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THE ECONOMIC LIMITS OF TRUST: THE CASE OF A LATIN-AMERICAN URBAN INFORMAL COMMERCE SECTOR

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Social capital is thought to be an important source of social cohesion and a key ingredient for socioeconomic expansion in developing nations. We study its role among street vendors and their money lenders in Caracas, an illegal business based solely on trust and social bonds. We analyzed demand and supply of credit by informal street vendors and money lenders, exploring the relationship between street vendors' assets, income generated, financial and human capital and financial strategies, and those of the money lenders. We found that street vendors' main source of working capital were money lenders, despite charging the highest interest rate. The kind and amount of credit was not correlated to higher incomes. On the supply side, we found that money lenders based their business almost exclusively on trust and manage all clients personally, which limits the growth of their business. This study suggests that the main constraint for increased productivity in the informal sector is not the cost of capital, but the transaction costs involved in accessing credit and a lack of legal enforcements, and that improvement of the lending business is difficult without institutional support.

Keywords: Informal economy; street vendors; money lenders; trust; social capital.

1. Introduction

In developing economies, different levels of capitalism coexist. Wealth, transnational corporations, mass markets production and sophisticated financial instruments cohabit with marginality, socio-economic precariousness, informality, small mercantile system, handmade production and barter. This complex mix of different market economies is driven by

informal labor markets and unsupervised financial networks, making it an important and visible part of the domestic economy of many countries (World Bank, 2005).

The award of the 2006 Nobel Prize to Grameen Bank of Bangladesh and its founder, Muhammad Yunus, highlights the importance of financial institutions in the lowest echelons of economies in developing countries (see also Ledgerwood and White, 2006). Yet, much of the economic activity at those levels in most parts of the world is performed without help of formal institutions. Causes of informality have been theoretically explored in the economic literature. For example, De Soto *et al.* (1989) underscores the fact that transaction costs associated with ineffective labor market regulations, poorly defined property rights and bad performance of government agencies drive up the cost of mainstreaming formal activities promoting informality. For Levenson and Maloney (1998), a firm would decide to participate in social institutions (and to get public goods associated to formalization) whenever the net expect return from doing so make it worth while. According to Azuma and Grossman (2002), poorly endowed producers choose to work in the informal sector because the amount the State extracts from the formal sector is too high for them so they prefer to "produce" their own public goods instead of indirectly buying them through taxes.

As financial capital, its intermediation and property rights that are key matters in formal economies; so is social capital in the informal economy, as trust and social bonds (social capital) are the collaterals *par excellence* in all transactions in markets that operate outside the law. Social capital is understood as the group of norms and bonds that allow collective social action. It is not only the sum of the institutions that bolster a society, but rather it is the glue that maintains it together (Fukuyama, 1996). Social capital is built upon trust, reciprocity, cooperation, assistance, support, interdependence, interaction, dialogue, involvement and participation (Levy and Varnagy, 2005).

Francis Fukuyama in his work *Trust* (1996) offers his understanding of the concept of Social Capital as "the capacity that is born from the prevalence of trust, in a society or in certain sectors of it. It can be personified in the smallest and basic group of the society, the family, as well as in the biggest group of all, the nation and in all their intermediate groups. Social capital differs from other kinds of human capital as, generally, it is created and transmitted by means of cultural mechanisms as religion, tradition or historical habits" (p. 45, Fukuyama, 1996).

2. Caracas's Street Vending: A Showcase of Informality

Venezuelan official statistics show that over 50 percent of labor activities are informal, and of these, 30 percent are related to commerce (INE, 2004). In a cross section survey for the city of Caracas, about 30 percent of informal activities were found to be commercial activities (INE, 2001). The GDP contribution of non registered enterprises derived from commercial activities is estimated at 17 percent, while those from formal commerce at 40 percent (BCV 2004). Informal merchants and itinerant vendors are a diverse group, for whom street vending is an important economic activity with an estimated 18,000 street vendors' stands in Caracas, each employing on average two people (Zanoni, 2005).

Factors explaining informality in Venezuela include institutional (i.e., expensive laws and regulations) and poor macroeconomic performance. Cartaya (1992) concludes that high transaction costs for business are caused by an extremely poor performance of government agencies dedicated to registration, patents, taxes, etc. On the other hand, Venezuelan labor regulations drive up the cost of formal employment fomenting the informal one (Alayón *et al.,* 2002; Bello, 2002). Those findings are consistent with the negative ranking of Venezuela by the World Bank (2004) for indicators such as "Hiring and Firing" workers, the "Number of procedures" and "Time required to start a business."

Street vending is just the tip of an iceberg that runs wide and deep along the production chain that begins with the transformation of raw materials, import of intermediate and final consumer products and wholesale commercialization, eventually ending in sidewalk streets (Teltscher, 1994). It is widespread in many cities of the developing world (Peña, 1999). For our purposes, street vending refers to transient, yet relatively stable informal trading activities, engaged in numerous clusters of closely-packed, semi-make-shift small sales units in public spaces or commons (streets, sidewalks, squares, boulevards, parks, avenues, etc).

As an economic activity, street vending is not different from any other business activity (Teltscher, 1994). Street vendors combine factors of production (land, properties, labor and capital) to obtain economic benefits. They raise capital and/or get credit through different kinds of institutional arrangements such as the sale of merchandise on consignment (leasing) or informal loans to buy merchandise. They use both family and non-family labor under different types of hiring arrangements and deal with an informal property market, that of the public streets. All these transactions occur on the back-stage of a complex set of formal rules and regulations which, together with the government's enforcement capabilities, provide incentives for engaging in such activities (Cross, 1998).

One interesting characteristic of the dynamics of streets vending is the speed at which successful innovations (mainly products and organizational innovations) are spread among members of vendors' networks through cut-throat competition. The propagation of successful innovations on this market has positive spill-over effects for less-enterprising street vendors, since there is no legislation protecting property rights to such innovations. A successful innovation by any particular individual spreads quickly, thus limiting in time revenues from short term monopolies. These competition dynamics benefit consumers through lower prices, resulting from this type of rivalry. Street vendors are constantly looking for new products (regularly reviewing trends in fashion, market needs, etc.), capitalizing on their efficient economies of information; and new forms of organization emerge, aiming to protect the security of informally acquired property rights to their locations. New institutions try to help them gain access to formal credit available from government and/or private banks, trying to promote organizational innovations.

The asset based approach to poverty has been widely used in Latin America (Attanasio and Szekely, 1999) and is based on the idea that poverty (mainly extreme poverty) is linked to different assets (physical, human and social) the household owns and uses in order to generate income. When credit markets are imperfect, individuals with few assets cannot diversify and remain more vulnerable to adverse shocks, thereby perpetuating their low asset ownership. Some policies try to remove market distortions, such as credit market imperfections or

improve social insurance, education and health systems that impede diversification and asset accumulation by poor people. In the case of self employed people, assets are particularly important to generate income because they allow households to enhance their capacity to engage institutional arrangements, where both transaction and production costs are the lowest possible. Asset endowments might affect how much a household can obtain through credit and thus, how much it can accelerate economic processes by anticipating the benefits of assets.

As a contribution for a deeper understanding of the economic dynamics and of social capital governing informal commerce, we expanded former studies on street vending (Zanoni *et al.*, 2006) by focusing on credit among informal street vendors in Caracas. These vendors are an important part of the Venezuelan economy providing work to an increasing percentage of workers.

3. Methods

Data on street vendors was obtained by interviewing 376 informal street vendors in Caracas during 2005 using a 44-item questionnaire. The localities surveyed were:

	Total vending post	Post selling textiles	Post surveyed
La Hoyada	2,208	660	78
El Cemeterio	1,300	1,100	100
Boulevard de Catia	5,000	1,000	99
Sabana Grande	1,548	893	89
Petare	500	80	10
Total	10,300	3,780	376

The summary of the results is presented in Table 1. The owner or person responsible for the stands was interviewed and the people conducting the interview were either informal vendors themselves or students of anthropology. Interviewees were informed that the questionnaire was for purely academic reasons and totally confidential. Although street vending and money lending is illegal, it is widely tolerated and interviewees showed little resistance in collaborating.

Data on money lenders were obtained by interviewing people indicated by street vendors as known lenders. To qualify as a money lender, a person had to be engaged in this activity as the main extra-family source of finance. Money lenders whose main activity was lending to street vendors were chosen as well. We interviewed 53 informal money lenders in Caracas during 2006, using a 35-item questionnaire. The summary of the results are given in Table 3. The money lender or person supplying the capital was located along Caricuao, Baralt Avenue, Sucre Avenue, Catia, Quinta Crespo, Ruiz Pineda, Las Adjuntas and Macarao.

4. Empirical Analysis for Credit Demand: Street Vendors

Table 1 presents the data for street vendors. The variables studied are organized by types of assets. Variables 1–5 addressed the importance of family, friends and others in supporting street vendor activity. Variables 6–13 estimate the importance which merchants assigned

Table 1. Credit demand: Variables explored in the survey — human, physical and social capital.

#	Variable description	Min	Max	% pos. answer	Avg	St. Dev.
1	Family members that live in the house	1	4	100	2.70	1.20
2	Family members that don't live in the house	1	4	100	1.61	0.95
3	Friends (street vendors)	1	4	100	2.07	1.07
4	Friends with formal employment	1	4	100	1.25	0.65
5	Chiefs of street vendors' association	1	4	100	1.33	0.79
6	Street vendors' association	0	4	38	1.24	1.64
7	Political parties	0	4	16	0.40	0.97
8	Unions	0	4	5	0.15	0.69
9	Local council of planning	0	4	4	0.11	0.57
10	Cooperatives	0	4	4	0.13	0.64
11	Missions	0	4	9	0.23	0.82
12	Bolivarian circles	0	4	5	0.14	0.63
13	Religious organizations	0	4	9	0.24	0.87
14	Civil department chief	0	4	14	0.27	0.77
15	Police chief	0	4	12	0.26	0.80
16	Councilman (regional level)	0	4	7	0.19	0.72
17	Councilman (local level)	0	4	7	0.17	0.72
18	Government official (local level)	0	4	14	0.35	0.96
19	Block chief or coordinator	0	4	52	1.56	1.67
20	Ministry public worker	0	4	5	0.10	0.50
21	Military high level official	0	4	8	0.18	0.69
22	Somebody in central government	0	4	8	0.19	0.71
23	Congressman	0	4	6	0.13	0.61
24	Police (regional level)	0	4	31	0.73	1.27
25	Police (local level)	0	4	24	0.53	1.08
26	Age	18	74	100	36.63	11.87
27	Years of schooling	0	19	99	9.03	3.14
28	Members of the household	0	20	98	4.43	2.44
29	Months that lasted in last job	0	255	79	63.58	149.84
30	Time since lost his/her last job	0	480	79	61.64	74.65
31	Index of experience as street vendor	280	315,360	100	28,403	30,868
32	Producer of what sells	0	1	11	0.11	0.31
33	Number of non-family employees	0	5	63	0.96	0.99
34	House	0	200,000	44	12,096	20,661
35	Cars, motorcycles, etc.	0	250,000	10	1,501	13,371
36	Land lots (rural or urban)	0	150,000	7	1,829	10,993
37	Other street vending stands	0	12,000	7	284	1,358
38	Other properties	0	154,000	2	1,112	10,840
39	Cash	0	25,000	42	850	1,822
40	Money in bank	0	6,000	21	441	1,076
41	Exchange currency	0	5,000	2	20	277
42	Financial investments	0	100,000	2	566	6,061
43	Merchandise value	90	60,000	100	4,180	4,741
44	Stand value	500	30,000	100	3,087	3,044

Monetary units are in thousands of Bs. Official exchange rate: 2,150 Bs/US$.

to different organizations that helped vending activity during the last year. Variables 14–25 weighted the importance of acquaintance with certain "key people" in order to exercise street vending during the last year. Results were summarized in Table 1 and statistical analysis was performed on them using SPSS® and Statistica®.

A simple inspection of the variables in Table 1 shows that people strongly believed that family members (living in the same house) as well as other street vendors were the most important groups of people that supported their activity. Also, 38 percent of people declared belonging to a street vendors association, while 16 percent declare to belong to a political party. Results indicated that interviewees believe block chief coordinators (52%) and police officers (24%) — both at regional and local levels of government — were the most important people a street vendor should be acquainted with. Age of street vendors ranged from 18 to 74 years (average 37) and their educational level was an average of nine years of schooling. Most of respondents (63%) declared to have at least one employee and to own a house. After the house, the most valuable asset declared was merchandise for selling and the street vendor's informal property rights on the street (variables 43 and 44). Informal property rights value averaged US$1,165 while its maximum value was over US$11,000.

Our survey revealed that 55 percent of vendors used at least one kind of financial leverage (Figure 1), showing the importance of moneylenders and the low penetration of formal banking in this sector of the economy. The main credit providers detected, ranked by importance, were: moneylenders, relatives and friends, banks and merchandise suppliers.

Being an illegal activity, it involves an extra risk to an already highly risky activity. This risk level is compensated for by a very high interest rate (Figure 2). However, it is the main source of capital. A street vendor's main collateral is his well-organized network of social connections. This "social collateral" reduces lender's moral hazard by gauging borrower's reputation within a particular group. Moneylenders have developed efficient mechanisms for checking such information through informal social networks, enabling them to check a street vendor's reputation at very low cost.

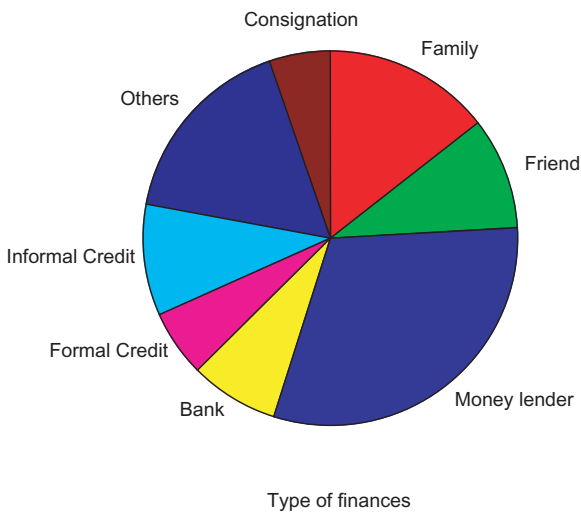

Fig. 1. Credit demand: Different types of loans used to finance informal business.

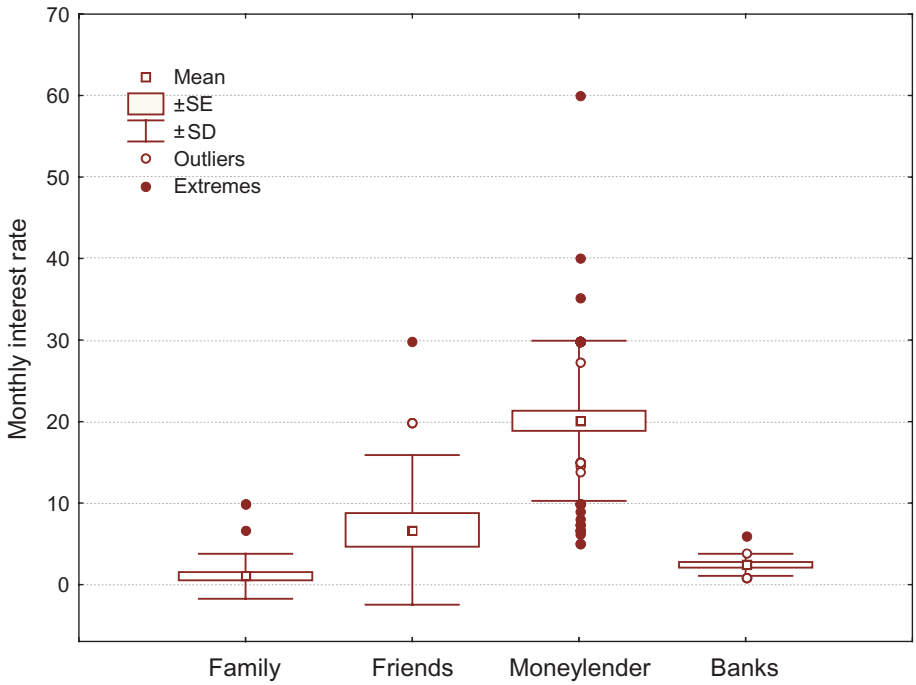

Fig. 2. Credit Demand: Monthly interest rates according to capital supplier.

4.1. *Relatives and friends*

These generally provide small, short-term, interest-free loans. There are also "unions" arrangements for raising capital under which a group of allied or "close-knit" street vendors agree to make deposits regularly (weekly, bimonthly or monthly), which are allotted to the members of the group on a rotating basis (often called ROSCAS). The key element for these "credit unions" is the group members' assessment of a person's willingness and ability to continue making the regular contributions even after being allotted the "take".

4.2. *Banks*

Even with an interest rate much lower than moneylenders, credit transactions between street vendors and banks are rare. This is partly due to burdensome financial regulations discouraging banks from lending to informal businesses and to the financial sector's inexperience in microfinance (particularly in designing mechanisms adapted to the competitive dynamics of street vending). It is interesting to note that street vendors declared that owning physical assets was not the basic variable explaining their access to bank loans, and that those credits analyzed were basically small loans from experienced institutions that rely upon researching social networks instead of on physical assets. Using collateral is more a way of reducing moral hazard than guaranteeing repayment.

4.3. *Suppliers' credit*

Street vendors often sell merchandise on consignment from third parties. For our purposes, a consignment is a capital transfer in kind, in which a supplier furnishes a street vendor with certain sales items, whose value is paid by the vendor upon their sale rather than upon receipt. The difference with "in kind credit" is that in the former, the street vendor owns the merchandise from the moment the transaction is done. Occasionally, interest is charged on such transactions that can be paid in advance but usually it is included in the price of the merchandise.

Interest rates varied according to the provider (Figure 2). Money lenders charged the highest interest rates whereas relatives and friends charge the lowest. Interest rates charged by banks were intermediate between the former two. Suppliers' interest rates could not be calculated as street vendors were not aware of the difference between cash and non-cash transactions.

Correlations between the variables measured are shown in Table 2 and revealed that:

1. Street vendors with larger loans had smaller families, worked more hours daily, had more employees and received benefits from the government (i.e., participated in at least one official program called "Misiones").

Table 2. Credit demand: Correlation coefficients among selected variables.

	Amount of credit	Work hours per day	Total merchandise	Other incomes	Total income
Type of credit	0.15	−0.03	0.06	0.12	−0.00
Family size	*−0.20*	−0.07	0.08	0.02	*0.22*
Amount of credit	1.00	**0.23**	0.17	−0.03	0.06
Interest rate	−0.16	−0.02	−0.08	0.01	−0.07
Time length of credit	**0.49**	−0.02	0.04	−0.03	0.03
Age of individual	0.01	−0.12	*−0.18*	−0.10	*−0.22*
Years of education	0.06	0.13	0.17	0.04	0.18
Number of dependents	−0.01	0.12	−0.13	−0.05	**0.27**
Hours worked	*0.22*	**0.87**	**0.38**	0.08	0.12
Days worked	0.08	**0.50**	−0.07	−0.25	0.10
HxD worked	**0.23**	1.00	**0.28**	−0.07	0.14
Total merchandize	0.17	**0.28**	1.00	−0.05	**0.46**
Number of employees	**0.24**	0.06	**0.24**	−0.11	0.15
Belongs to org	0.00	0.06	−0.15	*0.21*	−0.10
Belongs to political party	0.02	−0.04	−0.01	0.03	−0.01
Belongs to syndicate	−0.03	0.02	−0.06	**0.38**	−0.08
Belongs to council	−0.02	−0.03	−0.15	**0.31**	−0.12
Belongs to cooperative	0.03	−0.02	−0.06	0.04	−0.04
Receives welfare	*0.21*	−0.15	−0.07	**0.30**	*0.18*
Physical assets	*0.20*	0.18	*0.18*	0.16	−0.01
Total assets	0.15	*0.22*	*0.22*	**0.23**	0.04
Monthly sales	0.07	0.15	**0.46**	−0.13	**1.00**
Cost of place	0.10	0.04	*0.20*	−0.02	0.14
Total income	0.06	0.14	**0.46**	−0.12	1.00

Italic numbers indicate $p < 0.05$. **Underlined bold** numbers indicate $p < 0.01$.

2. The amount of time worked was positively related to the amount of the credit received, with the total merchandise handled by the street vendor and with their wealth (total assets).
3. Total income was not statistically related to assets or human capital (Table 2, last column). Total income correlated slightly but positively with family size, educational level and number of employees.
4. The financing style was somehow related to the amount of the loan and the total income of the street vendor. Banks provided in average the largest loans whereas high income vendors used suppliers' credit.
5. Social capital played an important role in financing relationships: belonging to a social organization, cooperative or syndicate increased income, although not total income of street vendors.
6. Credit amount was highly correlated with the amount of assets and the number of employees the street vendor worked with.

Estimating the relative importance of social and physical assets for obtaining the last credit by credit category showed that the two main factors were: (a) knowing other vendors that can give references to a lender about the street vendor's honesty and capacity to repay the credit and; (b) have been engaged in previous transactions. Interestingly, relying on social networks was a strong factor explaining access to all kinds of loans. The frequency or number of payments per month also appeared as an important variable, reducing transaction costs related to credit (see Williamson, 1989).

A lack of importance in explaining access to different credit transactions was evidenced for networks built on government-linked organizations, as well as on public officials (including the police). Credit transactions were mostly with private individuals and/or private institutions.

A factor analysis using the 44 variables to explain income needed 11 vectors (or principal components) and explained 50.3 percent of the cumulative variance. The first component explained only 11.7 percent and the first three components explained 22.4 percent. This showed that the link between the amount of credit and total income was very week or absent, as can also be deduced from the correlations given in Table 2.

5. Empirical Analysis for Credit Supply: Money Lenders

The summary of information revealed by our survey of money lenders is presented in Table 3. The data revealed a range of business sizes, but all with very low or zero amounts of unrecoverable loans. Practically all loans were given for business and were based solely on trust and interest rates were rather uniform among lenders. Most lenders had a small number of clients and worked with a reduced number of capitalists.

The correlation between the variables in Table 3 showed:

1. Moneylender with more time in this business had a larger number of clients ($r = 0.76$, $p < 0.0001$) and more capital available for lending ($r = 0.61$, $p < 0.0001$), but also had more non-performing loans ($r = 0.55$, $p < 0.0001$), and shorter loan terms ($r = 0.46$, $p = 0.004$).

Table 3. Some characteristics of lenders.

Item in questionnaire	N	Mean	Min.	Max.	Std. Dev.
Function (capitalist 1, middleman 2)	53	1.15	1.00	2.00	0.36
Time in business (years)	51	4.84	0.70	15.00	3.22
Starting capital (Own capital 1, Family 2, Loan 3, Intermediary 4)	53	1.53	1.00	4.00	0.87
Number of clients today	50	16.20	3.00	80.00	15.73
Number of clients during last year	46	14.11	4.00	40.00	8.30
Maximum loan capacity (millions of Bs)	51	36.37	5.00	230.00	35.69
Total amount lent (millions of Bs)	53	18.33	1.00	115.00	24.11
Interest rate (% monthly)	53	16.32	13.00	20.00	2.14
Minimum loan (millions of Bs)	53	0.47	0.05	1.50	0.42
Maximum loan (millions of Bs)	53	4.89	1.00	50.00	6.69
Minimum maturity (days)	39	48.08	7.00	180.00	39.88
Maximum maturity (days)	44	237.73	30.00	400.00	135.56
Number of organizational levels in the business	48	3.42	1.00	101.00	14.39
Benefit distribution (% to capital owner)	31	72.81	50.00	100.00	20.02
Getting new clients (by references 1, others 2)	51	1.24	1.00	2.00	0.43
Non-performing loans (number)	49	0.94	0.00	10.00	1.75
Non-performing loans (amount in millions of Bs)	38	6.60	0.00	101.00	22.70
Charge extra interest for late payment? (yes 1, no 2)	53	1.74	1.00	2.00	0.45
Add interest due to capital? (yes 1, no 2)	52	1.37	1.00	2.00	0.49
Means to recover loans (by word 1, others 2)	47	1.21	1.00	2.00	0.41
Only ask for references (yes 1, no 2)	53	1.47	1.00	2.00	0.50
Request guarantee? (yes 1, no 2)	51	1.67	1.00	2.00	0.48
Request material guarantee (yes 1, no 2)	52	1.46	1.00	2.00	0.50
Formalization of loan (by word 1, other 2)	53	1.51	1.00	2.00	0.50
Collecting payments (personal 1, other 2)	53	1.04	1.00	2.00	0.19
Reason for the loan (business 1, other 2)	53	1.04	1.00	2.00	0.19
Charge different interest rates to clients? (no 0, yes 1)	53	0.23	0.00	1.00	0.42
Payment of capital in regular payments (yes 1, no 2)	46	1.65	1.00	2.00	0.48
Interval between payments (days)	52	22.44	1.00	30.00	9.70

2. The bigger the loans, the shorter the loan term ($r = -0.41$, $p < 0.009$), and the higher the probability that only interests are amortized and capital remains as a debt ($r = 0.36$, $p = 0.015$).
3. The higher the interest charged, the shorter the maximum loan term ($r = 0.46$, $p = 0.002$) and the higher the frequency of amortization ($r = 0.39$, $p < 0.004$).
4. The amount of non-performing loans was positively correlated with the time in the business ($r = 0.39$, $p < 0.007$), with the number of clients ($r = 0.31$, $p < 0.02$) and with the kind of formalization of the loan ($r = 0.32$, $p < 0.03$). Those with formal collaterals were the ones with higher levels of non-performing loans.
5. The more clients the lender had, the less he (she) relied only on recommendations from other clients as a way to increases business ($r = 0.55$, $p < 0.0001$). Big money lenders also used other sources.
6. Increased size in the lending business as achieved by increasing the number of clients as shown in Figure 3.
7. Most lenders had few clients as shown in Figure 4.

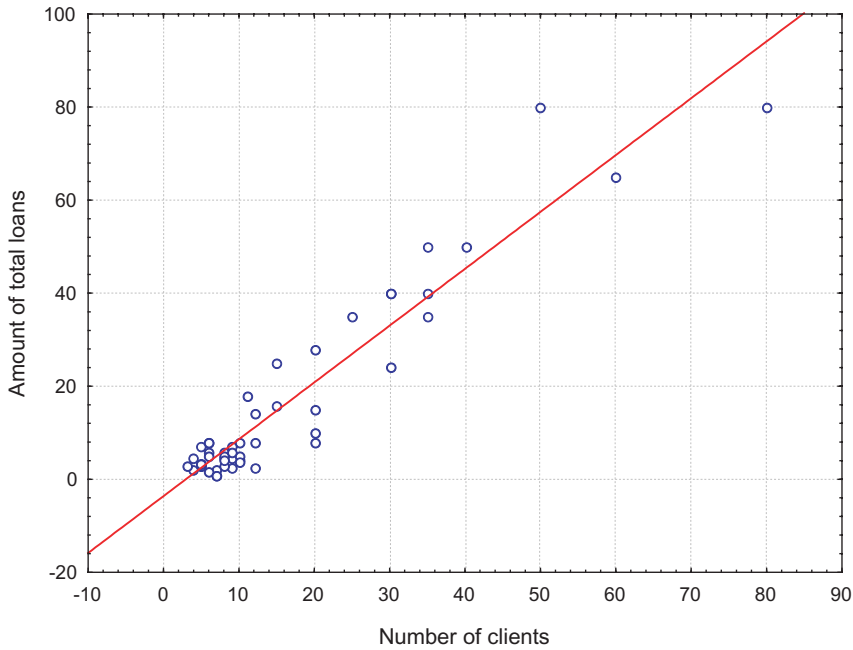

Fig. 3. Credit supply: Number of clients to capital lent.

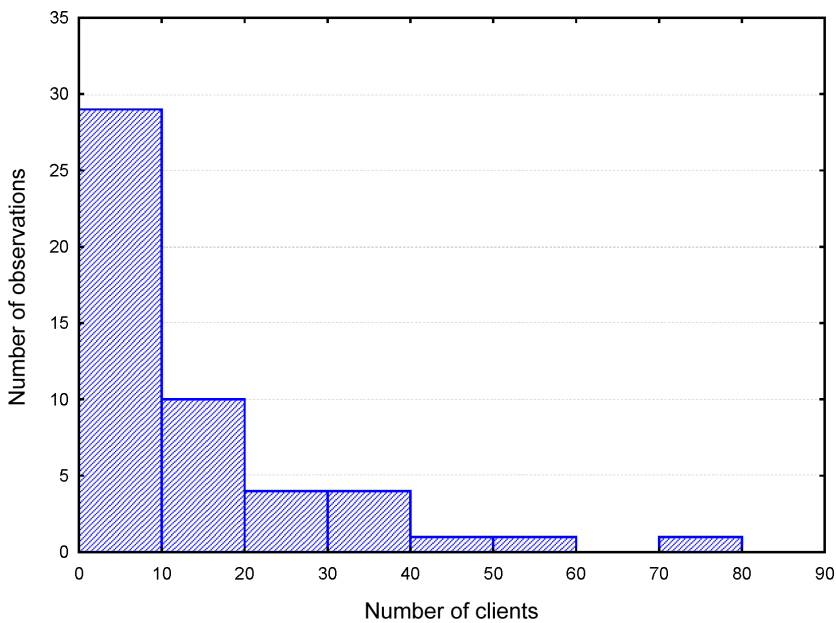

Fig. 4. Credit supply: Number of clients (frequency histogram).

8. Profit between middleman/capitalist was distributed as follows:
   a. The larger the number of loans at risk, the lower the capitalist's participation ($r = -0.48$, $p = 0.009$).
   b. The higher the capitalist's participation, the longer the loan term ($r = 0.52$, $p = 0.003$).

6. Conclusions

Our findings on the financing of street vendor activities can be synthesized as follows:

6.1. *Demand*

- Informal credit to finance street vendors' productive activities is very important and widespread in spite of its high cost.
- Street vendors depend on social capital nets to access financing.

6.2. *Supply*

- Informal lending is a business that changes with time, and one whose agents learn in the process to achieve higher levels of financial sophistication but always rely on trust to settle business.
- Moneylenders' businesses that are able to grow above the media look for more formal collaterals, but simultaneously have to deal with other risk levels, so the business shows limits to growth.
- The logic of the business moves partly away from the business of the formal intermediation toward charging only interest on capital.

We might focus on three main dimensions that affect the institutional character and the environment that frames the transaction between lenders and borrowers in the informal sector, affecting its risks. These are:

1. Money lending, informal supply of merchandise, ROSCAS and some other financial arrangements are illegal, making it hard to use the legal system to enforce informal contracts between lender and street vendor.
2. The risk of lending is affected by the low quality of the physical assets the street vendors own, *vis a vis* the expensive transaction costs implied in going through the legal system to guarantee repayment. Their main assets (houses) are mostly located in poor neighborhoods and built on land with no formal property rights and thus cannot be used as collaterals (For an extended argument, see De Soto, 2000).
3. The second most valuable asset of street vendors was merchandise and the value of informal rights on street plots. Insecure property rights on street locations, due to local governments' changing political will to enforce and legislate over those rights, make street vending a "volatile" or unstable activity, constantly subject to political hazards that affect lending activity.

Despite this risky environment, capital transactions take place in a variety of forms — from which the basic differentiation is capital transactions in money and in kind with a wide spectrum of lending transactions and interest rates — where moneylenders were the most relevant capital suppliers.

Apparently, the more formal the financing facility, the closer the correlation between access to financing and the availability of physical assets owned by the street vendor of high enough quality to serve as collateral. Conversely, the more informal the financing mechanism, the greater the importance of social networks as a determinant factor for access to credit.

The more formal the contractual arrangement underlying the transaction in question, the lower the interest rate is. However, this relationship results in higher transaction costs for raising capital in terms of time and paperwork to meet eligibility requirements. Thus, street vendors have the choice between investing their time in collecting required documentation for a formal bank loan at a low interest rate or borrowing from a moneylender at a high interest rate requiring a minimum level of effort to meet eligibility conditions. From the lender's standpoint, the degree of formality of the contract underlying the credit arrangement is balanced against the interest rate covering the corresponding credit risk, while street vendors must balance the interest rate they are willing to pay against the transaction costs incurred in securing the loan. This interplay of supply and demand determines both the interest rate and the transaction costs of the selected financing arrangement.

Our results suggest that the type and amount of credit are not the most relevant aspects defining higher incomes. An important fact this study uncovered is that the main constraint for better profits in the informal sector is not the cost of capital itself but the transaction costs involved in accessing credit and the lack of legal support. Thus, formalizing the activity and providing specially built market places with access to vending sites regulated by transparent rules might be a reasonable way to improve the productivity of this economic sector. These findings should help in molding development policies to the real needs of these emergent entrepreneurs on the streets of Caracas and elsewhere.

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