From 2004 to 2007, the National Economic Research Center (CIEN) changed the perception of the informal sector in Guatemala and influenced reforms that encouraged business registration and property formalization. Three-quarters of Guatemala’s work force, and the majority of the indigenous population, operated in the informal sector. Because the state was never designed to serve informal sector groups, it excluded them from legal, economic, and policy processes. Apart from the tax authority, government institutions were practically non-existent for informal businesspeople, even the courts and security. Most businesspeople experienced high transaction costs and low benefits from formal institutions.

Given the cultural and institutional realities in Guatemala, CIEN’s Economics Director Hugo Maúl identified two priority tasks for overcoming exclusion and strengthening democratic institutions. First, Guatemala “must recognize, be familiar with, and respect the existence of plurality and cultural processes that make it possible for people of different cultures to live together peacefully. Second, it must complement the informal institutions with formal institutions that promote the positive aspects of informal arrangements.”

**Assessment of the Informal Sector**

The Center for International Private Enterprise (CIPE) hosted a one-day conference on the informal economy in 2005 to bring the benefit of CIPE’s partner experiences in Latin America to the Guatemala program. Lessons from Venezuela’s Center for the Dissemination of Economic Knowledge enriched CIEN’s advocacy framework, while Peru’s Institute for Liberty and Democracy guided the program’s research methodology. CIEN also studied existing evidence on the economic practices and realities of Guatemala’s indigenous communities.
In an effort to gain deeper insights into the informal sector, CIEN conducted a survey among 1,200 informal businesspeople in five cities. The survey addressed perceptions of the benefits of becoming formal, the presence of state institutions, and the relationship between ethnicity and informality. CIEN’s findings indicated that informality was not a cultural phenomenon in Guatemala, but rather was caused by the absence of a state presence, high transaction costs in becoming formal, and the exclusion of various groups – including but not limited to indigenous groups – from policymaking.

CIEN separately interviewed 200 entrepreneurs selected from among indigenous broccoli producers, informal vendors, and women handicraft exporters in order to assess obstacles to joining the formal economy and operating a business. The interviews focused on the costs and benefits of becoming formal and how people in the informal economy perceived the central and local government. They revealed, for instance, that the costs of formalizing a business in some cases represented more than 18 months’ profit.

CIEN also held six focus groups with more than 100 informal entrepreneurs at “La Terminal” market in Guatemala City, following the model of CIPE’s National Business Agenda approach. These focus groups gathered grassroots input on the most important obstacles to doing business and ways to remove them. This process allowed the entrepreneurs in the market to reach a consensus on their priorities and incorporate their preferred solutions into a credible advocacy document.

Advocacy Campaign
CIEN published its research findings in its book *Informal Economy: Overcoming the Barriers of an Exclusionary State*. The book recommended a set of governance reforms such as increasing transparency in policy formulation, improving communication channels with the informal sector, raising the
central government’s presence at departmental and municipal levels, and encouraging citizens’ participation in politics. Instead of greater regulation and tax burdens in response to informality, CIEN called for tangible benefits in exchange for formalization. CIEN specifically recommended reforms to reduce the cost of formalizing real estate and businesses, recognition of informal commercial practices, and revisions to the minimum wage and labor regulation.

To raise awareness of the benefits of business formalization, CIEN held a conference and presented the book at meetings in six cities with association leaders. Its active media campaign – comprising 7 press conferences, 11 television shows, 21 radio shows, and 32 articles – reached an audience of perhaps several million. With the cooperation of the National Institute of Statistics, CIEN’s evidence convinced policymakers and the public that informality is the rule rather than the exception in Guatemala.

CIEN reached more than half the members of the Guatemalan Congress by sharing its research and recommendations in an edition of its legislative bulletin. It also approached several Congressional committees, among which the Committee on Indigenous Affairs was particularly receptive. CIEN’s visit to this committee influenced the Congress to reform the laws regarding titling and land registration.

La Terminal market’s business agenda was first presented to participants from the focus group meetings and market leaders. The agenda was then presented at a general assembly of La Terminal’s informal vendors in addition to more than 400 people at town hall meetings. The agenda even guided a public debate on informality, organized by CIEN, among indigenous and informal leaders, an academic expert, the President of the Economic Commission of the Congress, and the Director of Economic Planning for Guatemala City. After several months of negotiating, CIEN helped informal vendors and municipal authorities agree to changes in policies for cleaning, security, and the organization of vendors on streets and sidewalks.
Impact on Business Registration and Property Rights

CIEN’s public advocacy campaign produced significant changes to reduce the barriers to formalizing a business. In 2006, the government implemented a “single-window” system for registering a new business, which reduced paperwork by 90% and the number of required office visits from 15 to just three. The cost of registering a business dropped to less than $50. With these changes, the number of registered businesses jumped by 24 percent between 2006 and 2007. Most of the 8,000 new firms represented businesses that were previously informal, now joining the mainstream economy.

The dialogue with the congressional Committee on Indigenous Affairs, bolstered by CIEN’s media campaign, set the stage for approval of the Cadaster Law in 2006. This law on titling and land registration was the first step in the formalization of property rights in Guatemala, especially among indigenous communities.

Using statistical evidence later published in its book, CIEN demonstrated that the system of property titling imposed high transaction costs on informal owners. With the cooperation of the Association of Housing Builders and Developers, CIEN’s legislative recommendations resulted in a reduction of a 12 percent tax on property transfers to 3 percent. The reforms to facilitate the registration of property boosted the construction of homes by 40 percent. Continuing its advocacy, CIEN produced another victory when Congress passed the Real Estate Guarantees Law. This law opened up access to credit for thousands of small businesses by allowing them to use non-fixed assets (in addition to land and buildings) as collateral.

---

The activities described in this case study were funded by the National Endowment for Democracy.

Sources

Hugo Maúl et al., *Economía Informal: Superando las Barreras de un Estado Excluyente* (Guatemala: Centro de Investigaciones Económicas Nacionales, 2006).