners in our data set

¹³ The main income provider in these households is the female head.

are single household heads. Fifty four percent of these women earners are employed in the MIC sector, which is a higher rate than MIC employment among other women.

Paradoxically, poverty rates in this group are not higher than those corresponding to other women. Specifically, in the MIC sector the percentage of poor women heads of households averages 49% (Table 3), versus 55% for all female earners in the MIC sector (Table 2). The poverty rate for poor women heads of households in the MIC sector is above 40% in all countries except Paraguay and Uruguay (Table 3). Once more, Honduras and El Salvador register the highest poverty rates in both the MIC and NON-MIC sectors. More than half of the single female heads of household in the MIC sector are self-employed. This category has a poverty rate of 52%, very similar to the 51% poverty rate among MIC sector employees (Appendix 4). At 18%, women employers have a significantly lower poverty rate than the preceding two categories. However, the share of women employers in the MIC sector is less than 5% in all countries.

Table 3: Poverty Rates for Women Heads of Households

Country	Year	All	MIC	NON-MIC
Argentina	1996	31.2	44.0	16.5
Bolivia	1995	42.8	45.1	23.0
Chile	1994	33.9	42.2	29.7
Costa Rica	1995	20.1	40.6	5.3
Ecuador	1995	40.9	54.3	15.2
El Salvador	1995	63.4	73.6	38.2
Honduras	1996	71.1	86.3	50.9
Mexico	1994	32.4	45.6	4.7
Panama	1995	28.7	62.4	5.3
Paraguay	1995	21.9	31.6	1.0
Uruguay	1995	18.1	34.2	5.5
Venezuela	1995	27.6	47.1	9.5
AVERAGE 90's		36.0	49.2	14.1

Source: IDB (1998)

2.2.4. Young Earners¹⁴

Young earners represent approximately 18% of all employed workers in Latin America. These earners have a participation in the MIC sector which is below the average for all earners (about 43%). Table 4 presents the average poverty rates among young earners, which are similar to general poverty rates (38% for all young earners vs. 22% for all earners). Among young earners, the poverty rate in the MIC sector is higher than the poverty rate in the NON-MIC sector (57% vs. 22%, respectively).

Table 4: Poverty Rates for Young Earners

Country	Year	All	MIC	NON-MIC
Argentina	1996	34.8	47.7	22.9
Bolivia	1995	51.8	49.3	30.2
Costa Rica	1995	14.7	34.4	4.9
El Salvador	1995	69.7	77.7	55.1
Honduras	1996	78.2	89.4	64.5
Mexico	1994	25.8	37.2	7.0
Panama	1995	37.4	62.3	13.5
Paraguay	1995	16.2	24.5	1.6
Uruguay	1995	19.1	37.2	8.2
Venezuela	1995	34.2	63.3	25.5
AVERAGE 90's		38.2	56.5	22.0

Source: IDB (1998)

2.3. MIC Income Dependency and Household Poverty

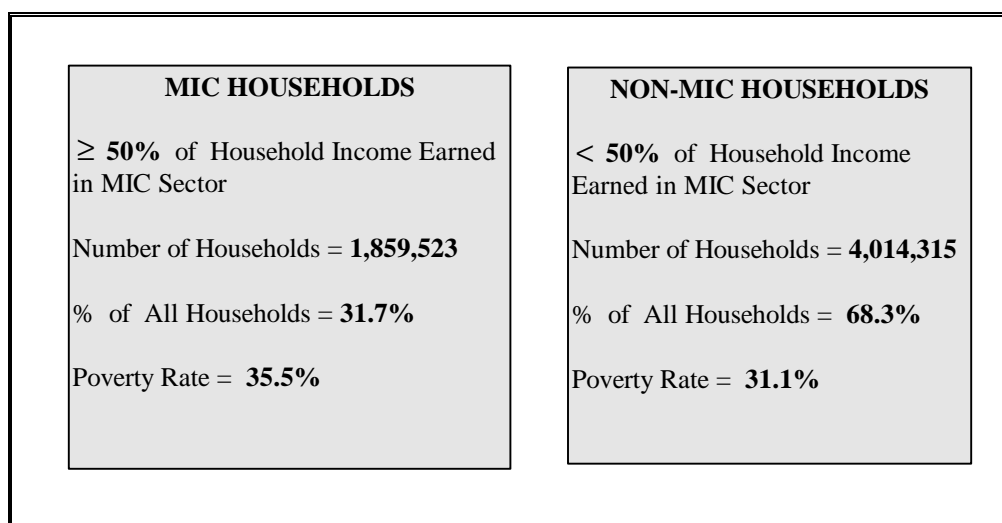
In this subsection, we use the tabulations prepared by ECLA for six countries: Bolivia, Chile, Costa Rica, Honduras, Paraguay, and Uruguay. The data correspond to household

¹⁴ These are defined as workers who are between 15 and 24 years old and not currently students.

surveys during the first half of the 1990's. The poverty line used as a reference corresponds to ECLA's definition (see Section I).

In order to explore the relationship between MIC income dependency and poverty, we use the household as the unit of analysis. MIC households are defined as those with at least 50% of their income generated in the MIC sector. Figure 5 illustrates our household classification according to MIC income dependency. Nearly one-third of all households in the six countries of this data set are MIC households. However, the importance of MIC households varies significantly across countries (see Appendix 6). Bolivia and Paraguay have the highest proportion of MIC households (54% and 53%), indicating the importance of the MIC sector in contributing to overall household income in these countries. At 9%, Uruguay has the lowest share of MIC households, despite the fact that approximately 40% of workers are employed in this sector.¹⁵

Figure 5: Households Classification According to MIC Income Dependency



Source: ECLA (1997)

¹⁵ This evidence indicates that in Uruguay MIC income is mainly complementary.

There is a tendency for household *specialization* in either MIC or NON-MIC activities. Not many households receive income from both sectors. This finding is somewhat unexpected since, theoretically, striking a balance between MIC and NON-MIC activities within the same household could be a way to cope with income uncertainty by reducing risk. Thus, MIC income is not complementary for most of the households in the sample. One reason for this might be that there are significant barriers to entry into the NON-MIC sector. On the other hand, diversification of income sources might be achieved within the MIC sector since it is so heterogeneous.

The average percentage of poor MIC households is 36% while poverty rates for NON-MIC households is 31%. The poverty gap between households with a high MIC income dependency and NON-MIC households is narrower than the poverty gap between the MIC and NON-MIC sectors. This general trend is observed in every one of the six countries of this data set (Appendix 6). Honduras has the highest poverty rates among both type of households, while Uruguay has poverty rates in the single digits. One interpretation of this is that, in spite of the household income per capita differentials between MIC and NON-MIC workers, there is a leveling effect once we take into account intra-household resource allocation. However, the narrow gap might be driven by the fact that households which concentrate their activities in the MIC sector might do so in very *successful* microenterprises. Poor NON-MIC households might use MIC activities as an attempt to complement reduced earnings.

Certain household characteristics may contribute to poverty. Appendix 6 has information about household size and the ratio of the total number of people to the number of earners in the household (dependency ratio). Poor households are relatively large with few earners in all the countries of our sample. Except in the case of Uruguay, MIC households are larger than NON-MIC households. However, MIC households (especially poor MIC households) have fewer dependents per earner than NON-MIC households.

2.4. Main Findings

- The MIC sector represents 54% of total employment in Latin America (1990's). Most MIC workers are self-employed microentrepreneurs.
- Measured by their household income per capita, an average of 26% of all MIC workers in the region are poor. Poverty rates in the MIC sector have remained essentially unchanged in the last decade. The incidence of poverty is about twice as high for MIC workers than for NON-MIC workers during the 1990's. On average, the poverty gap between the MIC and the NON-MIC sector has *increased* in the last decade.
- Measured by their individual income and the dependency rates in each country, MIC employees have the highest poverty rates (averaging 46%). Self-employed MIC workers also have high poverty rates (averaging 40%).
- One of the vulnerable groups within the MIC sector are the female earners, with an average poverty rate of 55%. Single female heads of household and young earners experience poverty rates similar to those of female earners.
- Nearly one-third of households (in a subset of six Latin American countries) have at least 50% of their income generated in the MIC sector. Households with significant MIC income dependency tend to have higher poverty rates than other households.

III. EARNINGS IN THE MIC AND NON-MIC SECTORS

In this section, we compare the earnings of individuals employed in the MIC and NON-MIC sectors. Labor income is one of the most important factors when analyzing poverty vulnerability. We study groups of workers according to human capital characteristics that might affect their earnings. Gender might also affect earnings. Other determinants of earnings are the economic activity and size of the firm.

In this section a comparison between individual earnings and a poverty line is made using the ECLA data. Individuals with earnings below the *per capita* poverty line are *low earnings* workers while individuals above the poverty line are *high earnings* workers. Individuals with earnings below the *per capita* poverty line are not necessarily poor since they might live in households with pooled income higher than the household poverty line. However, these individuals are more vulnerable to poverty even if living in a non-poor household in case of household breakup.¹⁶

3.1. Earnings in the MIC vs. NON-MIC Sectors

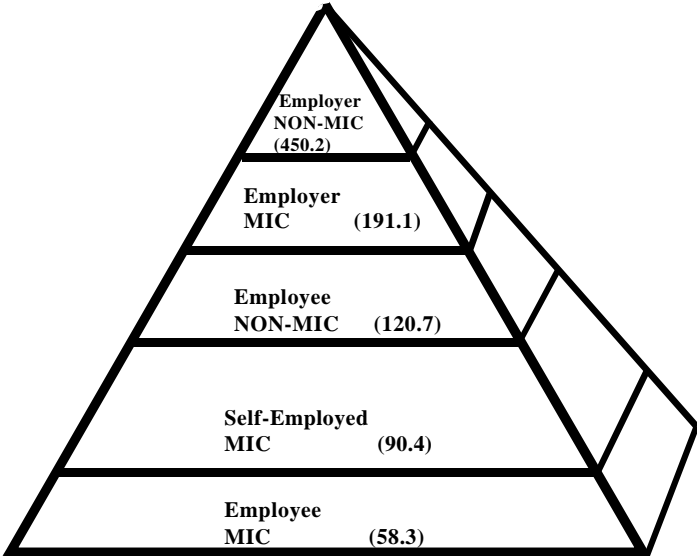
Using the IDB (1998) tabulations, we constructed an earnings index for employees and firm owners (Appendix 7). The base for the index (value set = 100) is the average salary of all MIC and NON-MIC employees combined.

The earnings pyramid in Figure 6 represents relative earnings by occupation based on the average earnings index for all countries. Employers in the NON-MIC sector register the highest earnings, which are 4.5 times the average employee earnings and more than twice the earnings of MIC employers. MIC employers earn more than NON-MIC employees. NON-MIC employees' earnings are slightly higher than those of the MIC self-employed. MIC employees

are at the bottom of the pyramid, earning half the wage of NON-MIC employees. These results are consistent with the poverty rates described in Section II.

The earnings pyramid described above is valid in almost all countries. Chile is an interesting exception, in which the self-employed earn more than the NON-MIC employees. There are no significant differences between high income and low income countries.

Figure 6: Earnings Pyramid



Source: IDB (1998)

¹⁶ Young individuals with an income lower than the poverty line might start new households prone to poverty. It has been documented that women with low earnings have a high probability of becoming heads of poor households in cases of household breakup.

3.2. Economic Activity, Size of the Firm, and Earnings

In this and the following subsections we use the ECLA tabulations prepared for Bolivia, Chile, Costa Rica, Honduras, Paraguay, and Uruguay. Earnings of employees and employers vary according to the economic activity of the firm. Different economic activities might explain part of the earnings disparities observed between the MIC and NON-MIC sectors. Appendix 8 shows the sectoral distribution of MIC and NON-MIC workers' economic activity. MIC firms are mostly in the commerce and service sectors, while NON-MIC firms are more concentrated in the services and industrial sectors.

A decomposition of the percentage of poor workers by economic activity provides new insight (Table 5). Contrary to common belief, the greatest percentage of poor earners is found in the industrial sector, rather than in the commerce or services sectors. This is true in both the MIC and NON-MIC sectors. Part of the explanation for such low earnings in the industrial sector is the high percentage of low-skilled, blue-collar workers within industrial establishments. However, the causes for low industrial wages might be determined in the trade and macroeconomic spheres. Thus, further research is necessary to understand the root causes for this result.

The commerce sector has the smallest percentage of poor MIC earners in Chile, Paraguay, and Uruguay. In Bolivia, Costa Rica, and Honduras, service providers have the lowest percentage of poor earners.

Table 5: Economic Activity and Earnings: Percentage of Individuals whose Earnings Are Less Than the Poverty Line

Country	MIC	NON-MIC
INDUSTRY		
Bolivia	46.5	41.9
Chile	18.4	17.1
Costa Rica	19.7	10.3
Honduras	79.8	64.1
Paraguay	47.2	42.3
Uruguay	7.8	4
AVERAGE 90's	36.6	30.0
COMMERCE		
Bolivia	38.6	28.7
Chile	16.9	11.8
Costa Rica	14.9	8.7
Honduras	75.7	60.8
Paraguay	34.9	27
Uruguay	5	4.7
AVERAGE 90's	31.0	23.6
SERVICES		
Bolivia	36	29.7
Chile	18.4	12.4
Costa Rica	14.2	12.3
Honduras	68.4	54.4
Paraguay	41.9	43
Uruguay	5.9	6
AVERAGE 90's	30.8	26.3

Source: ECLA (1997)

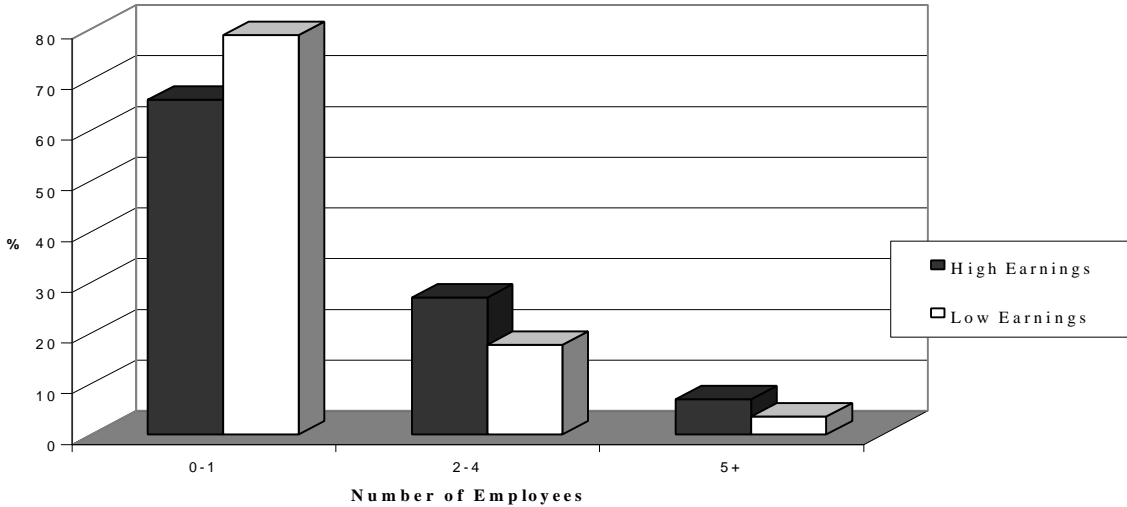
Size is another important determinant of earnings. Larger firms tend to have higher profits, if for no other reason than because of their larger scale of operations. Larger microenterprises are also more often formalized, tax-paying firms, in part because governments can detect their activities more easily. They also are registered more often in institutions, which provide them with access to public services and wider markets.¹⁷ Theoretically, owners should

¹⁷ See Morrisson, et al. (1994) and Orlando (1998).

choose their optimal size of operations. However, particularly in the MIC sector, owners face both credit and technological constraints that limit their firm expansion capabilities.

In Figure 7, we present the average size distribution of microenterprises. We focus on the distribution of firms with low-earning (poor) owners in comparison with the distribution of firms with high-earning (non-poor) owners. Among low earnings firms, there is a greater percentage of firms with less than 2 employees than there is among high earnings firms. In the case of Chile, the distribution of firms according to size is very similar for the two earnings levels.

Figure 7: Distribution of Microenterprises According to Size



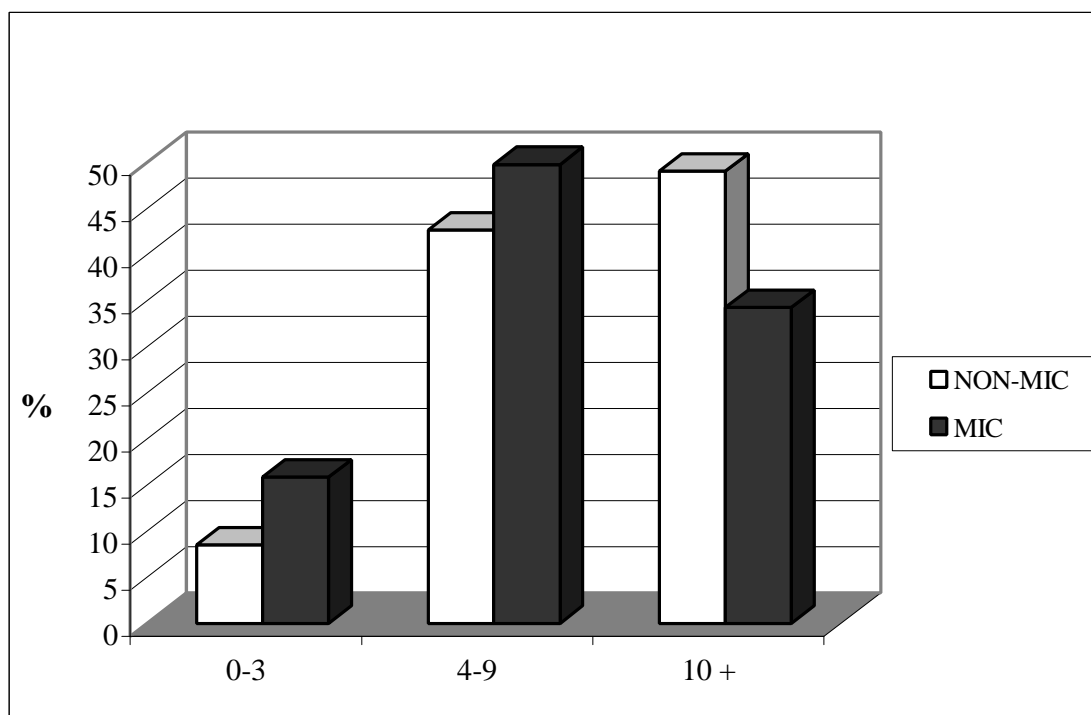
Source: ECLA (1997)

3.3. Education Levels in the MIC and NON-MIC Sectors

The distribution of earners by years of education confirms the common belief that MIC workers have lower levels of education (Figure 8). Thus, the lower level of earnings in the MIC sector vis-a-vis the NON-MIC sector might be due, at least in part, to the education gap between the sectors. Table 6 presents the average number of years of schooling in the MIC and

NON-MIC sectors by country. Averaging across countries, the mean educational gap is about two years of schooling, but is especially wide in low income countries.

Figure 8: Average Years of Schooling, MIC vs. NON-MIC Sectors



Source: ECLA (1997)

Table 6: Average Years of Schooling

Country	MIC	NON-MIC
Bolivia	8	10.8
Chile	9.6	11.2
Costa Rica	8	9
Honduras	5.5	7.8
Paraguay	7.3	8.9
Uruguay	8	9
AVERAGE	7.7	9.5

Source: ECLA (1997)

Within the MIC sector, poor earners have lower levels of education (Appendix 9). The education level of poor earners is equivalent, on average, to primary school; yet, it is more than two years lower than that of non-poor earners. This pattern repeats itself in all six countries of the sample.

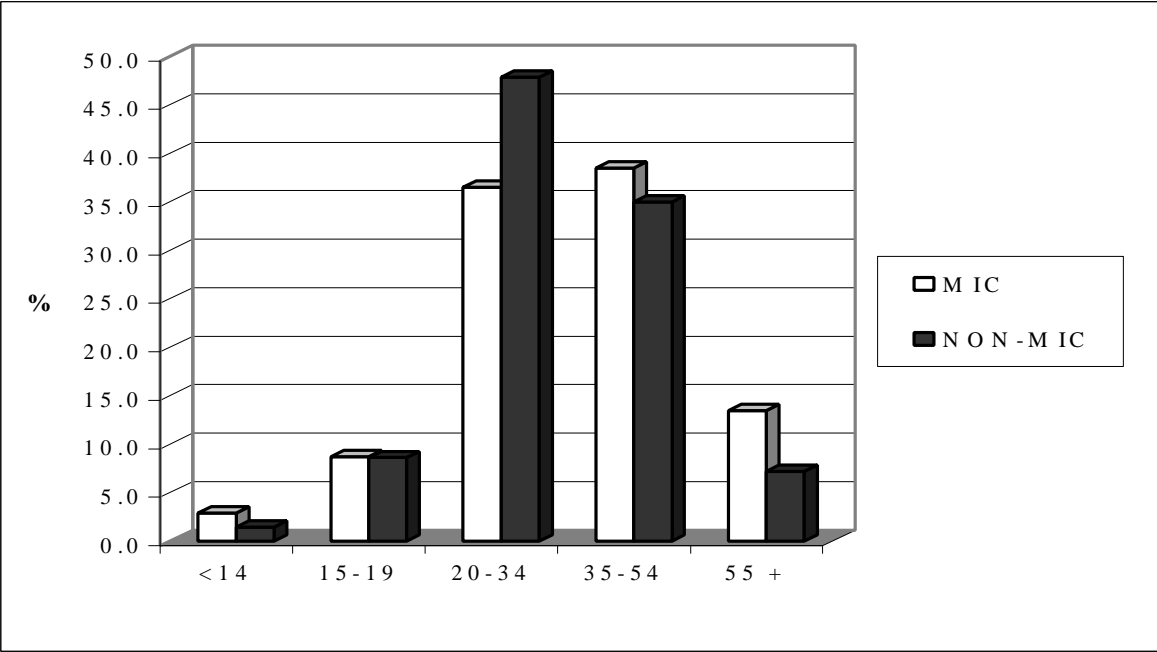
3.4. Age and Experience in the MIC and NON-MIC Sectors

Experience and age are also important determinants of earnings. Specific experience within a job might increase the skill level of a worker through training, observation, or learning by doing. Seniority is also associated with responsibility and stability. According to Tokman (1994), experience rewards in the MIC sector include higher earnings and job security. As MIC employees get more experience, there is evidence of upward mobility in the occupation scale by starting their own microenterprise.

In the ECLA data set for the 1990's, the MIC workers include a slightly higher percentage of teenagers than do the NON-MIC workers. However, the MIC workers are older on average. This age distribution might indicate that some microentrepreneurs have previous experience in the NON-MIC sector (Figure 9).

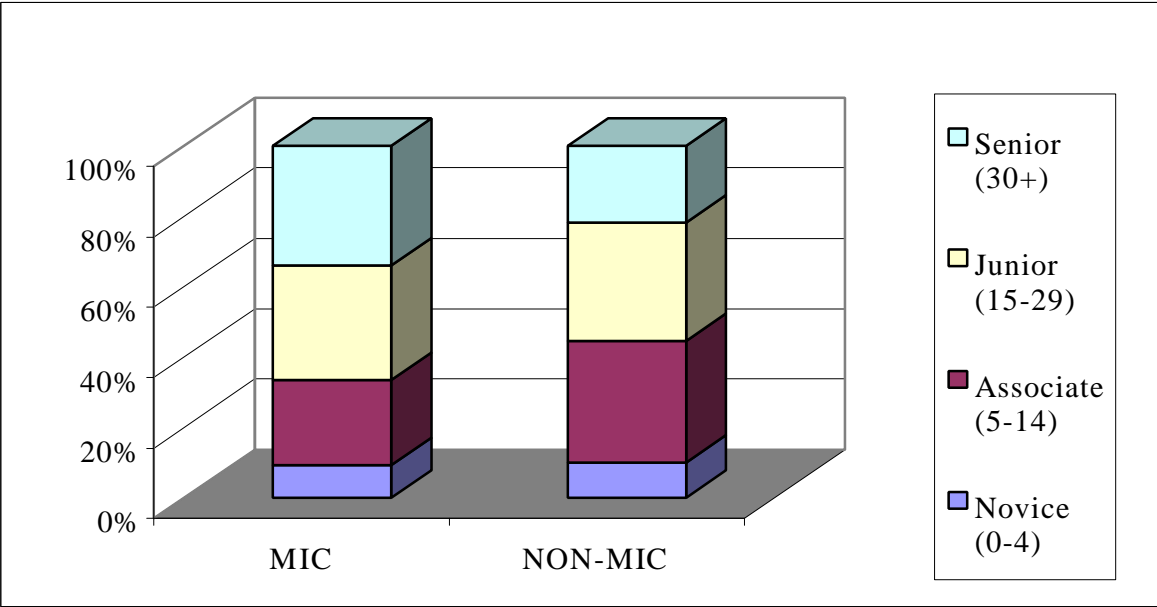
The work experience pattern indicates that the proportion of novices (those with 0-4 years of experience) is similar in both sectors (Figure 10). Consistent with the age profile, the NON-MIC sector employs more workers with 5-29 years of experience, while the MIC sector employs more workers with more than 30 years of experience. Therefore, we can see that workers in the MIC sector are both older and have greater levels of experience than workers in the NON-MIC sector. The effects of experience on earnings depend on the quality of that experience. In some countries the MIC sector could include a high proportion of workers who are redundant in the formal sector and remain underemployed. Thus, it might be that the impact of an additional year of experience on earnings within the NON-MIC sector is higher than in the MIC sector.

Figure 9: Distribution of Earners According to Age



Source: ECLA (1997)

Figure 10: Earners According to Work Experience



Source: ECLA (1997)

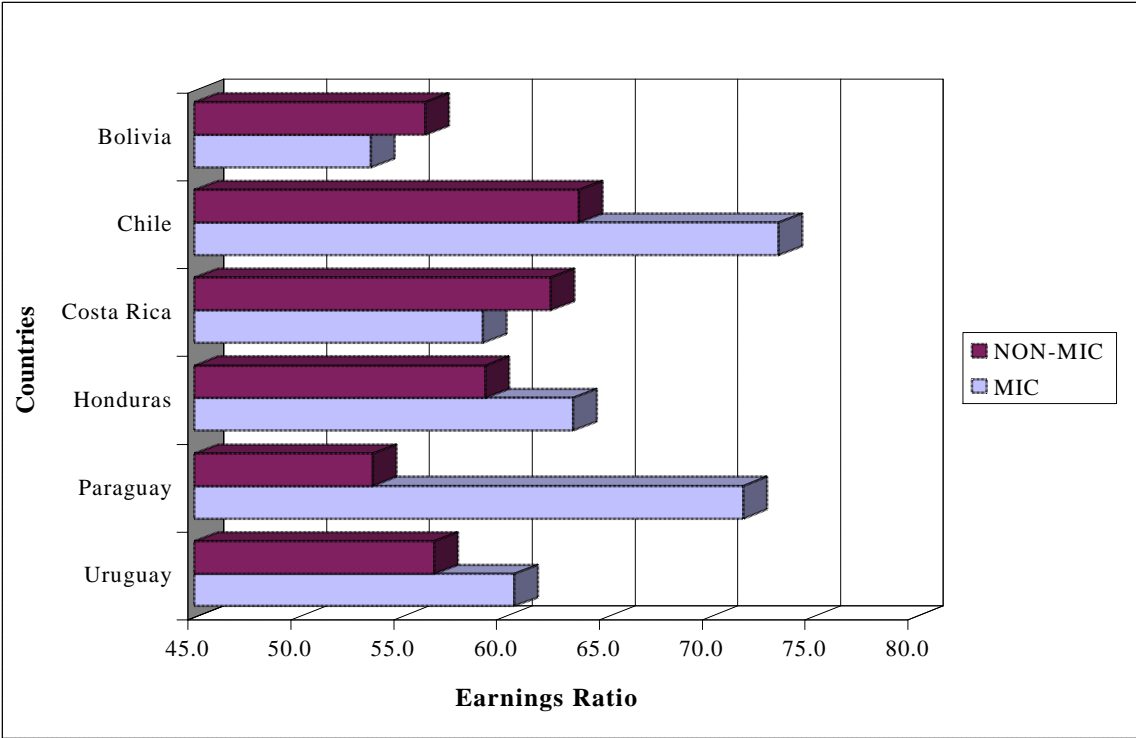
Are young MIC workers poorer? Within the MIC sector, age does not affect earners in the same way in all countries. In Bolivia and Honduras, the age distribution of poor earners is not very different from the age distribution of non-poor earners. In Costa Rica, Paraguay, and Uruguay, poor earners are younger.

3.5. Female Earners in the MIC and NON-MIC Sectors

Individual earnings can be affected by gender. We observe in Figure 11 that, although women earn less than men overall, gender earnings disparities tend to be smaller in the MIC sector. In the case of Paraguay, women in the NON-MIC sector earn less than 55% of male earnings on average, while in the MIC sector women earn around 72%. Only Costa Rica and Bolivia present the opposite pattern.

Gender earnings disparities might be due to education and experience gaps and different occupational distributions. The ECLA data set reveals that women are over-represented in the family workers category. In Bolivia, Honduras, and Paraguay, women in the MIC sector are mostly self-employed. Barriers to increase the size and productivity of a microenterprise (such as credit barriers) might be affecting women more than men.

Figure 11: Earnings Ratio of Women vs. Men



Source: ECLA (1997)

3.6. Main Findings

- Employers in the NON-MIC sector register the highest earnings, which are 4.5 times the average earnings of all employees and more than twice the earnings of MIC employers. MIC employers earn more than NON-MIC employees. MIC employees are at the bottom of scale, earning half the wage of NON-MIC employees.
- In the MIC sector, the percentage of poor earners is greatest in the industrial sector and smallest in the commerce sector.
- Low earnings firms have a higher frequency of firms with less than 2 employees than do high earnings firms.
- MIC workers have lower levels of education than NON-MIC workers, which may explain MIC workers’ lower levels of earnings and higher rates of poverty.

- MIC workers are older on average. The MIC sector employs more workers with more than 30 years of experience than the NON-MIC sector.
- Although women earn less than men overall, gender earnings disparities tend to be smaller in the MIC sector.

IV. CONCLUSIONS

This study assesses poverty in the microenterprise sector in Latin America. We compare poverty rates in the MIC sector with poverty rates in the rest of the private sector. We analyze the relationship between poverty and MIC income dependency at the household level. Finally, we analyze the main characteristics of workers with low earnings.

The MIC sector employs more than half of all workers in Latin America and has experienced remarkable growth in the last decade. About one-quarter of all MIC workers in the region are poor. This poverty rate is higher than that of workers in the NON-MIC sector and has remained essentially unchanged from the 1980's to the 1990's. Poverty rates in the MIC sector are higher in low income countries than in high income countries.

Individuals' poverty rates vary significantly across occupations and gender. Most MIC workers are self-employed or employees. MIC employees have the highest poverty rates (46%), while the self-employed have poverty rates of 40%. Women and youth in the MIC sector are particularly vulnerable groups, with average poverty rates of 55% and 57%, respectively. Poverty in the MIC sector is an important issue considering that nearly than one-third of households in the region have at least half of their pooled income generated in the MIC sector. Households with significant MIC dependency tend to have higher poverty rates.

Earnings disparities between the MIC and NON-MIC sectors, as well as within the MIC sector are consistent with the observed poverty patterns. Earnings differentials between the MIC and NON-MIC sectors might be due, in part, to human capital differentials. MIC workers have lower levels of education than NON-MIC workers. However, MIC workers are older and more experienced. The impact of experience on earnings depends on the quality of the experience. Since some MIC workers might be underemployed, their many years of experience might not imply that those workers have acquired valuable skills. Further research is needed to determine if earnings differentials are due to human capital gaps or segmentation (in both credit and labor markets).

Policies oriented towards the reduction of poverty in the MIC sector have a double challenge: to increase production and sales of firms in the MIC sector through microenterprise development, and to promote the improvement of earnings and working conditions of the self-employed, employees, women, and youth in the sector.

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Appendix 1

Poverty Rates in Latin America Percentage of Earners Living in Poor Households - MIC vs. NON-MIC Sectors

Country	Year	Overall	MIC	NON-MIC
Argentina	1980	3.2	3.78	2.71
	1996	12.7	15.47	9.64
Bolivia	1986	30.6	31.52	27.82
	1995	21.3	25.65	16.57
Chile	1994	10.6	12.12	9.61
Colombia	1995	9.5	n.a.	n.a.
Costa Rica	1981	31.9	43.18	24.02
	1995	8.8	13.86	3.57
Ecuador	1995	27.6	32.43	14.39
El Salvador	1995	35.6	43.92	30.22
Honduras	1989	60.8	68.75	38.14
	1996	54.8	63.28	34.78
Mexico	1984	16.6	23.22	2.51
	1994	18.4	25.94	4.47
Panama	1995	12.8	22.97	5.87
Paraguay	1995	5.8	n.a.	n.a.
Peru	1985	45.5	n.a.	n.a.
Uruguay	1981	4.9	5.59	3.34
	1995	2.4	4.11	1.28
Venezuela	1981	3.4	5.23	1.80
	1995	17.6	22.56	10.03
AVERAGE 80's		24.6	25.89	14.33
AVERAGE 90's		18.3	25.67	12.77
AVERAGE		20.7	25.75	13.38

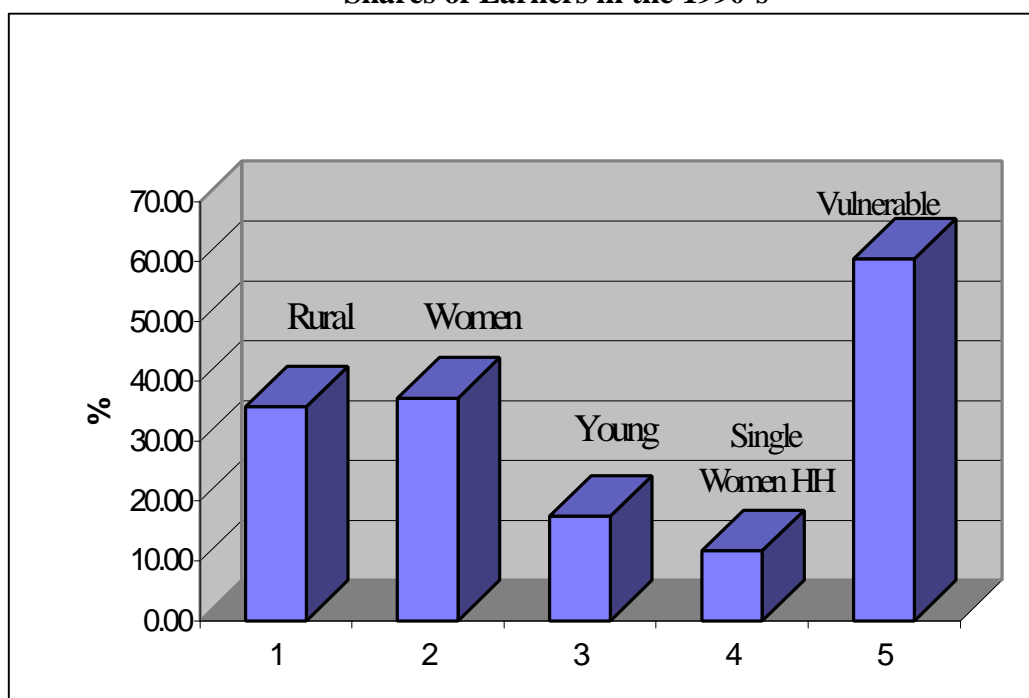
Source: IDB (1998)

Appendix 2

Shares of Total Number of Earners in Specified Groups

	Rural	Women	Young	Single Women Head of Household	Vulnerable: Any of the Groups
AVERAGE 80's	41.04	33.44	20.11	11.70	55.79
AVERAGE 90's	35.77	37.23	17.54	11.74	60.45

Shares of Earners in the 1990's



Source: IDB (1998)

Appendix 3

Poverty Rates for Female Earners in the MIC Sector

Country	Year	Employees	Self-Employed	Employers
Argentina	1996	51.1	45.9	4.4
Bolivia	1995	67.9	49.1	14.1
Chile	1994	49.3	28.9	0.2
Costa Rica	1995	42.2	45.4	31.1
Ecuador	1995	46.4	61.3	19.2
El Salvador	1995	85.6	76.3	29.4
Honduras	1996	96.2	85.2	26.3
Mexico	1994	40.2	67.2	13.7
Panama	1995	69.2	68.0	18.2
Paraguay	1995	19.7	40.8	2.5
Uruguay	1995	38.3	34.0	3.6
Venezuela	1995	58.1	51.9	17.7
AVERAGE 90's		55.3	52.3	15.0

Source: IDB (1998)

Appendix 4

Poverty Rates for Single Female Head of Household Earners in the MIC Sector

Country	Year	Employees	Self-Employed	Employers
Argentina	1996	52.41	32.83	0.00
Bolivia	1995	50.12	45.22	15.21
Chile	1994	48.55	36.96	0.00
Costa Rica	1995	36.95	46.63	36.81
Ecuador	1995	45.82	63.34	30.29
El Salvador	1995	76.32	75.03	29.37
Honduras	1996	95.18	82.91	42.98
Mexico	1994	37.52	57.16	18.89
Panama	1995	65.14	62.36	28.20
Paraguay	1995	17.13	39.58	0.00
Uruguay	1995	35.01	35.25	6.87
Venezuela	1995	47.82	49.86	6.32
AVERAGE 90's		50.66	52.26	17.91

Source: IDB (1998)

Appendix 5

Poverty Rates for Young Earners in the MIC Sector

Country	Year	Employees	Self-Employed	Employers
Argentina	1996	43.11	68.92	0
Bolivia	1995	49.42	49.43	46.38
Costa Rica	1995	36.00	30.56	16.42
El Salvador	1995	77.17	78.47	32.61
Honduras	1996	93.32	86.63	43.38
Mexico	1994	35.86	45.84	16.01
Panama	1995	67.04	52.09	18.63
Paraguay	1995	11.59	39.26	0
Uruguay	1995	38.22	35.79	0
Venezuela	1995	62.21	69.07	0
AVERAGE 90's		51.39	55.61	19.27

Source: IDB (1998)

Appendix 6

Breakdown of Poverty in Urban Households

	TOTAL	MIC Households			NON-MIC Households		
		Total	Poor	Non-Poor	Total	Poor	Non-Poor
Total Households (% terms)							
Bolivia	100.0	53.6	43.0	57.0	46.4	38.8	61.2
Chile	100.0	27.3	25.3	74.7	72.7	21.8	78.2
Costa Rica	100.0	31.3	20.2	79.8	68.7	17.1	82.9
Honduras	100.0	44.0	78.2	21.8	56.0	62.8	37.2
Paraguay	100.0	53.4	44.7	55.3	46.6	39.8	60.2
Uruguay	100.0	9.0	1.5	98.5	91.0	6.2	93.8

Average Size of Household

Bolivia	4.4	4.7	5.4	4.2	4.2	4.8	3.8
Chile	3.9	4.0	5.0	3.8	3.8	4.5	3.6
Costa Rica	4.0	4.2	5.1	4.0	4.0	4.2	3.9
Honduras	5.1	5.2	5.4	4.3	4.9	5.3	4.2
Paraguay	4.4	4.7	5.5	4.0	4.2	5.1	3.7
Uruguay	3.2	2.6	3.0	2.6	3.3	5.5	3.1

Dependency Ratio - Number of Persons in Household /Number of Earners

Bolivia	2.6	2.5	2.1	3.1	3.0	4.1	2.5
Chile	2.8	2.4	2.1	4.0	2.7	5.3	2.4
Costa Rica	2.5	2.3	2.1	3.8	2.7	7.0	2.4
Honduras	3.0	2.7	2.2	3.0	3.1	3.3	2.3
Paraguay	2.4	2.4	1.9	3.0	2.6	4.0	2.0
Uruguay	2.5	1.4	1.4	1.8	2.5	4.8	2.4

Source: ECLA (1997)

Appendix 7

Earnings Index for MIC and NON-MIC Sectors

Country	Year	Employees			Firm Owners			
		All	MIC	NON-MIC	All	Self-Employed	Owner MIC	Owner NON-MIC
Argentina	1996	100.0	63.7	117.5	136.3	97.9	271.4	335.2
Bolivia	1995	100.0	62.8	124.0	113.1	75.3	151.6	364.2
Chile	1994	100.0	59.5	109.4	228.4	117.8	310.4	1146.9
Costa Rica	1995	100.0	55.3	117.7	103.2	78.0	131.1	249.7
Ecuador	1995	100.0	60.0	128.7	119.1	80.7	153.2	376.5
El Salvador	1995	100.0	61.1	118.3	112.1	78.1	193.2	547.1
Honduras	1996	100.0	46.2	125.2	97.3	71.6	210.2	460.3
Mexico	1994	100.0	68.8	132.1	88.1	53.4	179.9	n.a.
Panama	1995	100.0	37.0	118.4	83.5	57.1	155.2	426.8
Paraguay	1995	100.0	68.3	134.6	130.2	75.4	255.8	1303.6
Peru	1996	100.0	67.4	115.3	76.1	64.2	109.6	193.4
Uruguay	1995	100.0	50.5	114.3	122.3	79.2	181.2	337.6
Venezuela	1995	100.0	56.6	113.2	101.3	75.5	145.7	293.4
AVERAGE		100.0	58.3	120.7	118.3	90.4	191.1	450.2

Source: IDB (1998)

Appendix 8

Sectoral Distribution of Workers

	MIC						
	Bolivia	Chile	Costa Rica	Honduras	Paraguay	Uruguay	Average
Total	100	100	100	100	100	100	100
Industrial Sector	20.3	16.2	18.4	23.2	17.1	19.7	19.1
Construction	11.0	10.4	8.5	8.5	12.6	9.6	10.1
Commerce	39.9	32.2	36.9	34.5	42.5	35.0	36.8
Services	26.4	34.4	29.9	19.7	21.7	29.6	26.9
Others	2.3	6.8	6.5	14.2	6.2	6.1	7.0

	NON-MIC						
Total	100	100	100	100	100	100	100
Industrial Sector	27.2	18.4	30.8	37.6	25.4	25.2	27.4
Construction	12.4	9.5	7.4	8.6	4.2	7.3	8.2
Commerce	12.6	15.1	20.9	14.8	17.7	15.1	16.0
Services	44.1	46.9	35.1	31.9	51.3	48.5	43.0
Others	3.8	10.1	5.8	7.1	1.4	3.9	5.4

Source: ECLA (1997)

Appendix 9

Average Years of Schooling of Earners in the MIC Sector

Country	Poor	Non-Poor
Bolivia	6.8	8.7
Chile	7.85	9.9
Costa Rica	5.85	8.4
Honduras	4.95	8
Paraguay	5.6	8.3
Uruguay	5.8	8.2
AVERAGE	6.1	8.6

Source: ECLA (1997)