# *Little Business, Big Dreams: Households, Production and Growth in a Small Bolivian City*

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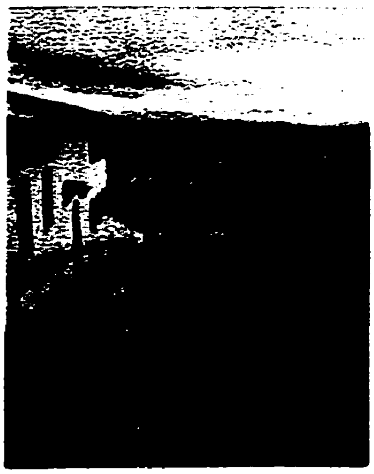
***March 1998***



**A Thesis submitted to the Faculty of Graduate Studies and Research**
**In partial fulfilment of the requirements of the degree of Doctor of Philosophy.**

0-612-44424-4

## Abstract

Questions about the role of the "informal sector" color much of the discussion of urban economic development in poor countries. Why is there an informal sector (and how to define it)? Are informal businesses stagnant or dynamic, and can they contribute to development? In the small Bolivian city of Sucre, site of this study, there is no "informal sector"; rather, the entire economy demonstrates informal characteristics. With a handful of exceptions, businesses are all very small and household centered. Most manufacturing is done by hand or with simple machines, and informal labor and trade relationships predominate. This thesis describes Sucre's producers, especially chocolate-makers and carpenters, and the local organizations which work with them to promote business growth. Despite attempts by local NGOs, grassroots organizations, and business people, Sucre' businesses stay small and informal. The reasons for this include: A) the size and composition of the local market; B) the problems of trust and contract enforcement which raise transaction costs (for hiring workers, contracting distributors and forming partnerships); C) the inability to "catch up" with more efficient, mechanized competitors in neighboring countries; and D) a tendency for households to diversify their investments as a response to risk and uncertain markets. The main problem impeding business growth in Sucre is not the businesses' informality (which is principally a *result* of their smallness), but the local social, economic and institutional environment in which they must work. This is an environment in which business owners have learned to survive and even, occasionally, prosper, but one which they have thus far been unable to change.

## Résumé

Le rôle de l'économie artisanale des micro-entreprises alimentent bien des discussions sur le développement économique urbain des pays pauvres. Pourquoi ce type d'économie (et comment le définir)? Est-ce que ces micro-entreprises se développent ou sont-elles plutôt stagnantes? Peuvent-elles contribuer au développement économique? Dans la petite ville bolivienne de Sucre, notre lieu d'étude, ce n'est pas seulement l'un des secteurs économiques qui fonctionne sur un mode artisanal mais bien l'économie entière qui en présente les caractéristiques. Sauf exception, on n'y retrouve que des micro-entreprises en milieu familial. Les produits sont fabriqués à la main ou à l'aide de machines rudimentaires. Le caractère informel des relations d'échange et de travail prédomine. Dans cette thèse, nous étudions les producteurs de Sucre et en particulier les chocolatiers et les menuisiers, ainsi que les organisations locales, comme les ONG et les associations, qui tentent de les aider à développer leur entreprise. Malgré les efforts de ces organisations, les entreprises locales restent petites et de type artisanal, ceci pour les raisons suivantes: a) la taille et la composition du marché local; b) les problèmes de confiance et de respect des contrats qui augmentent les coûts de transaction; c) la difficulté de concurrencer les entreprises mécanisées des pays voisins; et d) la tendance des entrepreneurs d'investir dans de multiples activités pour pallier aux risques et à l'incertitude du marché. Le principal problème de croissance des micro-entreprises n'est pas le caractère artisanal et informel des affaires (qui est un résultat de leur petite taille) mais plutôt leur environnement local, social, économique et institutionnel. Elles ont appris à y survivre et même à y prospérer à l'occasion mais elles n'ont pas pu encore le rendre plus favorable à leur égard.

**Acknowledgments**

Field research depends first upon funding, and I was fortunate to have several generous contributors to this project. McGill University provided a Social Sciences Research Grant, as well as a J.W.McConnell Major Fellowship. The Pastoral and Agrarian Systems Equipe (PASE) of McGill University also provided funding through their team grant from FCAR Québec. The Centre for the Study of Co-operatives of the University of Saskatchewan gave additional financial support. Finally, a U.S. Fulbright grant funded my MA field trip in 1994, where I was able to gather preliminary data for this study.

In Sucre, I could never have successfully carried out this project without the support of the organization Idepro, which provided me with orientation, office space, data and encouragement. Other organizations, public and private, were enormously helpful as well, and I am very grateful for their patience and cooperation. Friends kept me going, especially Janette Trujillo (with her wonderful ideas); Doris Albis (with her laughter); Lourdes Murillo (with her amazing energy); and all my friends from the Coro Universitario S.F.X., the Coro San Sebastian, and the Coro San Lázaro. Most of all, I am thankful to have found Blanca Lopez Orozco, my *hermana*.

Above all, however, thanks are due to all the many business people in Sucre who showed me great kindness in inviting me into their workshops and their homes, answering my many questions and cheerfully explaining to me all the things I did not know. I found Sucrenses to be wonderful people, kind to strangers and patient with ignorance. It is thanks to them all that my time in Sucre was good; it is thanks to them that I will always go back.

At McGill, Professor Donald Attwood and Professor Laurel Bossen have worked closely with me since I first came as a M.A. student in 1993, and I am very grateful for all the help, support, ideas, criticisms, encouragement and kindness they have given me in these years. Thanks also to Professor Uli Locher, Department of Sociology, for the assistance he has offered as a doctoral committee member; to Professor Franque Grimard, Department of Eeconomics, for taking the time to review and comment on excerpts from the manuscript; and to Professor John Galaty and all my colleagues at the Centre for Society, Technology and Development -- where I wrote this thesis on the twenty-fourth floor, with a grand view of Mont Royal.

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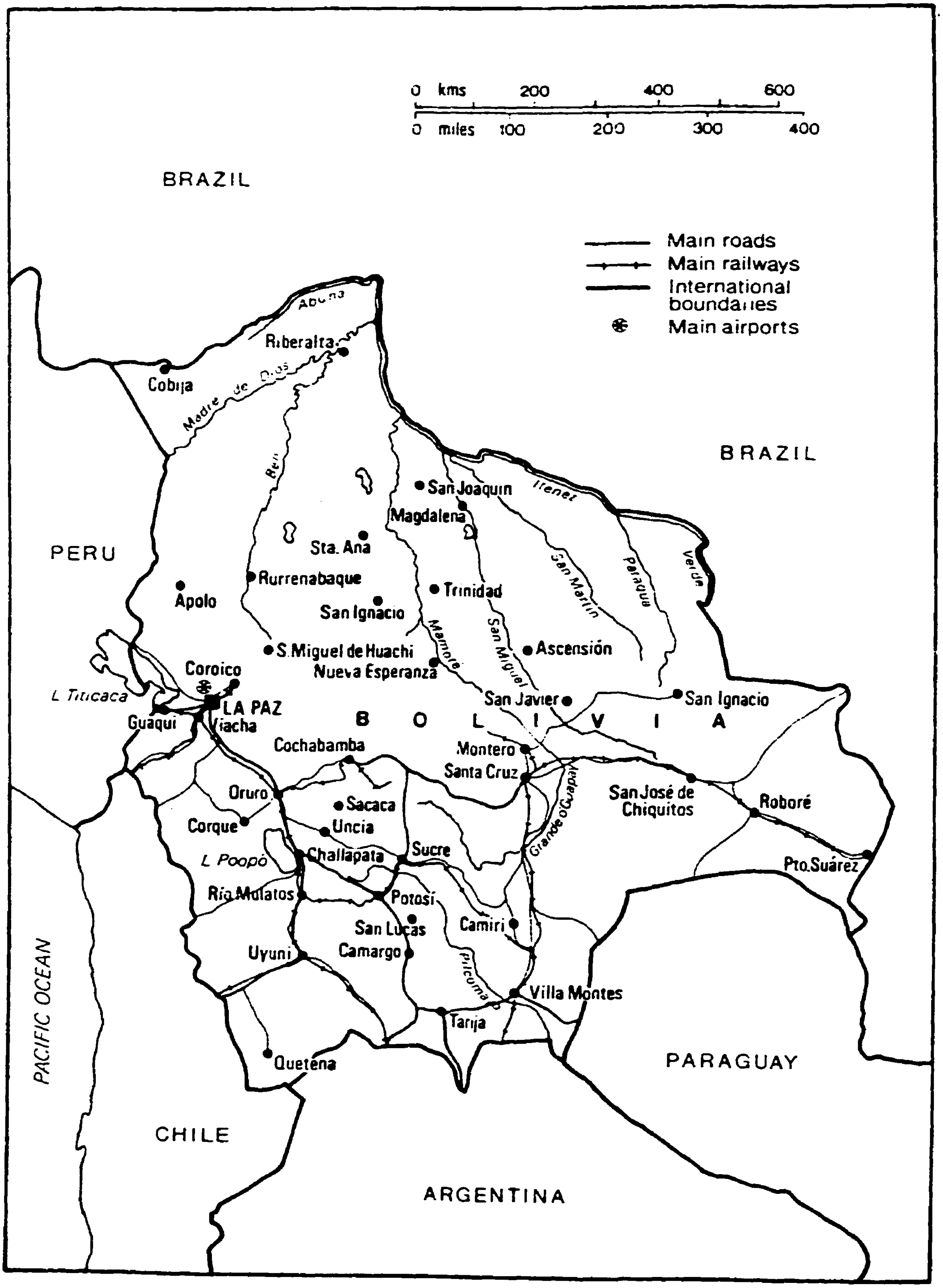
**A Note on Currency:**

Currency amounts identified by a *$* sign are in U.S. dollars. Currency amounts identified by the abbreviation *bs.* are in bolivianos, the national currency. The exchange rate used here is 5.15 bs./US$1. This was the exchange rate in September/October 1996; by May 1997, however, the boliviano had fallen to about 5.4 bs./US$1. The impact of the Bolivian currency's decline relative to the US dollar can be appreciated by the fact that when I was in Bolivia in 1994, the rate was 4.5 bs./US$1; in 1990, it was 3 bs. to the dollar.

## Glossary

**a pedido**: to order
**a pulso**: by hand
**aprovechar**: to take advantage of
**batán**: grinding stone
**boliviano** (bs.): Bolivian national currency, 5.15=US$1 in 1996
**campesino**: rural resident of indigenous background; peasant
**casero (a)** 1. homemade
2. favored seller or buyer
**chocolate casero**: chocolate produced at small scale (homemade)
**chocolate de cocina**: chocolate for melting and drinking in milk; "drinking chocoate"
**chocolate en barra**: see *chocolate de cocina*
**chocolatero**: chocolate maker, usually a hired labor who does grinding on a batán
**cumplido**: responsible; does what one promises to do
**Don**: polite title used before the first name of a man
**Doña**: polite title used before the first name of a woman
**egoísmo**: selfishness
**eje central**: central axis, used to refer to the three most prosperous Bolivian cities: Sta. Cruz, La Paz and Cochabamba
**engañar**: to fool, take advantage of
**feria**: seller's fair
**grajea**: chocolate-covered peanuts, puffed cereals, raisins, and so forth
**groseadora**: carpentry machine which planes and evens boards on two sides
**hacendado**: pre-Agrarian Reform landowner who owned a hacienda (large rural property) and had access to labor and crops from indigenous tenants.
**hechizas**: carpentry machines with a wooden frame, made locally by hand; sometimes also used to refer to any machine of national make
**Idepro:** Local micro-credit organization (*Instituto para el Desarrollo de la Pequeña Unidad Productiva*)
**jornal**: day wage
**maestro**: master carpenter
**mara**: local term for mahogany
**marcos**: window or door frames
**mestizo**: people of mixed Spanish-indigenous background
**palitos**: in chocolate manufacture, small molded chocolates sold on sticks
**pensión**: 1) a lunch restaurant where clients usually pay by the week or month 2) school fees
**pollera**: full, pleated skirt of mass-produced cloth worn by indigenous women; the knee-length pollera indicates women of Quechua background, while the long pollera identifies women of Aymara background.
**ochoó**: a cheap wood used in construction
**operario**: a skilled worker in a carpentry shop
**peones**: peons, rural laborers attached to a property.
**puertas**: doors
**pulperías**: Buying cooperatives of institutions (particularly, of the state mining company COMIBOL), which retail groceries and other goods.
**Real Audencia**: royal court in Spanish colonial period
**rebaja**: a discount
**Renta**: national tax office
**sindicato**: union; may also be used to refer to guild-like organizations
**sin-fin**: freestanding bandsaw
**Sra.**: Señora; Madam or Mrs.
**Srta.**: Señorita; Miss
**Sucrense**: a native (or long-time resident) of Sucre
**wiphala**: indigenous Andean flag, comprised of multicolored squares

# Bolivia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Abuna
Riberalta
Cobija
Madre de Dios
Beni
Iténez
San Joaquin
Magdalena
Sta. Ana
Rurrenabaque
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L. Titicaca
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Montero
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Roboré
Oruro
Sacaca
Corque
Uncia
L. Poopó
Challapata
Sucre
Pto. Suárez
Río Mulatos
Potosí
San Lucas
Camiri
Uyuni
Camargo
Pilcomayo
Villa Montes
Tarija
Quetena

## Introduction and Background

### 1. Introduction

Sucre is off the beaten track of Bolivian economic development. In a country classed the third poorest in this hemisphere,[1] Sucre is the capital of one of the poorest regions. This region (the department of Chuquisaca) has Bolivia's second-lowest production per capita (after Potosí department) and its second-lowest growth rate (after Pando department).[2] Sucre itself is a small city, of about 165,000 people. It is called the "White City" -- because of its white-stucco colonial buildings. This city was the seat of the colonial Real Audencia, and later the Bolivian Republican government; it possesses the fame of being a *former* national capital.[3] Over the years, because of its pleasant climate and proximity to the mines of Potosí department, Sucre has been home to many of Bolivia's wealthy. The White City has long had European aspirations (the city park has an Eiffel Tower and Arc de Triomphe) -- its name coveys the idea of cleanliness, brightness, differentiation from the brown landscape of adobe villages that surrounds it.

Not surprisingly, for those familiar with studies of Latin-American rural-urban migration, many former residents of the adobe villages are now residents of Sucre. So are ex-mine-workers, whose high-risk, good-income jobs ended with falling tin prices and the privatization of many mines. Sucre has opportunities, especially in education; this includes not just secondary education, often unavailable in the countryside, but university education as well. Sucre's main economic engines are its universities: the public university San Francisco Xavier (founded in the colonial period), as well as the private Universidad Andina Simon Bolivar, the Universidad del Valle, and the Universidad Boliviana de Informática. Sucre has a university student population of about 15,000, of which 10,000 come from outside of the region; many are from Brazil, as well as other Bolivian departments (ALA 1997:8). The city's other main income-generators are the former state petroleum company YPFB (recently privatized) and the cement factory, Fancesa.

Education draws many to Sucre, and Sucre's population growth rate in 1992 was 4.64%[4] Jobs, however, are not plentiful -- neither unskilled, skilled, or professional. Unemployment touches every sector in Sucre, from the university-educated professional to the monolingual Quechua-speaker. Where available, jobs usually do not pay well. The alternative to joblessness in a non-welfare state is informal self-employment (see, e.g. Hart 1973, de Soto 1989). This is not, as an earlier assumption ran, confined to recent immigrants (see, e.g., Skar 1985), but includes many native-born city dwellers.

This study began with an interest in informal self-employment, taking as its starting point the literature on the "informal sector" and microenterprises. Field research soon led to a startling realization: Sucre does not "have" an informal sector, it *is* an informal sector. That is, with a handful of exceptions, all of the businesses in Sucre demonstrate informal characteristics. They tend to be small, low-capital, household-centered, and share space and time with other household activities. They tend to use informal accounting methods and informal, personalized links in doing business. Partners almost never come from outside the household. And despite the stiff competition among these businesses, they do not eventually sort themselves out into a handful of "winners" (larger, growing businesses) and "losers" (failed businesses); rather, they continue to exist side by side, keeping each other's profits down. The very few "big" businesses (none of them really big) tend *not* to share a similar background with smaller businesses; such businesses were mostly exceptions to the household-based, informal rule. These businesses were generally established by people who already possessed sizeable start-up capital, and who may have formed partnerships with others outside their households.

There are, however, medium-sized businesses which started out quite small. Some businesses managed to enter the market at a point when competition was low and demand for their product high; if well managed, they grew quickly. This was, for instance, the case with the oldest extant chocolate factory in the city. More commonly, however, such businesses have disappeared in the course of being transferred from one generation to another. Even within the same generation, a successful business's resources may be re-routed in order to give birth to a new, replacement businesses -- a rational response to dropping profit margins for the original activity. Thus, many of today's mid-sized carpentry shops can trace their roots back to lumber businesses. The smaller carpentry shops, on the other hand, entered an already-competitive market with a minimum of labor-saving machinery; these businesses may survive and support the household, but their profit margins are too low to allow any sizable generation of capital.

Sucre is still a city divided between Europeanized, Spanish-speaking Bolivians (descendants of Spaniards as well as more recent immigrants such as Germans and Turks, and various *mestizo* mixes) and indigenous *campesinos*[5] (primary Quechua speakers of the Jalq'a or Tarabuco ethnic groups, as well as immigrants from northern Potosí department and elsewhere). Interested to see what kinds of entrepreneurial activities each ethnic group was involved in, I found that there is not a sharp division between entrepreneurs of campesino and non-campesino background, except (as expected) a low representation of campesinos among the larger, more capital-intensive businesses. This is because campesino migrants are nearly always from poor families and have no initial advantages in getting access to capital. Predictably, women of campesino background (who wore the identifying *pollera* skirt) sold in the marketplaces, but so did women in western dress. The *campesino* vendors usually spoke Spanish, and sold similar sorts of products, with similar levels of inventory, as their *mestizo* market neighbors.[6] Men of campesino background could be found owning carpentry shops, chicken farms, and other businesses -- even a successful mid-sized carpentry business. Like many market women, these men were not recent migrants from the countryside; many had come here as children, or had been born in the city to *campesino* parents.

This thesis undertakes the study of informal businesses -- principally, businesses producing goods (as opposed to those which offer services or act solely as merchants). The goal is not merely to provide a description of how such businesses work in the context of Sucre society, but also to explore their relation to that fascinating catch-phrase, "economic development." Economic development is what business-owners, NGOs, grassroots artisans' organizations, and the man- or woman-on-the-street all say they want for Sucre. For the business people and organization representatives I spoke with, economic development means more "economic movement": more money circulating, more customers, more jobs. It means earning "what my work is worth," not having to cut one's compensation to subsistence level in order to compete, and being able to afford up-to-date equipment. It means reaching bigger markets outside Sucre, either in other Bolivian regions or abroad, and increasing business scale accordingly. By successful "economic development," people envision Sucre becoming a major player in Bolivia's economic future, with higher incomes, better markets, and more political clout -- like the cities of Sta. Cruz, Cochabamba and La Paz. Without "economic development", Sucre remains a small city whose proud memories of past glories are clouded with the dust of the rest of the world going fast in the other direction.

**2. A Small Bolivian City**

Sucre's economic opportunities are considerably greater than in the surrounding countryside, for which it provides a market center; in rural northern Chuquisaca, small-scale grain and potato agriculture, along with small-scale animal raising and hand-weaving are practically the only income-generating activities (Eversole 1995). When compared to other Bolivian cities, however, economic opportunities in Sucre are limited. The region's industries (agriculture, manufacture, mining, construction, etc.) only produce about 6% of all products represented in Bolivia's GNP, and manufacturing growth was only 1.8% between 1988-1992, lagging behind the 4.72% growth in Bolivia as a whole.[7] The entire department of Chuquisaca provides only crude petroleum and natural gas (about a quarter of national production), cement, and some agricultural products and livestock (about 10% of national production) to other regions of Bolivia in quantity.[8] Other products, such as chocolates and processed meats, as well as transport services, also have markets outside the region, but their impact on the economy is very small. A few products (silver products, chocolates, and textiles) have a tourist market, but the great majority of Sucre's products serve a strictly local (and student) clientele.

Sucre's limited economic opportunities contrast with the economic movement and markets found in the Bolivian cities of Sta. Cruz, La Paz, and Cochabamba. These three cities form the "*eje central*" (central axis), as people call it, of Bolivia's economy. La Paz is the capital, Sta. Cruz is the heart of the economically dynamic lowland region where cash cropping, cattle and timber provide the bulk of Bolivia's non-traditional exports (GATT 1993:31), and Cochabamba is located in a rich agricultural valley. As one Sucre chocolate-factory owner put it: "We aren't in the *eje central*...This isn't an adequate spot for industrial activity." Sucre, with a population of 165,000, is much smaller than La Paz and Sta. Cruz, with around 700,000 inhabitants each, and Cochabamba, with about 400,000. Though centrally located among these cities (see Map), Sucre suffers from poor roads, mostly unpaved and crossing rugged, mountainous terrain.

Sucre producers frequently drew comparisons between what business is like in Sucre (slow, low-profit, high-cost) and what it is like in the cities of the *eje* -- where it is possible to obtain inputs more cheaply, and where higher population levels and more economic activity mean greater market potential.

Sucre, as one artisan leader put it,

"doesn't have factories, there's no industry. There's artisan work and small agricultural producers... It's not like Córdoba (Argentina), where I lived...there's a lot of industry...there, someone who knows how to carve wood is the one-eyed king of the blind."

The departmental secretary of economic development commented that Sucre has an "artisanal vocation". Sucrenses frequently contrast themselves, as artisans, to industrialized cities elsewhere. "In Sucre, there's two factories, that's it," said L., manager of a carpentry enterprise, referring to the cement factory and the beer factory. Implicitly, he was comparing Sucre to the more "developed" *eje* cities and the cities of neighbouring countries.

Most business people in Sucre are not satisfied that Sucre continue as an artisan city; they want modern machines, they want to be able to establish strong industry like other places have. The city itself, with its small market, is a limiting factor for their businesses:

"It's very hard to have an industry in Sucre," commented another chocolate-factory owner (#4).[9] "It's a small city."

One solution would be to sell products outside the region. Yet Sucre's sales to other regions are limited. Petroleum and natural gas are Sucre's major export products, both to other Bolivian regions and abroad, with a 1992 department-wide production valued at about 200,000,000 bs. (about US$66.6 million).[10] Very little else is sold abroad, however, and the products sent to other Bolivian regions are also few.

"What does Sucre export? Not even to the exterior, but to other parts of Bolivia? There are the chocolate, sausages ... not much." (Don G., small factory owner).

Yet in Sucre, there are many producers. Is it worthwhile for Sucre businesses to attempt to compete in distant markets? Sucre is centrally located among major markets in Cochabamba, La Paz, and Sta. Cruz, yet its poor roads mean that costs of transport (of the finished product, as well as often of raw materials) tend to put Sucre producers at a disadvantage in other markets -- *unless* these producers can produce and transport efficiently, or are innovative enough in their product to overcome local competition in their target markets. Higher selling prices and bigger markets in the *eje* cities are the incentive, and as we will see, even very-small producers (such as sweater knitters and homemade-chocolate makers) develop strategies to reach these markets with small quantities of goods. Large quantities, however, seldom penetrate these markets.

Why? As a whole, Sucre's manufacturing sector is still small compared with other Bolivian cities; it is not seen to have high "export" potential.[11] Most factory owners, while they make some limited sales to other Bolivian cities, do not export abroad; they say that the quantities they produce are not sufficient. Many small businesses sell strictly to the local Sucre population, often on order. With their limited capital and low-tech production methods, they cannot expect to churn out the quantities necessary for direct retail sale -- let alone produce in the quantities necessary to make long-distance information-gathering, promotion, and transport viable. Sucre production is small scale, primarily for the local market, yet the local market is small. For each product, the market saturates quickly with competitors (often willing to under-compensate their own labor); this keeps profit margins minimal. Frustrated producers are caught in a bind: they are too small to grow.

Many producers see their main problem as a lack of capital -- needed to improve their equipment (raise efficiency) and obtain more raw materials. Accessible credit, with easy terms, was Sucre business peoples' most frequent suggestion to solve Sucre's economic woes; with credit, producers believe they could grow out of their current limitations. Many who work at the artisan level (by hand, or with simple machines, sometimes motorized) are producing full time and selling all they produce; they encounter a ceiling, however, due to a lack of reliable, skilled labor and the inability to purchase machinery. As one sandalmaker put it, "The body will only do so much." One husband-wife team produced popular homemade drinking-chocolate which they marketed in Cochabamba; they had a good market, but never arrived at the point where they could invest in machinery to expand:

"My husband dreamed about that, of having a factory and workers and producing a lot...but there wasn't capital.. Oh, he went to see about loans, but that's useless.... You have to have your house to mortgage, and all sorts of guarantees... To borrow money, you have to have money." (Doña R).

Sucre is outside the *eje central* -- and it is hard to get back in. The limited scale of industry in Sucre is reflected in related problems such as unemployment and consequent outmigration. The latter also has political consequences; in August of 1996, Sucre was in an uproar because it had lost two of its national representatives. While Sucre's population is growing, it is still small, and other cities (particularly Sta. Cruz and the highland city El Alto) are growing faster. Government investment in the Chuquisaca region is also limited, as such investment is based heavily on population. In 1992, Sta. Cruz department received $120 million dollars (U.S.) of public investment, and La Paz and Cochabamba each received around $72 million, compared with only $41.9 million dollars for Sucre's department of Chuquisaca (EIU 1993:26). Thus, Sucre is surrounded by poor roads; the road to Cochabamba and Sta. Cruz is still a dirt road, although the road to Potosí was finally paved in 1995. Also, entrepreneurs complain that the government does little to stimulate business.

The loss of representatives, and thus political clout, feeds into a vicious circle for a region where people already feel they are receiving an unfairly small portion of government investment. Per capita, investment is fair (Chuquisaca receives a per-capita public investment similar to that of Sta. Cruz), but as a region, Sucre receives much less. People observe how this situation aggravates existing inequalities. As one chocolate maker argued, distributing public investment by region, not only by population, could help to "deconcentrate the central axis" of Bolivian economic growth and allow Sucre to take part in this growth process, rather than being separated from it.

While small producers dream of growth, the local government defends the city's "colonial" patina. Sucre's history and architecture make it an attraction for a small but steady flow of tourists, and this year it was the host for a major international summit. Before the summit, all local businesses with large, bright, visible signs were required to replace these with wooden, "colonial-style" signs. Maintaining the "purity" of image of this colonial city may have been the main factor leading City Hall to reject a plan by a local grassroots artisan's organization to establish an industrial park; according to an organization leader, the City government initially supported the project, then withdrew support, saying that Sucre was an artisan city and did not need an industrial park.

As an "artisan city", Sucre maintains its colonial image, but little by little, basic power machinery is finding its way into the workshops of artisans. The occupations of the producers of Sucre still echo those of colonial days, when "shoemakers, carpenters, metalsmiths, silversmiths...leatherworkers...and chocolate-makers" were among the principal trades (Querejazu 1977:29). Though specific products and techniques have changed over the years, Sucre's producers are still concentrated in these "traditional" occupations.

Over and over, Sucre's businesses force us to re-examine our categories. In Sucre, "informal businesses" are the rule rather than the exception. The term "micro-enterprise" becomes awkward, conflating vastly different businesses under an uncomfortably large umbrella. Finally, "household businesses" may be temporary income-generators or established, capitalizing enterprises -- or anything in between.

### 3. Household-Based Production

The household as an economic unit has received considerable attention recently, particularly in studies of rural producers; here, questions of production, reproduction, surplus extraction, development, stagnation and the like have been played out in analyses of peasant household behaviour. The *household* has been defined by Wilk and Netting (1984) as a domestic group whose members organize and carry on production, consumption, inheritance and reproductive activities. In this section, we focus on production. Netting (1993) writes of the role of the household as an efficient organizer of production, Bossen (1981) describes its important role in the accumulation of assets and capital, and Gudeman and Rivera (1990) discuss "the house" in Colombia as a basic economic unit for both subsistence and accumulation. This section begins with a review of debates on the role of small-scale household producers in modern economies, then moves on to consider the interior workings of the household as described by Wilk (1989) and others.

The main question about household-based production concerns whether it is efficient and durable. Can household-based businesses survive in a modern economy? Can they contribute to national economic development? Much of this debate comes out of the literature on peasants: do production choices by small-scale farming households follow a rationale distinct from those of capitalist producers (are these household producers "subsistence-oriented" and inefficient)? The long-standing debate on the fate of the peasantry is quite relevant to work on urban "micro-enterprise", as many of the same ideas about subsistence orientation and dual economies have been carried over into the literature on urban household-based production.

Marx, and later Lenin, had a strong influence on how people have seen the role of peasants in capitalist economies. In Marx's and Lenin's view, small-scale peasant producers are doomed to disappear, because they cannot compete with larger enterprises. The assumption is that peasants operate outside of a commodity economy; when the economy becomes geared toward commodity production, peasants turn into capitalists or proletarians, and the peasant mode of production becomes obsolete. The Russian economist Chayanov (1925) later developed a model which tried to explain the rationale underlying peasant economic behavior, and how this was very different from the rationale of capitalist producers. According to Chayanov, peasants are primarily concerned with reproducing their households and will produce commodities only up to the point where their subsistence needs are met. Beyond this point, extra drudgery is not worthwhile. Chayanov's model assumes, however, that there are no markets for labor or land; a peasant cannot hire workers, nor can he or she expand the amount of land under cultivation. Once these assumptions are removed, the model is not useful for explaining the choices of real-world peasant households (see Ellis 1988:120).

Boserup (1965) took Chayanov's argument and turned it around, focusing on situations where population is expanding. She concludes that peasant households which cannot expand their land base will use surplus household labor to intensify agricultural production (1965:118, 44). Thus, peasants may in fact work harder and harder over time -- but their goal is still subsistence. More recently, Morgan Maclachlan (1983) has applied Boserup's theories of agricultural intensification to his work in a South Indian village, and explored how a community may increase yeilds through the "cultural selection" of agricultural intensification. In the village he studied, hard work and high yields per acre have become culturally valued traits, integrated into the teaching of the elders, influencing the choice of marriage partners for their children, and thus encouraging high yields throughout the community (1983:16-18).

The Chayanovian idea that peasants or other small-scale producers are essentially concerned with survival and reproduction (and will work only hard enough to assure this) reinforced a dualistic view of the economy which saw peasants as essentially different from capitalists in their production strategies and goals. Like Marx and Lenin, those who subscribe to this view conclude that peasants have no place in modern capitalist economies. For peasants, household labor is a resource to draw upon for subsistence needs, but households are not geared toward economic-maximizing behavior. Anthropologists writing on peasants (Redfield 1956, Wolf 1966 and so forth) have tended to take this view, which has carried over into attitudes toward small-scale non-agricultural production as well (see, e.g. Geertz 1963:70 on household industries' poor organization and non-businesslike orientation).

The orthodox Marxist view assumed a dualistic split between capitalist commodity and petty-commodity production, predicting the eventual disappearance of the latter (Binford and Cook 1991:65). Petty or "simple" commodity production refers to small-scale production, agricultural or non-agricultural, for market exchange. Thus, producers of handweavings, pottery, and so forth in rural areas are often characterised as petty-commodity producers, and even urban micro-entrepreneurs may be included in this definition. The particulars of the "petty-commodity" definition vary; most consider that such production is usually household based, using unwaged labor, providing the household with income necessary for subsistence. (See Binford and Cook 1991:66-70 for a review of various definitions.)

Friedman draws a distinction between peasants and simple-commodity producers: While both focus primarily on subsistence, peasants have only a restricted participation in the market (1980:165). Simple-commodity producers, on the other hand, are integrated into a larger capital market characterised by high mobility of the factors of production; these producers are more integrated into, and more dependent on, markets than their peasant counterparts (161-168). According to Binford and Cook, however, peasants are "rural direct producers who routinely grow crops for own-use and/or for exchange"; peasants may in fact be petty-commodity producers to the extent that they sell their goods for cash (1991:70). The debate becomes confusing as the same terms are used in different ways, reflecting each author's own views and assumptions.

Thus, "peasants", despite varying degrees of involvement in the market, have been characterised by many authors as part of a mode of production which does not accumulate capital, and which is thus essentially different from capitalism. (See, e.g., Cook and Binford, 1990:17-20 for a discussion of this literature in Mexico.) This dualistic view sees peasants as external to modern capitalist economies. It has been echoed by more recent authors such as Hyden (1983) and Kitching (1989), who have continued to take the attitude that there is a basic difference between the "peasant mode of production", with limited development potential, and capitalist production (Hyden 1983:6). Hyden argues that, in Africa, the isolation of peasants and the independence of their productive relations from state control stand in the way of development. While he disagrees with the dualistic model's view of peasants as strictly limited to subsistence (1983:125), he views the kin- and community focus of the "economy of affection" among peasant producers to be primarily limiting, imposing social obligations upon people and restricting institutional arrangements to a local community, rather than national, level (17-27).

Kitching takes a more strictly economic focus, arguing that an economy comprised primarily of peasant farmers cannot be expected to bring about the "continuing process of rising material productivity and living standards" which development implies (1989:180). Rather, according to Kitching, industrialization is necessary for development; even the agricultural sector needs industrial inputs (such as machinery and fertilizer) to increase its productivity. Like Hyden, Kitching takes a macro approach, concerned not with the particular workings of the peasant farm, but on the overall role of the peasant producer in an economy. Both argue that the peasant sector is not in and of itself a force for development. While neither may go so far as Chayanov and others to suggest that individual peasant families never accumulate capital, both suggest that peasants cannot be expected to generate significant economic gains for an economy.

The anthropologists Gudeman and Rivera (1990) take another approach to the dualistic peasant/capitalist view. They speak of the "house" and the "corporation" as two different institutions used to organize material tasks; the corporation is profit oriented and completely dependent on the market, while the house (household) focuses on supporting and maintaining itself and has only limited engagement with the market (1990:9-13). These concepts of "house" and "corporation" echo those of petty commodity and capitalist modes of production. The house does not trade primarily to make a profit, but to replace what it began with (185); production over and above immediate subsistence needs is channeled into future subsistence (84-85). While the house *does* attempt to expand its "base", or wealth -- that is, to accumulate capital (40), the house lies at the "margin" of profit making (184). Its capital tends to be almost exclusively circulating, rather than fixed (71-72), and thus of limited development potential (185). Gudeman and Rivera do mention the possibility for household accumulation and transition to capitalist production, but in order to make this transition a house must "become what it is not" and alter its internal organization to become a "corporation" (186). Gudeman and Rivera also acknowledge intermediary forms of production organization, such as large family firms (183); the presence of these blurs the boundaries and usefulness of their dualistic model.

Dualistic views assuming essential differences between the goals and methods of capitalist producers and petty-commodity producers or peasants have not gone unchallenged. Attwood (1992, 1997) and Cook and Binford (1990), counter this assumption, as does Huang (1990). Cook and Binford argue that a separation of "peasant" or "petty commodity" mode of production and "capitalist" mode of production is artificial, and that the dualistic model should be replaced by a "unitarian commodity economy concept" (1990:30). This concept recognizes the presence of a single economy, within which various kinds of producers act (27), and where there are not separate rationalities or logics operating for different kinds of producers (31).

The assumption that peasants have very different goals and priorities than capitalist producers, and that they are unable to generate or contribute to economic growth and transformation, is strongly criticised by Attwood (1997). He argues that rather than being static, traditional, and primarily subsistence oriented, peasants are efficient producers and accumulators of capital. Directly countering Hyden's view, Attwood maintains that peasant enterprises can contribute to economic transformation (Attwood 1997:157). His (1992) study of sugar producers shows how such an economic transformation has taken place in western India as a result of the entrepreneurial efforts of peasants. Nash also shows, in the case of pottery producers in Chiapas, Mexico, how domestic production has the potential to both survive and intensify in the context of a commodity economy (1993:148).

In a "unitary commodity economy" model such as Cook and Binford describe, capital accumulation occurs in all branches of the economy, and petty-commodity producers may become capitalist producers (Cook and Binford 1990:31). Cook and Binford state that this process is "neither visible nor explainable from a dualistic perspective" (31-32). Like Cook and Binford, the historian Philip Huang also suggests that there is no intrinsic barrier to movement from petty commodity to capitalist production in the household unit; he cites modern Wenzhou district in China and pre-industrial Britain as examples of small, household enterprises' ability to transform an economy (Huang 1990:261-263).

Huang's study of six hundred years of economic activity among peasant families in the Yangzi Delta of South China takes a new angle on the exploitation of family labor, turf once trodden by Chayanov and Boserup in their discussions of a subsistence-oriented peasantry. Huang's analysis is oriented toward efficiency and the market, showing how peasants' use of unremunerated family labor actually allowed them to produce more cheaply and undersell large-scale managerial farms (1990:63-68); in the same way, peasant weavers were able to undersell urban wage-based cotton-weaving workshops during the Ming and Qing periods (86). Netting and Cook also observe the cost-effectiveness and competitive ability of small-scale production using household labor (Netting 1993:101, 156; Cook 1986:64-65).

Cook and Binford argue that simple reproduction in a capitalist economy such as Mexico is not a petty-commodity producer's ideal goal; rather, these producers seek to emulate the successful capitalist enterprises in their industries (1990:28). Various authors give us concrete examples of capital accumulation and growth in petty-commodity businesses both rural and urban (e.g. MacGaffey 1987:66; Hill 1963:3; Attwood 1992:88-89; Buechler and Buechler 1992:11-12). With the ability to hire labor, petty-commodity-producing households will, according to writers of the "new home economics" school, concentrate on maximizing utility (Becker 1965, and others, discussed in Ellis 1988, chapter 7). "Utility" may not necessarily mean profits (leisure time is also assigned a value in these models, as well as goods produced for home consumption). The new home economists do not address whether households have capitalist goals, but they emphasize the economic rationality of household producers.

If the goal of household-based producers is to become like successful capitalist enterprises, as Cook and Binford argue, it would seem that some, at least, would be expected to grow and become large-scale enterprises. Businesses in sectors where large initial capital inputs are not necessary may start very small; the successful ones will expand and the unsuccessful could be expected to disappear. Yet in third-world economies, large sectors of the economy continue to be dominated by micro-enterprises and subsistence production. Thus, an important question in the literature -- one which this thesis addresses -- is why and how the expansion of small-scale (and very-small scale) enterprises occurs or fails to occur.

Binford and Cook (1991) identify several important issues which bear on this question. One, following Schmitz (1982), is the extent to which small producers are independent of large firms or linked to them in "putting-out" relationships (where small producers work as disguised wage laborers). Another is the independence of small firms in relation to one another. Binford and Cook cite MacEwen (1979), who defines independence as the juridical ownership of the means of production, the direct appropriation of the profits of the enterprise, and control over the decision-making process in production. A third factor influencing the growth and development of small-scale enterprises is the size and demographic make-up of the household and its access to economic resources; these characteristics influence the household's ability to accumulate capital through use of unwaged family labor -- a process which Binford and Cook term "endofamilial accumulation" (1991:76-78). Other factors, of course, may also influence businesses' ability to grow -- such as economic stability, location relative to markets, and access to raw materials and transport. In some cases, businesses may grow but never dominate their market; Carol Smith (1984), writing on petty-commodity producers in Guatemala, observes that where wages are high and the costs of entry low, employers cannot accumulate enough capital to mechanize, resulting in a market full of many small, competing petty-commodity producers.

The question of whether small-scale producers are independent of large businesses leads to another debate in the literature: whether "informal" or "petty-commodity" producers are, as some claim, "exploited" by the capitalist economy in which they act. Many writers, while not denying that households do the best with the resources they have, argue that there are larger structural factors which allow household surplus to be appropriated from outside the household. A related line of argument suggests that the informally employed or "unemployed" perform important productive functions which allow for the maintenance of capitalist enterprise -- such as the maintenance of reserve labor supplies, or the supplementing of income through informal means which allows employers to pay less-than subsistence wages (see Smith et al 1984).

The argument that the presence of numerous small producers in the informal economy is a structural characteristic benefiting capitalism can be traced to Marxian influence. Andre Gunder Frank (1977) argued that informal production by non-waged workers funds capital accumulation in capitalist economies (quoted in Bossen 1984:6). Lloyd, in his study of the *pueblos jovenes* of Lima, states that the informal sector of small urban producers is interlinked with, and contributes to low costs for, formal capitalist enterprises (Lloyd 1980:126). And Babb, writing on market women in Peru, has argued that the large numbers of small-scale producers and traders is a structural characteristic of the Peruvian economy benefiting capitalism. She shows how petty producers and traders produce a range of goods and services and diversify into various low-paying economic activities to make ends meet; as the poor work long hours in productive activities and yet receive just enough to "get by" (reproduce their labor), Babb argues that capitalist economy must be extracting their surplus (1989:156).

According to Babb, structural constraints, such as difficult access to resources and "exploitation" by large-scale enterprises, not a lack of entrepreneurial ability or motivation, have kept small-scale businesses from accumulating capital and expanding (1989:50). She attributes the long workdays, limited opportunities for social mobility, and other aspects of the economic lives of Peruvian market women to the inability of Peruvian "capitalism" to draw large numbers of workers into the wage labor force. According to de Soto (1989:132-151, 173), however, the "capitalism" seen in Peru is so skewed by government interference that it is probably unfair to say that capitalism itself is at fault. Nor is it clear how Babb reaches the conclusion that Peru's "underdevelopment" is an effect of the influence of world capitalism (1989:127).

Vorontsov and Danielson, writing on Russia at the end of the nineteenth century, also take the view that an unequal relationship between poor countries and rich countries is a strong force influencing local "underdevelopment." They state that direct imports of advanced technology from rich countries lead to increasingly capital-intensive production and low labor absorption in poor countries. Their argument assumes that local entrepreneurs cannot hope to compete because such technology is too complex to be readily replicated locally using local knowledge (Vorontsov and Danielson, cited in Kitching 1989:37-39). When local entrepreneurs do replicate and innovate technology (as we shall see, this has been the case in Sucre's chocolate and carpentry sectors), Vorontsov and Danielson's argument would not hold true.

Rather than assuming that external forces determine the fate of an economy, it is important to realize that local actors can themselves influence the direction of change (see Long 1986). Lauren Benton (1990) takes this approach when she looks at the different roles small-scale producers play in processes of industrialization. She considers newly emerging small firms in two industries (shoes and electronics) in Spain, and attempts to identify the situations under which producers are likely to remain in a dependent relationship to larger enterprises (e.g. putting-out), and when they are likely to become independent small producers. Her point is that household-based production may take either path, depending on various factors both within the household and within the community. Local conditions, rather than external pressure, become the issue. Benton cites characteristics of the household (such as the division of labor and authority), the importance of a local climate of trust and collaboration among small-scale producers (to allow them to evolve institutional supports for production), as well as the power of local and regional governments to implement these institutional supports, as key factors influencing whether household production becomes independent enterprise (1990:19, 105, 163, 191).

Cook (1986) gives an example of how even apparently "independent" producers can end up in dependent relationships to large capitalists. He tells of how small-scale weavers from one Oaxacan village stand in a dependent relationship to capitalists in the neighboring town of Mitla, who control both raw material and markets (Cook 1986:66). These intermediaries formerly produced weavings, but later sold off their looms to villagers to take advantage of their cheap labor while maintaining control of thread supplies and tourist markets (1986:79). Can the resulting situation of dependency be blamed on pre-existing social institutions (vestiges of hacienda class structures) which allowed the Mitla intermediaries access to large amounts of capital in the first instance, or is this simply the ability of certain groups to out-compete others? In any case, small producers will not necessarily continue to be dependent on their Mitla neighbors in the long term; despite the small producers' shortage of capital, their exploitation of family labor and consequent "endofamilial accumulation" could possibly put them in a situation where they could "drive Mitla capital into greener pastures outside of weaving" (1986:80). This implies, however, that profits will be forced low; as a result, small village producers may or may not earn more than their basic subsistence.

Economists Curran and Blackburn (1994), working in a first-world context, suggest another possibility for the potential role of small firms. Questioning the assumption that small firms necessarily exist for the benefit of large ones, they stress the importance of the creation of specific niches by firms in their study of the British economy and argue that, in this way, small firms are able to achieve considerable independence (1994:185). This is similar to the best-case scenario envisioned by Benton, in which firms are equipped to seize opportunities for independence and innovation. The process of searching out and creating of niches is also seen in the "informal" economies of the third world; here, flexible small-scale producers occupy niches which are too small, specialized or unreliable for larger businesses to exploit profitably (Buechler and Buechler 1992:281, de Soto 1989:173).

Whether or not small-scale enterprises are inherently less, or more, productive than large-scale ones, however, has been a subject of some debate. Some writers (e.g. Oshima 1971 and Bhalla 1976, quoted in Effron 1980:15) argue that labor-intensive production and a tendency to economize through use of local resources (including raw materials) and second-hand capital equipment means that industrial microenterprises are competitive in their levels of productivity -- similar to Netting's (1993) argument for the efficiency of small-scale farms. (Berry [1985:137] has cautioned, however, that labour-intensive and frugal micro-enterprises do not necessarily retain these characteristics when they grow -- growth itself does not necessarily advance efficiency.)

De Soto suggests that informal businesses may have advantages over formal ones because they are able to avoid bureaucratic red tape and so conserve time and money (de Soto 1989:133-151). Also, because informal businesses do not have access to subsidized capital, they may have a more efficient factor mix, using labor intensively in an economy where labor is cheap. Nevertheless, many are undercapitalized; as de Soto puts it, "informals have too much labor and formals have too much capital"; neither has the optimum factor mix for production (173,174, 151). Informals also bear a variety of costs of informality (such as those involved in avoiding penalties, paying usurious interest rates, not having property rights, and being unable to use a legal contract system). Thus, the Instituto Libertad y Democracia with which de Soto is affiliated has calculated informal businesses' productivity as only a third that of formal businesses (173). This is not seen as a result of any inherent inefficiency of small businesses; rather, it has to do with the costs of informality, which may include a disinclination to use certain capital goods which would make illegal businesses easier to detect (152-155).

Laurie Effron has suggested that data showing large firms to be more efficient than small firms (such as from her own Ivory Coast work) may be a result of economists' blindness to the kind of endofamilial labor exploitation described by Cook -- where self-exploitation of household labor can produce goods less expensively than could a large, formal firm. According to Effron, economists' attempts to assign cash values to apprentices' food and calculate the opportunity cost of the entrepreneur's labor mean that labor costs are often overestimated (Effron 1980:70). Assigning cash values to informal labor is problematic; the opportunity cost of labor is irrelevant where workers or entrepreneurs do not have the option to leave the home to work elsewhere, as is the case, for instance, with the Mexican women potters in Chiapas described by Nash (1993:146).

It is not likely that generalizations about efficiency of small-scale versus large-scale firms can be made, as this would seem to depend upon the specific characteristics of each particular industry (such as what sorts of economies of scale are present), and because, as Effron points out, the measures of the values of inputs and outputs are often not the same due to subsidies or minimum wages that apply to one group and not the other. This is the situation in Lima, where capital is cheap and labor expensive for formal businesses, and the opposite is true for informals (de Soto 1989:151). At the same time, it is important to recognize that "small" and "large" do exist and interact along a continuum, and it is quite likely that optimum productive efficiency does not occur at either extreme, but somewhere in the middle.

Whether or not small-scale production is inherently less or more efficient, de Soto's study shows that constraints such as the lack of effective legal institutions will raise transaction costs and thus lower productivity. Unstable economic circumstances and insecure property rights mean producers may be unable to obtain needed capital (Buechler and Buechler 1992:137-139) or retain it (159); these situations force entrepreneurs to use clientele relationships (Berry 1985:11), invest extensively in social networks (Berry 1993:160-166), stock up on unneeded capital equipment (see Buechler and Buechler 1992:147) and otherwise expend their resources to lower risk. The economist Irma Adelman alludes to the need for risk-reducing institutions when she states that in order to move from risk reduction to surplus maximization in "traditional societies", it is necessary to provide people with alternate insurance mechanisms to clientele relationships (Adelman 1973:3-17). As emphasized by institutional economist Douglass North (1990), so long as risk and transaction costs remain high, these will likely keep even successful businesses small, regardless of what their optimum productive size may be.

Economic relations at the intra household level are very important to understanding households' production strategies. Households are not the smallest unit of analysis; they are comprised of individuals who each have different goals and different power in the household context. Thus, to understand household-based production, it is necessary to understand how households function through the interactions of their members. Richard Wilk urges that households be conceptualized not as things, but as activities and relationships (1989:25), going beyond the older anthropological view of the household which stressed pure altruism and pooling of resources among members of domestic units (Sahlins 1972, 1973, cited in Wilk

1989:26). Nevertheless, despite the pursuit of individual goals by household members, they also share certain common long-term interests and mutual dependencies (Netting 1993:101) and, as Bossen argues, are jointly involved as bounded units in long-term investment and petty-capital formation (1981:291-292).

Into the debate about household interests and individual interests, Weismantel introduces the concept of "concentric groups" in which the individual moves in pursuit of his or her goals. Households are one of these concentric groups, along with the family (the members of which may live in separate residences), and presumably other social institutions as well. Like Wilk, Weismantel stresses the flexibility of the household in her work in the Ecuadorian Andes, defining the household not as a static social unit but as a set of ongoing economic activities (1989:56). This analysis is a careful warning not to assume that the socially significant household group is necessarily the only, or even most important, economic micro-unit; in the Zunbagua case described, "the individual, who owns assets, and the family, which pools labor to manage the assets of its members" (65) are both vital here, despite the importance of the household as the locus of consumption, social reproduction, and exchange activities (69). Similarly, David Cheal describes how individuals in Fiji negotiate their personal interests with reference to two systems of household organization selectively drawn upon by social actors to achieve their purposes (1989:18-19).

Wilk has been able to draw upon information about household power relations and resource management patterns to help explain different patterns in households' short- and long-term entrepreneurial success (Wilk 1989:39-43). Using models of group decision-making derived from consumer research literature, Wilk identifies two common systems for pooling and managing household income among the Kekchi of Belize; one patriarchal (in which the central household fund is managed by the husband and other household members bargain to acquire funds) and another in which all household members contribute to a common fund and make joint management decisions about how it will be allocated. The model chosen can influence the success of household businesses.

This thesis takes the position that household-based production is undertaken by rational economic actors in a non-dualistic economy. While much of household-based production's rationale is identical to that of capitalist business anywhere, the household must also address certain particular priorities which distinguish its position: maintaining the household (reproduction) is an important goal, as are leisure time, investment in children's futures, and so forth. Household members have a variety of goals, among them cash profit maximization, and they pursue them through a variety of activities including, but not limited to, businesses of various sizes. In Sucre, strong economic players controlling resources at the supra-household level (such as extended families, cooperatives, etc.) are practically non-existent; the household has "walls" demarcating it, much like Gudeman and Rivera's metaphorical "house" model. Finally, while the principal goal of the thesis is to consider the economic role and capabilities of very-small businesses in the Sucre economy, it does not neglect to consider the importance of intra-household relationships and the different roles household members play in businesses.

**4. The "Informal Sector"**

Observing an abundance of very-small-scale business activities, particularly in urban contexts, it became necessary to choose a term which would identify this "sector" of producers, merchants and service-providers. Keith Hart coined the term "informal economy" in the early 1970s in his work in Ghana; it quickly became popular with other writers who have found in it a convenient handle for describing those who do business in less official or "formal" ways. The ILO's definition of the informal economy in 1972 listed the following seven characteristics of the informal sector: ease of entry; reliance on indigenous resources; family ownership of enterprises; small scale of operation; labor-intensive and adapted technology; skills acquired outside the formal school system; and unregulated and competitive markets (quoted in Hannerz 1985:145). As Hannerz points out, this list is problematic because the traits do not always fit together.

Definitions and cut-off points for what is considered "informal" vary considerably, and the term has become loaded with assumptions to the point where some authors have found it more expedient to abandon it altogether (e.g., MacGaffey 1987, Buechler and Buechler 1992). Lumping characteristics together is a serious problem; for example, if one is to consider "informal" all unregistered economic activity, and all small-scale economic activity, then speaking of the "informal sector" easily leads the unwary into incorrect assumptions such as "all unregistered economic activity is small-scale." Also, as these authors point out, some unregistered and evenly blatantly illegal activities, such as drug trade, can be quite large. (See Portes and Schauffler [1993:43-45] for a criticism of the frequent conflation of "illegal" and "informal" in macro-economic estimates.)

As with most terms which attempt to group together a wide variety of settings and activities, the "informal sector" has generated a certain amount of confusion about the characteristics used to define it. For some writers (e.g. de Soto 1989, MacGaffey

1987), illegality is a key characteristic: informal businesses are unregistered, do not observe regulations, and do not pay taxes. MacGaffey chose to use the term "the second economy" to distinguish her analysis from the focus on "the small-scale activities of the socially disadvantaged" (1987:23) -- a common operational definition of the "informal sector" used by other writers. For the latter, certain styles of business organization indicate informality: small scale, simple technology, use of local materials, and so forth.

One misconception about the urban informal sector is that, if rural-urban migrants enter this sector in large numbers, then this sector is primarily made up of recent migrants (see, for instance, Skar 1985, who addresses this misconception). In most cities in less-developed countries, long-term residents as well as recent migrants are likely to find salaried jobs hard to come by; self employment is their main alternative. Such an option is generally portrayed in the literature as "participation in the informal economy", though with little reference to whether such activities are actually registered or unregistered, or how large in scale they are. While it is likely true that the growth of informal economic activity resulted from large influxes of migrants into cities after World War Two and consequent labor surpluses (Portes and Schauffler 1993:33), many participants in this sector now are urban-born (Skar 1985: 158-160).

Buechler and Buechler also point out that "registered" and "unregistered" activities are in practice often very similar to one another (they give the example of regulated sidewalk sellers versus ambulant vendors) and that separating them into distinct categories can prove artificial (Buechler and Buechler 1992:15). A more useful definition of the term "informality" is given by Dandler (1986); for him, informality is a broad strategy or set of strategies used by entrepreneurs, rather than a definable sector of the economy (quoted in Buechler and Buechler 1992:278). Various authors writing on urban small-scale enterprise identify the kinds of strategies small-business people frequently use to cope with the problems and situations specific to them. Roberts, for instance, cites "the intensive exploitation of available labor, organized through personal relationships, trust, and a network of exchanges and obligations" as a primary characteristic of the small-scale sector (Roberts 1978:128-9). As Hannerz states, "social resources are created and used to compensate for inadequate technical and financial resources" (Hannerz 1985:148).

Another strategy is for entrepreneurs to prefer "expansion into different enterprises, rather than enlarging the existing enterprise" in order to lower risk (Roberts 1978:130). Sara Berry (1985:137) on Nigeria, Janet MacGaffey (1987:109) on Zaire, and Buechler and Buechler (1992:269) on Bolivia point out the importance of these particular strategies for small-scale producers in unstable economic settings where institutions for protection of property rights and enforcement of contracts are weakly developed. In addition, migrants who have left household members back home on the farm can be thought of as following the same strategy of diversification: their household's income is no longer limited by the vagaries of agriculture, but comes in a variety of forms (cash, food products) from different sources (see, for instance, Wilk [1991:226] on diversification among Kekchi households in Belize).

The informal sector has also been portrayed as the domain of the poor business. As Buechler and Buechler comment, such businesses are treated as welfare beneficiaries (1992:15), supported by NGOs because they provide employment to the very poor, not because they have any real potential as businesses. Nevertheless, some enterprises in the informal economy can be quite successful, accumulate capital, and pave the way to economic mobility for entrepreneurs (see, for instance, Skar [1985:162] on garbage-pickers in Lima). Surveys in Latin American cities have found that owners of microenterprises may earn more than salaried formal-sector workers (Portes and Schauffler 1993:45) -- a finding which this thesis supports.

Various writers have, in fact, shown that very informal and marginal producers are both integrated into, and make important contributions to, national economies (e.g.. Cook and Binford 1990, MacGaffey 1987). However, they must cope with a variety of adverse conditions. These conditions vary in different settings, depending on local contexts. Sara Berry, for instance, in her (1985) Nigerian study, shows that Yoruba artisans must face a system in which access to the means of production is controlled through kin groups and property rights are insecure -- meaning that an entrepreneur is forced to divert considerable resources into gaining access to productive resources. Also, in this setting clients must be cultivated through interpersonal ties, meaning that managers must be away from the workplace for long periods of time, leaving their employees unsupervised. Because of the nature of the institutions of the surrounding society, these artisans are forced to do business in informal and often inefficient ways.

Often, producers must deal with the non-existence or malfunction of the sorts of formal institutions (markets, property rights, banking institutions, enforceable contracts, etc.) which would normally cut down transaction costs and allow producers to conduct business efficiently. As institutional economist Douglass North emphasizes, the costs of production include such transaction costs, and therefore the presence or absence of effective institutions help determine whether it is inexpensive or costly to carry out business (1990:28-34). Such institutions may be formal (such as laws and enforcement mechanisms) or informal (such as social and cultural constraints on behavior).

When formal institutions are faulty or do not exist, producers may attempt to lower their transaction (and thus production) costs by developing informal institutions to replace them. James Acheson, for instance, has shown how household-based furniture-producing firms in Michoacan, Mexico have changed the institutional framework in which they exist by creating new organizations and long-term trading relationships to cut down on high transaction costs (such as a lack of legally-binding agreements, inefficient markets, and so forth) (1994:154-60). Informality thus becomes a way to improve efficiency in a situation where formal institutions are lacking.

Gabriel Ascencio Franco, in his 1992 study of the Michoacan meat industry, found that the producers' disorganization and lack of information (due mainly to technical and climatic conditions) has led to the emergence of the role of "*comisionista*" intermediaries; the development of highly personalized commercial relations which make use of existing social ties; and a set of informal trade institutions such as barter, the provision of credit, and illegal tips. Franco argues that, rather than being vestiges of "traditionalism", such strategies are economically rational and play a role in the reproduction of capital. Essentially, producers in the meat industry have developed a set of institutions which make economic sense given the conditions under which they work -- even though this results in a situation of oligopoly and seemingly excessive intermediarism. Similarly Mintz (1961) described the *pratik* relationships of Haitian market-women, where long-term trading relationships and exchanges of favors are informal institutions lowering risk for both buyers and sellers.

In Bolivia, the Buechlers (1992) have studied adaptations among primarily small-scale producers (carpenters, dressmakers, etc.) who live in an unstable political and economic environment in the city of La Paz. They found these producers to be highly skilled at adapting to conditions of economic and political uncertainty, and adopting strategies to lower transaction costs and risk. Among small-scale producers, a recurring theme was the use of kin ties and other social networks -- essentially, informal institutions -- in exercising a trade, echoing similar findings by Franco, Berry, North, Acheson and others. Also, as in Berry's Nigerian and Babb's Peruvian cases, the Bolivian producers diversified their activities and acquired a variety of skills, as a rational response to economic uncertainty (1992:296). Finally, producers found ways to compensate for the faulty economic structure, lack of accessibility of banking institutions and high inflation by investing in storable staples and excess equipment to be used in the future (147), a strategy also described by Bossen (1981:297) for Guatemala.

De Soto (1989) found that the illegal, unregistered nature of much of Lima's "informal economy" is a rational response to excessive government regulation; in essence, his book supports the point that, when formal institutions do not serve people's needs, people may invent informal, substitute structures. De Soto shows how informal business people, in addition to avoiding various official regulations and procedures, establish and operate a wide variety of organizations to protect and promote their interests. Such organizations include self-defense organizations to protect vendors' property, and promotional organizations for market building (1989:69-75). The use of informal institutions may be inefficient, in the sense of having high transaction costs, but they attempt to be as efficient as possible within a highly constraining environment.

Janet MacGaffey has examined the reasons underlying the existence of a "second" or informal economy of illegal, unregistered businesses in Zaire. Her attitude toward informality is similar to de Soto's; she argues that Zairian entrepreneurs have formulated their own set of adaptive strategies to bypass a formal institutional structure in the control of powerful and corrupt politicians (1987:22). Rather than remaining oppressed by this structure, producers have developed an alternative organization of production, distribution and infrastructure through "non-capitalist relations" (196) -- for instance, kin and ethnic ties, used to form networks of mutual assistance for solving transportation and other difficulties.

The result of these innovations may be improvement, but conditions can still be a long way from optimal. Acheson, for instance, states that the small firms which characterize the Mexican furniture industry he studied are "relatively unprofitable" despite the institutions they have evolved to manage high transaction costs (1994:158). While MacGaffey emphasizes the relative efficiency and dynamism of informal firms where the state apparatus is ineffective and exploitative, she does not consider how much efficiency may be lost as a result of the costs of informality. Most authors, however, point out the high costs of creating informal institutions, and expect that *an alteration in formal institutions* is necessary if firms are to move from survival to efficiency.

De Soto gives a detailed analysis of the costs of informality and calls for government legal reforms to lower such transaction costs for producers and allow them to be as efficient as they have potential to be (1989, chapter 5). Lauren Benton, in her study of the informal component of the Spanish electronics and shoe industries, notes that local-level alliances alone were incapable of transcending national institutional and political obstacles to the "informals'" development (1990:163). She goes farther than de Soto, arguing that the government itself should provide regional- and sectoral-focused institutional supports for small and informal industry (1990:163, 181). Elinor Ostrom also identifies the importance of formal-sector political regimes and legal frameworks in providing a supportive environment for the development of efficient local-level institutions (1991:191).

Berry's discussion, as well, indicates some of the transaction costs of informal institutions, such as high opportunity costs for managers expected to cultivate clients personally (1985:153). In doing so, she appears to suggest that informal institutions are far from the ideal solution, and points out that the roots of inefficiency lie in problems such as uncertain property rights and untrustworthiness of other people in business relationships (192). The Buechlers also seem to echo de Soto when they caution that for Bolivian-style "flexible specialization" to be practicable into the future, financial institutions and government must reform to put fewer obstacles, such as policies restricting the flow of raw materials, in the path of small-scale producers (1992:283).

This thesis finds informality to be a key characteristic of Sucre's economy; not in the sense of "unregistered businesses"[12], but in the prevalence of informal relationships and practices in production, accounting, and marketing. Businesses in Sucre suffer from certain institutional deficiencies -- principally, difficulties in enforcing contracts, and a lack of institutions to provide information about markets, available labor, and sources of inputs. Social institutions of irresponsibility and lateness are also a serious problem.[13] Yet property rights are reasonably secure, markets function, banking and micro-credit institutions (though imperfect) exist, and regular transport to other cities is available.

In Sucre, the informal production, marketing and accounting styles described below (Section Two) are primarily a result of businesses' small size. Smallness implies limited resources (for formally hiring labor, formally doing publicity and so forth) and a limited need for formalization. In Sucre, problems with the institutional setting may encourage smallness (and hence, informal ways of doing things), but so do other factors, such as the size of available markets, the timing of businesses in entering them, and the need to transport inputs from other zones.

Because this study considers businesses of various sizes, and does not accept that smaller, poorer businesses are of a different species than their better-off counterparts, the term "micro-enterprise" is avoided. The use of this term implies acceptance of a cut-off point (usually defined as five employees, or sometimes a designated level of capital) separating micro-enterprises from "small" "medium" and "large" businesses (with equally arbitrary cut-off points). This thesis speaks of "businesses" (in general); of "household-based" businesses (whose ownership is in the hands of one or more household members, but which does not cross household boundaries); and of "small" or "very-small" businesses (non-technical terms used simply to emphasize that these businesses tend to have much less capital and fewer employees than businesses in more "industrialized" parts of the world).

Other businesses are referred to simply as "larger"; they are not particularly "large" by international standards, but they are when compared to other local businesses; "larger" businesses include the Sureña beer factory, with about 5 million US dollars in fixed capital, and the Taboada Chocolate factory, with around a million. Fancesa, the cement factory, is the largest factory in the city, with around 250 workers and 14 million dollars in capital. Most of the "larger" factories have between 40 and 180 workers. Business sizes are identified in the course of the presentation, but it is preferable that the reader view them along a continuum rather than representatives of certain arbitrarily defined groups.

**5. Theories of Cooperation**

Many producers around the world use cooperative organizations to cut their transaction costs. They may create organizations for the collective buying of inputs, or the marketing of goods. They may even join together to collectively produce a good, as with the cooperative sugar factories in India described by Attwood (1992) and the cacao-growers' cooperative chocolate factory described by Healy (1988). Producers may cooperate in order to accomplish their purpose with fewer transactions costs, better information, higher capitalization, and hence greater efficiency than if they were attempting to do so as independent individuals. According to Coase (1937) in his classic "Theory of the Firm", the firm (or cooperative organization) provides a way to do this by enabling the individual to avoid the costs of making many individual contracts with other individuals with whom he or she must deal.

The practical impact of Coase's point, in the case of a local organization, is that the "in-house" activities (say a cacao-growers' co-op that vertically integrates a chocolate factory into the co-op's operations[14]) allow individual members to deal with a single organization which they know and, generally, trust. This may be preferable to the uncertainties of "going it alone" in the marketplace, where the individual is much more likely to be uncertain about the trustworthiness and intentions of those with whom he or she must form contracts. This is especially true where intermediary buyers and sellers are known for taking advantage of peasants or other poor or rural dwellers who lack information about and access to marketplaces. Also, a co-op may offer an assured market in the long term, lowering risk. Finally, Coase points out that the firm can help cut marketing costs or open up new markets.

Add to this advantage the "power in numbers" -- a group of people acting together can make a significant impact on public policy or market behaviour -- and it becomes clearer why many people see advantages in the formation of organizations for collective action. Yet such organizations are often not found in situations where they would be useful. The literature on cooperation and institutional change has explored theories of why people do or do not choose to cooperate in given situations, and the conditions under which cooperative organizations may develop.

Robert Putnam (1993), for instance, develops North's (1990:96-100) concept of historical path dependence to explain why, in Southern Italy, it can be rational for people to refuse to cooperate, even when cooperation would prove socially and economically beneficial to all parties involved. In a situation where there is little flow of communication or information about the trustworthiness of others, cooperation is too risky and difficult to coordinate, and non-cooperation becomes self-reinforcing over time (Putnam 1993:chapter 6). This is similar to the situation Geertz (1963) identified among bazaar peddlers in Java, in which individuals were economically rational yet too distrustful of one another to join together into any sort of long-term cooperative action. At the same time, other groups such as the Chinese (whose large-scale economic success in his Javanese town Geertz mentions but fails to analyse) seem adept at overcoming distrust among entrepreneurs and forming associations (see Oxfeld 1993), perhaps due to culturally important organizations (such as surname groups) which facilitate the flow of information and lower the risks of cooperation.

Douglass North (1990) identifies the important role of institutions (the "rules" which structure human interactions and exchange) in determining opportunities in a society (North 1990:1,7). One consequence of a lack of effective institutions is that risks and transaction costs are high. Yet if cooperative organizations are to be formed, it is necessary to lower risk and costs to cooperation. Information -- especially information about the motives of others -- is required. How then to bridge the gap and obtain sufficient information about the motives of others so that one feels secure in cooperating with them? How, essentially, can one reach a level of "trust" and "sense of community" which Bates (1988, cited in Ostrom 1991:43) and Ostrom (1991), as well as Putnam (1993:167-171), consider to be mechanisms for solving the problem of supplying new institutions?

Putnam points out that one way to lower organization costs is by being able to access reputational information about other people and suggests that social links, especially networks of civic engagement, can provide this (1993:174). People who know one another in a variety of contexts where power relations are equal ("horizontal networks") are likely to build trust, communicate information more effectively, and provide effective sanctions against untrustworthy individuals (by excluding them from these networks). Thus, common membership in such seemingly unrelated activities as soccer clubs and choral societies could build what Putnam calls "social capital", stimulating the formation of producers' organizations and lead to the evolution of more effective institutions for production and trade (1993:173-176).

The importance of social, civic networks appears in MacGaffey's work as well, as she shows how business people in Zaire network with one another through social organizations such as Lions and Lioness Clubs (1987:208). She also notes in passing the relevance of pre-existing organizational ties as she compares two women's producer's organizations, one of which was successful, while the other, due to the lack of pre-existing organizational ties, became bogged down in socio-economic differences (180-182)-- lending support to Putnam's thesis that horizontal ties of civic organizations allow people to overcome barriers to collective action. In Geertz's classic Balinese case, on the other hand, *vertical* social ties with upper-class "princes" provide the building blocks for firm organization and other kinds of collective action, though these demonstrate inefficiency (Geertz 1963:99*ff*).

One way producers can achieve cooperation is through calling up a shared historical/cultural identity, and emphasizing this ideological "common interest" to build trust among individuals. This is simply a variation upon Michael Taylor's statement that a sense of community and shared common beliefs or norms are conditions through which cooperation can be maintained (1982, 1987, quoted in North 1990:14). Existing at the ideological level, if not actually in fact, such shared identities can be summoned to help reduce the perceived risk of organizing. Salisbury, for instance, described how a nascent cocoa cooperative in New Guinea used the language of local identity to convince farmers to bring their beans to the cooperative, despite low initial payments (1970:256). And Attwood partially attributes cooperation between large and small sugar cane growers in Western India to a sense of common purpose among farmers (as compared with urban dwellers) and the common caste identity (Maratha) of the majority, which helps to temper the effect of class differences (1992:270-271).

How does one approach the problem of designing an institution such as a producer's cooperative? Elinor Ostrom suggests that the design principles observed in indigenous settings may provide the key to institution building in other contexts (1993:209). She argues that effective institutions are created through a careful structuring of incentives that motivate people to keep costs down (108-111), and while the specific incentives required vary from situation to situation, the underlying organizational principles are transferable from group to group (191).

Cooperative organization does have its costs, and Netting (1993) states that people will pay the costs of cooperative organization only when it becomes profitable and the risks of doing nothing become too high (1993:184). Attwood gives the example of how technical requirements have provided a compelling economic reason for large farmers and small farmers in Western India to cooperate in sugar production (1992:270-274). Acheson, also, points out how the force of circumstances -- in this case, extremely high transaction costs for doing business -- has compelled Mexican furniture producers to organize themselves, creating associations to help with marketing and credit access (1994:158-159). Organization may be risky, but at a certain critical point, *not* organizing is riskier.

This thesis describes a case in which some cooperative organizing has been attempted among producers but without much success. Among the goals of organizations have been: to cut out supply intermediaries by bulk purchases of raw materials; to develop new markets; to lower the costs of obtaining information on markets, equipment and so forth; and to exercise joint influence to obtain credit, tax reductions, and other benefits from governments and NGOs. The thesis considers why attempts to organize and meet these goals have usually failed, referring to concepts such as free riding, monitoring and sanctions which Ostrom uses in her work, as well as the role of trust. Suspicion, irresponsibility, and difficulties in meeting deadlines have proven detrimental to the establishment and functioning of organizations for collective action among Sucre producers. On the other hand, horizontal ties of civic organization, as Putnam suggests, along with the gradual acquisition of experience in organizing and defining common goals, may help overcome some of these problems.

**6. Researching Sucre Producers**

As mentioned above, my goal in undertaking this research is to describe small and very-small businesses in Sucre -- how they work, who owns them, where they come from, and how they change over time -- and, in doing so, to consider their potential to contribute to the economic "development" (increased production, income, etc.) of a poor region. A key question is: why are there so many very-small businesses in Sucre (as opposed to fewer, but larger ones)? Are very-small businesses capable of growth (that is, expanding production and markets)? If growth is their goal, what are the obstacles which prevent or retard this? While some factors affecting growth are particular to individual businesses (such as entrepreneurial ability); others are more generalized and can be identified by an analysis which considers the economic, social, and cultural environments in which businesses must work. The point of such analysis is to identify what changes -- particularly institutional changes -- could help Sucre entrepreneurs meet their goals.

Because the universe of "businesses" is large, and research time was limited, I chose to focus my study on producers. Merchants, who buy and re-sell goods but do not produce them, and service-providers (restaurants, hairdressers, car mechanics, etc.) are also important actors in Sucre's economy; they are referred to, but are not central to this analysis. Among producers, I chose two kinds of businesses for in-depth analysis: chocolate production and carpentry. Carpentry, because it is a large sector (earlier estimates suggested at least 150 carpentry establishments in Sucre; I identified over 200), which has a strong local and regional market (particularly for construction materials), and has been identified as an area with good growth potential.[15] Chocolate, because it is a product for which Sucre already has a reputation in the national market, and its small size and weight relative to price make it a good potential export to other regions. These products differ in interesting ways: chocolate is an inexpensive luxury good with high turnover; carpentry products are more expensive, but utilitarian[16] goods which take longer to produce and represent a much greater investment on the part of the consumer.

The data presented here come from field research carried out from August 1, 1996 to May 30, 1997 in the city of Sucre, and from earlier research in Sucre (August-October 1994). In 1994, I made initial contacts, did some preliminary interviewing, and interned with the micro-credit organization Idepro. In 1996, I renewed contact with Idepro and cultivated contacts with various other local NGOs and grassroots producers' organizations. Much of the data presented here come from three samples: the "micro-credit sample", a random sample of 50 businesses which were Idepro clients in 1994; the "carpentry sample," a 20% sample of carpentry businesses drawn from the client lists of all micro-credit organizations in the city, and the "Upper Barrio Japón sample", a 20% sample of households in a marginal neighborhood on the outskirts of town. I also interviewed all former and present Sucre chocolate producers who could be identified and contacted.

1. The *micro-credit sample* includes not only producers but also merchants and service workers. The business people described here have at some time been clients of one of Sucre's largest and best-known micro-credit organizations, Idepro. The original sample consisted of fifty businesses, randomly selected in 1994 from the population of 874 Idepro clients. This study involves data from a two-year period: the 1994 data, which I collected from Idepro files during my initial visit to Sucre, and the 1996 data, from visits and open-ended interviews with the forty two business owners who were still in business in 1996. In these interviews I requested both general business and household data as well as specifics about the business owner's experience with micro-credit.

2. The *carpentry sample* was a random 20% sample of carpentry businesses drawn from the lists of all the micro-credit organizations in the city (who kindly shared with me names and addresses of clients or ex-clients who were carpenters). This method was chosen, despite its bias toward credit users, because it was the least biased way of obtaining a sample of small carpentry businesses. There is no central artisans' organization or government agency which registers artisans. (INBOPIA, which formerly did so, is no longer functioning in Sucre and its files have been lost.) The tax office only lists those carpenters which pay taxes, and officials admit their list is woefully inadequate. The carpenters' guild has a very small participation (28-30 members) and so was not appropriate for sampling purposes, and the problem was similar with the other artisans' associations. Because of the many kinds of micro-credit organizations that exist, however, I was comfortable that representation here would not be limited to a single type of shop.

My sample of 29 carpentry businesses (drawn randomly from N=149 total micro-credit clients[17]) included small workshops of varying sizes, all over town. Randomly assigned numbers from 1-241 come from an original master-list of 241 carpenters, based on a local informant's list (containing some duplicates and large shops) plus additional shops which I found. Because my informant's list was clearly not exhaustive, and I suspected that it contained a strong network bias, I elected to choose my sample based solely on the population of microcredit users. I kept the numbering from the original master list, however, which is why some of the carpentry numbers in the sample are larger than 149.

While I was initially concerned that those carpentry shops soliciting micro-credit would be larger than average, most tended to be slightly *smaller* than those in the carpenters' guild (a few guild members also took out credit). Conversations with carpenters suggested that the kinds of shops in my sample are typical for Sucre; there are a few which are larger, and a few which are smaller, but these are not common. Beginning in February 1997, I visited the workshops of selected carpenters and spoke with the owners in open-ended interviews. I did additional interviews outside the sample, including two of the largest carpentry enterprises in the city and a large lumberyard/carpentry shop.

3. Data from the *Barrio Japón study* are referred to briefly in this thesis; this was essentially a neighborhood household survey, asking about family composition and economic activities, carried out with the help of a neighborhood resident. Most of the data from this survey are not included here, but the survey was useful in providing background information and context for some of the conclusions I draw.

4. For chocolate producers, numbers were too small to make drawing a sample useful. Instead, I used the network of informants, colleagues and friends I had developed in Sucre in 1994 and 1996 to obtain information about chocolate producers both present and past. While I do not claim that my list of chocolate producers is exhaustive, it does include all well-known producers, as well as lesser- or little-known ones. I conducted interviews with all former or present chocolate producers I could locate -- or, in some cases, with their children, grandchildren, or other descendants. This allowed me to reconstruct the history of chocolate production in Sucre. In the case of currently operating factories, visits to the actual production area were usually not possible (because of the producers' secretly guarded recipes). I was, however, able to arrange to see the production areas of one large chocolate factory, one small semi-mechanized factory, and one very small chocolate business.

5. Finally, as part of the research on carpenters, I spent a short time working as an apprentice in a small carpentry shop. I also made frequent visits to two chocolate producers, whom I occasionally helped with production activities. In my relationship with producers and other business people, I presented myself as a student writing a thesis; in my work with the microcredit sample of Idepro users, I generally identified myself as a student who "worked with" Idepro -- but not an employee -- or that Idepro was "helping me" with my research. (My actual position was that of unofficial intern/researcher and friend of the staff.) I was careful to stress that I was not a credit assessor or other official Idepro employee, and that the information the informant gave me would not jeopardize his or her credit situation. In the report I prepared for Idepro, all clients were referred to anonymously. In this thesis I also maintain the anonymity of informants, referring to them by initials[18] and numbers except in the section dealing with chocolate industry history, where family names (generally well known) are identified in the interests of historical accuracy.

It is interesting to note that the people of Sucre, though possessing a reputation for being "closed", were, with few exceptions, very open and helpful with me. I was told that this had a lot to do with my being a foreigner, and that I would not have found people so open with their information had I been a *Sucrense* myself. In any case, this research is the result of hours upon hours of time contributed by many kind and patient business people, most of whom had never seen me before I came knocking on their door one day asking for an interview. It is also the fruit of many wonderful conversations, visits, re-visits and friendships. Much of the data are qualitative -- this is the space where Sucrenses talk about their businesses: about development, about their business histories, about their needs and their dreams. Balancing this are quantitative data: past and present production levels, earnings, and so forth for individual businesses, along with each sector's background, current and potential market. I hope this thesis succeeds in bringing a little of Sucre to the "North", and clarifying, for those interested in "microenterprise development" and such themes, where these businesses' priorities lie and what challenges they face.

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[1]Bolivia's GNP per capita was only around $800 US in 1992 (probably lower, due to census problems), placing Bolivia ahead of only Haiti and Guyana in this hemisphere.

[2]Cámara de Industria y Comercio de Chuquisaca, 1995:1,23 (Data are from 1992). According to principal poverty indicators, 77% of families in the department have "unmet basic necessities" (quoted in ALA 1997:6).

[3]The national court is still located in Sucre, but La Paz, seat of the president and legislature, is the recognized national capital.

[4]Hurtado, n.d. (1993?):17.

[5]Peasants, people from the countryside; "*campesinos*" is the name they chose for themselves at the time of the 1952 Revolution to replace the term *indio*. Once someone has moved to the city, changed clothing styles, and learned Spanish well, the ethnic identification is only noticeable when a person chooses to make it known. Thus, *campesinos* who came to the city as children may, if they choose, be indistinguishable from *mestizos* who have been there for generations.

[6]Those selling on the street, as opposed to in official markets, tend nearly always to be *campesinos*. Not only temporary or recent migrants but also *campesinos* with long-term city backgrounds may sell in this way when lacking access to market posts.

[7]Cámara de Industria y Comercio de Chuquisaca, 1995:17-19, 24. Data from 1992, Chuquisaca department.

[8]Ibid. pp. 5, 11, 24; data from 1992.

[9]Numbering in the text identifies specific cases: chocolate factories (#s 1-5), smaller-scale chocolate businesses (#s 6-15), sampled 1996 micro-credit clients (#s 1-42), sampled carpenters (29), and larger Carpentry Enterprises (#s 1-3). Cases are referred to in tables in the corresponding chapters: Chocolate in Chapter 1, Carpentry in Chapter 2, and Micro-Credit Clients in Chapter 8.

[10]Cámara de Industria y Comercio de Chuquisaca, Chuquisaca department, 1995:15. Data from 1992, in 1990 bolivianos.

[11] A study commissioned by the local Chamber of Industry and Commerce compares the manufacturing sector's importance in Sucre and nationally, relative to population. Export potential is calculated by comparing the size of the local manufacturing sector (versus the national manufacturing sector) to the local consumer population (versus the national consumer population). Sucre manufacturing is found to have a coefficient of only 0.55 (where coefficients greater than 1 would indicate the capacity to "export" goods to other regions). Sta. Cruz had a coefficient of 1.7; Cochabamba, 1.07, and La Paz, .94 (Cámara de Industria y Comercio de Chuquisaca, 1995, pp. 11-15, 26). While this approach has the disadvantage of lumping all "manufacturing" activities together, it confirms the observation that Sucre's manufactures are still principally for a local market, while the *eje* cities are more prepared to export.

[12]As the Buechlers point out, registered and unregistered businesses can be very similar -- and in Sucre, they often are.

[13]See Conclusions. Taxes can also be obstacles to business growth, though they are a necessary evil.

[14]See the case of a Bolivian cacao-growers' co-op, Healy 1988.

[15]Facet BV/ALA 1996, p. 52; also Swedecorp 1993, which points out the growth potential of the carpentry sector in Bolivia as a whole.

[16]As well, of course, as some high-cost luxury goods like hand-carved colonial-style furniture.

[17]See Chapter 8 for a discussion of micro-credit organizations. Microcredit clients must, by regulation, be independent businesspeople, not employees; thus, we are speaking of carpenters who have (or had) independent businesses, usually a workshop of their own.

[18]I use "Don" and "Doña", polite titles in Spanish address, which indicate male and female informants respectively.

## Section 1: Production in Sucre

This thesis approaches "development" in Sucre through the eyes of the city's manufacturing (goods-producing) enterprises. The goal is to identify why very-small businesses predominate in Sucre, by examining how enterprises are structured internally (Section 2) and how they interact with each other, and with support organizations (Section 3). Along the way, we will consider the histories of many producers, in order to identify patterns in business success and failure, and long-term individual and household strategies. Finally, we will consider the current situations and concerns of various Sucre producers, which will give us clues as to why businesses in Sucre grow or fail, evolve or stagnate, and serve or fail to serve the needs and interests of the entrepreneurs who create them. Of particular interest is the very-small-scale entrepreneur -- the individual, often poor, who starts small with the hope of creating a viable enterprise.

Research focused on two important goods-producing sectors of the Sucre economy, chocolate and carpentry. Chocolate-making is a "traditional Sucre industry" (though it actually dates back less than 100 years), and chocolate is one of the few Sucre products regularly exported to other parts of Bolivia. Carpentry is one of Sucre's largest sectors, and enjoys a strong demand for its goods from within the city and surrounding region. Section One describes both chocolate (Chapter 1) and carpentry (Chapter 2) sectors in detail, and gives an overview of other kinds of goods-producing enterprises in Sucre.

## Chapter 1: Chocolate, A Sucre Trademark

### 1. Chocolate Production in Sucre

When Bolivians think of Sucre, they think of chocolate -- particularly, the round creme bonbons which are the city's best-known product. Chocolate production in Sucre has, until relatively recently, been limited to two sorts: the production of "*chocolate en barra*" (also called "*chocolate de cocina*"), rough-textured bars for melting in hot milk to drink, and "*bombones,*" bonbons with a variety of centres, mostly flavoured cremes. Bonbon production, though it has been around for only slightly over 90 years, is considered "traditional in Sucre".

Since about the 1940s, the city's largest chocolate factory (Factory #1) has also produced bar chocolate (*chocolate en tableta*), chocolate-covered peanuts (*grajeas de maní*), and molded chocolates (with molds originally from Germany).

Small molded chocolates on sticks are currently quite popular with children. *Grajeas* (chocolate-covered puffed rice, puffed wheat, raisins, orange peel and so forth) are another popular product; grajeas made with puffed cereals are relatively new, and are currently the most popular due to their low price. Chocolate Factory #2 claims to have been the first to make them, about two years ago; now, nearly all the factories make grajeas with puffed cereal -- a testimonial to the speed of imitation in Sucre. The newest factory has also introduced a flavored bite-size chocolate.

Bar chocolates, molded chocolates, and grajeas are usually produced only by industrial or semi-industrial factories, not by the small-scale "*casero*" (homemade) chocolate producers. Drinking chocolate (*chocolate en barra*) and bonbons, on the other hand, may be produced by either very mechanized or non-mechanized means, by big factories and very small producers. Bonbon production is manual, except in the manufacture of the chocolate, which requires at least a minimal amount of machinery (unless the chocolate is made from commercial powdered cocoa[1]). Drinking-chocolate manufacture may, on the other hand, be completely manual; while some producers use machines, there are still drinking-chocolate manufacturers in Sucre who use no motorized equipment whatsoever.

Chocolate producers in Sucre can be divided into two broad categories: factories, and "*casero*" (small-scale, homemade) producers. Sucre has five well known, "name" chocolate producers; these offer similar ranges of products, with some important differences as to price and quality. None of these is really large; they range in size from Factory #2 with about US$40,000 in machinery and a paid workforce of between four and fifteen, to Factory #1 with about $750,000 in machinery and a permanent paid workforce of 40. Even in the factories, at least 50% of production, and often more, is done by hand; bonbon-making is an almost completely artisanal process.

I spoke with owners or co-owners of all five of these factories. Production varied from something over 1500 kilos/month (Factory #3) to around 5500 kilos/month (Factory #1); Factory #2, despite its small size, estimates a production of around 400 pounds of chocolate a day, which would come out to around 4500 kilos per month; probably this is an over-estimate, since production is not steady. In this factory, as is typical in other cases, production depends upon sales and orders, and varies daily.

In addition to the five well-known factories, there are chocolate businesses which are too mechanized to be considered "*casero*", and yet are not widely known. I was able to locate three of these in Sucre: two were factories which only functioned occasionally (due to other demands on their owners' time), and one was just starting up. These three factories (#6, #7, and #8 in Table 1) were all unregistered, hidden shops. They seldom if ever hired labor from outside the household; however, investments in machinery were sizable (ranging from $10,000 to as much as $50,000).

Finally, there are the household-based or "casero" producers, which tend to be small, low-capital, and which hire a maximum of two or three workers from outside the household. Their products are limited to drinking chocolate and, in two cases, bonbons. I was only able to locate seven casero businesses which were still functioning in Sucre. Four of these operated only occasionally, and the owner of one of them said she was going to stop producing chocolate altogether. Two of the casero businesses were registered; the others were not, though two others were attached to a registered neighborhood shop, and one to a restaurant. I was able to get data on all seven of these of these businesses.

I also spoke with owners or family members of three former *casero* chocolate businesses which had closed, and I heard of three other cases of ex-producers whom it was not possible to contact. *Casero* producers were located in all parts of the city -- from an outlying barrio to a block from the central plaza. The main chocolate factories were all in the city proper, also scattered among different zones.

The chocolate sector is not especially large, but since the beginning of this century chocolate has been an important Sucre product: it is one of the few products the region exports to other parts of the country, and one which has attracted a wide variety of producers to try their hand at it. This chapter describes the processes of chocolate production in Sucre, then moves on to consider the history of the city's chocolate production, in order to understand how individual chocolate businesses, and the industry as a whole, have fared over the long term. Both past and present businesses are profiled to identify their origins, structure (ownership, labor, capital) and development over time. Finally, the chapter concludes with an overview of the sector's current situation and growth potential.

**Table 1: Chocolate Producers and Their Main Products**

| | Drinking chocolate | Bonbons | Chocolate in bars/shapes | Grajeas |
|---|---|---|---|---|
| Factory #1 | X | X | X | X |
| Factory #2 | X | X | X | X |
| Factory #3 | X | X | X | X |
| Factory #4 | X | X | X | X |
| Factory #5 | | X | X | |
| #6 Don M. | X | X | X | X |
| #7 Don N. | | X | | |
| #8 Don O. | X | X | X | X |
| #9 Doña I. | X | X | | |
| #10 Doña X. | | X | | |
| #11 Doña D. | X | | | |
| #12 Doña M. | X | | | |
| #13 Don F. | X | | | |
| #14 Doña G. | X | | | |
| #15 Doña S. | X | | | |

## 2. Chocolate Processes

All chocolate production begins with the cocoa bean (*cacao*); this does not grow in Sucre, but is brought from the Beni or Alto Beni regions of Bolivia. Most chocolate producers buy from intermediaries, while others may travel to buy at producers' fairs. Cacao comes in two varieties; the native or *criolla* version, which is smaller but richer in oils, and is harvested only once a year; and the hybrid version, which is bigger but not as rich in oils; both are produced nationally, both can be bought in Bolivia, and they may be mixed.

For any of the varieties of chocolate produced in Sucre, the process begins with toasting the cacao. This can be as simple as toasting the beans in a clay pot or pan over the fire (some *casero* producers still toast in this way), or as complex as a large industrial roasting machine. Most producers use a cylindrical metal toaster which can be rotated, by hand or by motor, over a heat source (generally a gas burner). Toasting time varies depending on the beans used; it requires a knowledgeable person to control it:

"(With toasting) You have to know, you have to have experience, to know when it's done, when it smells right... The time it takes varies, depending on the kind of bean, the size of the bean." (Don M., chocolate producer #6)

Grinding Cacao on a Batán

Millstones for Grinding Cacao

"The hardest part was toasting the cacao," recalls Doña E., co-owner of the former Baldiviesa chocolate business (profiled below). Toasting was not entrusted to a laborer; "We did that ourselves."

After toasting, the cacao husks must be removed. Don M. explained: "When the bean is toasted, the skins swell up, and they come off easily." Formerly, the technology could be as simple as using a rock to remove husks, then the beans may be shaken in a pan and thrown in the air so that husks will be separated by wind. A *trituradora* (mill) performs the crushing action previously done rustically with a rock; different versions of the *trituradora* exist, from a simple apparatus to a more complex piece of machinery.

*Grinding* was formerly done by hand on a heated *batán* (flat stone for grinding): "The fire under it heats the bean and makes it soft," Doña E. explained. Grinding in this way was a very time consuming process, however, and could take several days. Alternatively, grinding could be done on an apparatus made with two round grindstones which were turned by hand (see photo); larger factories had animal-powered grinding apparatus. Now, most everyone who makes chocolate possesses at least a motorized cereal grinder which can be used to grind the cocoa beans; larger factories have more advanced chocolate-making equipment which includes grinding among its functions. There are, however, three small producers in Sucre who continue to hire people to do grinding by hand on a stone.

Once the cacao is ground, it can be made into the coarse *chocolate en barra* (drinking chocolate), or it can be made into a finer, eating-quality chocolate. The process of making drinking-chocolate requires heating the ground cacao with sugar, vanilla and salt, mixing it well, flavoring it, kneading it, cutting it, rolling it, cooling it and packaging it (nearly always in plain cellophane paper). Mixing takes place on a *batán* which is heated from beneath by a fire; nowadays typically a gas burner. The *chocolatero* (hired worker who does the labor-intensive batán work) uses a large, smooth stone to grind the sugar and the cacao together in the batán. This is a time-consuming process, requiring about 5 hours for a batch of 30 pounds It is also physically demanding, both in terms of back strain from being hunched over the batán, and blisters from handling the stone. A more modern mixing method involves use of machinery -- particularly, a *refinadora* (refiner). The *refinadora* may be a simple adaptation, such as a bread machine, where the mixture is fed by hand through rollers (using a simple board or plastic scoop to push it) over and over until it is well mixed. The larger factories use imported machinery intended specifically for chocolate production, which combine conching[2] and refining functions.

Rolling out the bars of drinking chocolate (*chocolate en barra*) is still sometimes done by hand, in the very small, artisanal shops as well as in factories; one woman recalls the process: "Once the mixture (chocolate, sugar and vanilla) had cooled a little, we rolled it into balls, then we had to roll it out again long and place them, one next to another." Some customers still prefer this to molded drinking chocolate, as it has the appearance of artisanal production -- and the low-tech *casero* producers have a good reputation for not skimming the cocoa butter out of their drinking chocolate. Molded drinking chocolate is made in simple metal molds divided into bars; even very small producers may use molds. Packaging can be as simple as folding a large sheet of cellophane, slitting it along the sides to make small rectangles, and wrapping each package (always either 8 bars, or 16) with a touch of glue to hold the cellophane in place. Alternately, in larger factories, packaging can be done by machine.

Chocolate for eating differs from drinking chocolate in that the former is much smoother, contains a more finely ground sugar, and requires additional cocoa butter (partially replaced with shortening in low-quality production) and milk. Most *casero* producers do not make eating-quality chocolate. There is one exception; Doña I. (#9) makes bonbons -- though not bar chocolates, molded chocolates or grajeas. All of the chocolate factories, as well as the three mechanized "hidden shops" (#6, #7, and #8), produce chocolate for eating: bonbons, molded chocolates, and/or others. Chocolate producer Don N. (#7) makes only bonbons; his special, German recipe is markedly different from the traditional Sucre bonbon whose production process is profiled here.

*Bonbon* production is a three-day process which begins with the preparation of the centers. Bonbons are a special product, made only in Sucre, not in any other Bolivian city. Nor do similar bonbons arrive from any of the surrounding countries which also produce chocolates. One chocolate maker explains:

"People wonder, why make chocolate in Sucre? It's that the climate here is perfect for the production of bonbons, for the centers. In Argentina and Brazil they make bonbons, but not like ours." (Don M., #6)

Bonbons have very sweet, soft, flavored centers, made with boiled sugar and covered with chocolate -- the exact recipe of each business's bonbon is, of course, a secret which belongs to the producer and his or her household. The centres are mixed by hand -- generally on tables with spatulas, even in the factories. Then the centres are rolled into balls and left to set. On the second day, the chocolate is prepared. After mixing (with sugar, powdered milk, and cocoa butter) and refining, the chocolate is melted with cocoa butter (adding vanilla) to make the liquid coating. The centres are coated by hand. Chocolate-making is the only part of bonbon production which is not manual -- even bonbon wrapping must necessarily be done by hand, because the available machines squash the delicate candies. Bonbon centers, by what one producer calls an "interesting chemical phenomenon" become very soft (almost liquid) once they are covered in chocolate; the ideal bonbon has a very smooth-textured center that stretches lightly when bitten into.

*Grajeas* are made with a large, round rotating vat, preferably of copper (these vats are not generally made in Bolivia, though one producer had a non-copper one made to his specifications). The most common grajea centres are puffed cereals, which can be bought in bulk; these are put in the vat and liquid chocolate is added little by little as the vat rotates. It is necessary to mix the cereals until they are all uniformly covered with chocolate; ideally, the coating should be shiny. Sufficient cocoa butter in the chocolate mixture helps it to cover better, while a gelatin gum, available in pharmacies, makes the chocolate shinier and more able to resist heat. The small casero businesses do not make grajeas for sale because the machine is costly; as casero chocolate producer Doña I. comments:

"For grajeas...it's very expensive. The machine costs $4000 dollars, and it's just a small machine. So we've had to stay with producing just (drinking) chocolate and bonbons."

Chocolate can be molded into *bars* or *shapes*, but molds are not readily available in Sucre. Some chocolate factories have been able to import these; one of the larger ones, early on, mentioned having ordered them directly from Germany. A Peace Corps volunteer once brought some from North America for a few of the smaller chocolate factories. Small *casero* producers and new factories do not, however, have easy access to molds; they may be able to obtain a few, but selection is limited. The chocolate used in molds is the same basic preparation, though thicker, than the chocolate used to coat grajeas and bonbons; cocoa or cereal crumbs may be added for thickening. A vibrating table is preferred, though not necessary, for molded-chocolate production; it is possible to shake the trays individually to settle the chocolate, but the vibrating table makes the chocolates come out more even and shiny. Molds are usually filled by hand and put in a refrigerator to harden. Small molded chocolates on sticks (known as "*palitos*") are popular with children, as they are sold inexpensively, for as little as 10 centavos (about 2 U.S. cents) each.

### 3. A History of Chocolate Production in Sucre -- The Early Factories

Drinking chocolate production has a long history in Sucre, dating back as far as the colonial period (1559-1825). An economic history of the Chuquisaca region (Querejazu 1977) identifies the occupation of "*chocolatero*" as one of the main occupations of the colonial period. Considering that Sucre is not a center of cacao production, the location of drinking-chocolate manufacture here might seem odd -- until one takes into account Sucre's proximity to the mining center of Potosí.

Drinking-chocolate producers of this century frequently cited Potosí and surrounding mining regions as important markets for their product; it is likely that this relationship also held true in earlier periods, when Potosí was an even more vibrant population centre. High-altitude mining regions are cold, and hot chocolate drinks are popular; Sucre (where mine owners often built their own homes) is the nearest major population center to Potosí (see map in introductory section). It is likely that small producers in Sucre were making drinking chocolate in Sucre during the colonial period in order to supply the Potosí market; while it is possible to reconstruct the likely conditions of this production by observing the rustic technology and informal labor relationships of later periods, no data were available on colonial chocolate producers.

The production of eating-quality chocolates in Sucre apparently originated at the beginning of this century with the founding of the Urioste Chocolate Factory (1900-c.1940) and soon thereafter the Briançon Chocolate Factory (1902-1989); if earlier chocolate production existed, no data is available on it. Practically nothing has been written about chocolate production in Sucre, either historical or present-day; thus the data in this section are based on interviews with former chocolate makers and their descendants, as well as the memories of long-time Sucre residents, and in one case, factory archives. These data allow us to consider this industry's development over a period of nearly a hundred years.

**Fábrica de Chocolates Rodríguez (in Aranjuéz)**

The Rodriguez Hermanos (Rodríguez Brothers), wealthy hacienda owners from a mine-owning family, began Sucre's first chocolate factory. This factory produced only drinking chocolate, in two varieties: vanilla flavored and cinnamon flavored. The factory functioned from the 1890s to the 1940s. The Rodríguez Hermanos produced not only chocolate but also liquor and cigars at various times; they also had a retail shop that survived into the 1950s. Originally from Spain, the family kept close ties with Europe, as the extensive correspondence with European bankers and merchants recorded in their factory and household archives suggests. The factory was located a short distance from the family's house on their property, Hacienda Aranjuéz, just outside of Sucre.

I was able to speak with the granddaughter of José Rodríguez, Doña R., a middle-aged woman who still lives in Sucre, but is no longer involved in chocolate production. Of the brothers, her grandfather Don José was, she said, "the one most in charge" of the family business. Doña R. kindly lent me the family's archives, from which I was able to piece together something of the history of this factory.

The Rodríguez factory was mechanized, with steam-operated machinery: a rotating stone ground the cacao. In 1917, their machinery broke down, paralysing chocolate production; it was necessary to send broken parts to Chile for repairs. The number of paid employees varied monthly, usually between 2 and 8; the owners would also have been able to make use of unpaid labor from their hacienda. At the turn of the century, salaries varied from 1 bs./day for a "chocolatero" to 70-100/bs month for their highest paid employee[3]; most earned 10-20 bs/month. (At the time, chocolate sales were around 450 bs/month.)

"They said that the chocolates they made were delicious," Doña R. remembers. "They sent them everywhere, even to France." Though I could find no record in the family archives of export to France, Rodríguez chocolate had markets all over Bolivia, especially in the mining centers. Major clients were located in Potosí, Uyuni, Oruro, and Challapata. The factory bought raw material from intermediary merchants; interestingly, some of the cacao merchants were women, even around the turn of the century.

Sales rose from around 450 bs./month in late 1893 to an average of 873 bs./month in 1901, though part of this was probably due to inflation -- the price of cacao rose from 12 bs/ arroba to around 20 bs/ arroba in the same time period. Sales also varied a lot depending on the time of year: in December 1901, the factory sold over 2300 bs. worth of chocolate (compared to around 1100 bs. in November); similar jumps elsewhere also reflect high and low periods of chocolate sales.[4] In 1907, chocolate was sold at 72 bs. per hundred packets; by the end of 1920, due to the increase in the cost of raw materials, it sold for 90 bs per 100 packets (at 310 grams/packet). Extrapolating from the data, we can estimate a production of around 500 kilos/month (with considerable variation) in the early years of this century.

By 1941, the family was running a retail shop and continued producing chocolate. But production soon dropped off, from a monthly chocolate income of around 1000 bs./month in 1941, to only around 150 bs. per month in 1943, as the family focused on liquor and other merchandise sales, and the original owners aged. Their children had a large agricultural property elsewhere and chose to dedicate themselves to this, rather than chocolate. There is no more mention of chocolate production in the family archives after December 1943; the factory was shut down before Doña R. was born.[5] The family continued to sell liquor and other merchandise into the 1950s, until the 1954 Revolution led to the loss of much of the family's land, including the chocolate factory building (which was not used for production thereafter).

**Fábrica de Chocolates Urioste**

The first recorded production of bonbons in Sucre began in the year 1900 with the founding of the Fábrica de Bombones Urioste. This factory "produced very fine creme bonbons, which enjoyed wide acceptance in the market, as well as fantasy figures (possibly molded chocolate) fruit preserves, and caramel candies." (Querejazu 1977:65) I was able to speak with a great-granddaughter of the woman who initiated the production of chocolate bonbons in Sucre:

"A Sr. Reynolds, an immigrant from Ireland...went to the mines...to a village in Potosí. The owners of that village were a Spanish family, de M-- ...Sr. Reynolds married the Señorita de M--... Their daughter was Eulelia Reynolds, my great-grandmother....

"She was always experimenting with different kinds of *almibares* (fillings made of cooked-sugar mixtures).... Every day she was experimenting, trying things out.... There are a lot of stories that tell about her...for example, she would say to José (her son), 'You have to put in this, and after that, this, and you do it like this....'

And she would come out of the kitchen with a plate, and have all the children try, saying, 'What do you think?'... She had a lot of recipes."

While Eulelia Reynolds invented the recipes that were to make Urioste chocolates famous, it was her son José who actually took charge of the commercial production of chocolates. The factory, however, did not outlive him. He had a son and a daughter, but like the Rodríguez children, these did not continue with the factory:

"His only son died when he was twenty. The daughter and her husband went to La Paz, they took the old machines with them, but they never produced here again." (Don J., co-owner, Chocolate Factory #1).

José Reynolds' grand-niece pointed out:

"Sometimes, when there's money, the children don't want to go on doing the same kind of work. (His daughter) was still producing, there (in La Paz), but it wasn't the same.... Probably, she hadn't worked with her father when he was making (the chocolates)."

The daughter of another chocolate maker remembers the Urioste:

"They produced chocolates, more at the family level.... I remember seeing him (the owner), an elderly gentleman, very closed, like people were before, especially in the aristocracy.... They sold their chocolates in wooden boxes, but simple, without paint."

Another woman recalls the Urioste production as "a factory...on Azurduy Street" (downtown, near the central plaza) that "mostly had machinery." The Urioste factory began as manual production, and later hired a local mechanic/designer who offered to build them a cacao-grinding machine. The grandson of this mechanic recalls:

"He went to a chocolate factory that the Urioste had, and since they didn't have any machines, they did everything manually, artisan style. My grandfather said to them that he could make them a machine to replace what they did by hand.... He also made (machines) for other factories...for the Martinics..."

The Urioste must have been of the landowning *hacendado* class, because they had the use of "peon" labor from their property to turn their cacao-mill. A friend of the family who worked with them recalls:

"They had their four workers...plus the peons that came from the property, every week...they didn't pay them because they were from the property.... They rotated the (cacao) mill.... Four would work for one week, and then another four would arrive the next week. They worked like that to pay for the land that they had harvested."

Something of the reputation of Urioste bonbons can be sensed in this great-granddaughter's description of them, many years later:

"They say that there have never again been chocolates like the ones the Urioste made.... They say that it was delicious to bite into one, the chocolate coating very delicate...and the fillings very special...they weren't a bit rough or grainy, they melted in your mouth, and you could store them for a long time...."

Quality, then, was a hallmark of the first bonbon factory in Sucre: born in the kitchen of a culinary expert, made into a profitable business by her son, and gone by the third generation.

**Fábrica de Chocolates Briançon**

A French military man who arrived in Sucre in 1892 as part of a mission to found the Bolivian Military Academy, married a Bolivian woman of Spanish descent and stayed. Because he was from a family that made hand-made chocolates in Paris, and saw that there was cacao in Bolivia, he began to produce chocolate in his free time. The Briançon chocolate factory was founded in 1902, but at first it was only a very rustic production, using *batanes* to grind the cacao bean. I was able to speak with the great-granddaughter of this factory's founder, Doña G., who had herself run the factory for a few years until she sold it at the end of the 1980s. When her great-grandfather produced chocolates:

"There were six workers, that were called *chocolateros*... (My great-grandfather) brought them from his property that he had...about 65 km from Sucre.... He brought the *peones* from the property to do the work." He only made drinking chocolate, and had a shop where people could buy it.

She describes the process of drinking-chocolate production as it was done in those days:

"They toasted in a clay pot, that's the best way to do it, in a clay pot -- the heat is more uniform. The husk, they took off with small blows with a stone.

Afterward...they used wind to get rid of the husks and any other debris...then they had a clean bean, and that's what you grind (in a batán). It was a week-long process. Every day you heated it, you cooled it, this dissipates the ethers, raising and lowering the temperature...it makes a better-quality chocolate.... It takes 5 days just to do the grinding.... The sixth day you make the mix: the cacao liquor -- because the cacao has now become more liquid -- with sugar and vanilla -- and salt...you heat it, and then you grind it again, a little at a time in the batán, and you make it into balls."

Doña G.'s great-grandmother was not involved in chocolate production; "She had nine children, that kept her busy!" Two daughters helped, however, and the factory passed to them in 1934 when the founder died. The factory remained about the same size, being only a part-time activity of Doña G.'s two aunts; they kept the same product and the same number of *batanes*, though they changed the factory's name and expanded their market by taking chocolate to mining centers. Their production level was around 3000 packets/month, 2000 of which were bought by the miners' cooperative COMIBOL. In 1980, Doña G., the great-granddaughter of the founder, took over; she changed the name back to the original and began investing in more modern machinery:

"In 1980 I took over. I worked on improving the workshop. In 1981 I made my artisanal workshop, with a mill (to grind cacao beans), a mixer, a vibrating table, and I started to heat by gas, not by coal....The equipment was Brazilian, but I bought it in Bolivia (with an investment of $7000 dollars).

"Then I traveled to Brazil in 1985. I brought all the equipment: a mill with cylindrical rollers (*molino de rodillos*), a cylindrical toaster, a husk remover, a thermal tank (to conserve the liquid at the proper temperature, with rotation to eliminate gases), another vibrating table and a mixer to make bonbon cremes." (This was a $45,000 dollar investment).

At this point, Doña G. expanded production to include bonbons, and hired vendors to go to local shops and even to country towns to sell the product.

"I worked practically alone.... It was my business.... My husband helped me with the accounting, he's an economist.... My children helped very little, they were very small.... I had 16 workers."

Doña G. produced 800 lbs. per month of drinking-chocolate bars and 400 lbs. a month of creme bonbons; that is, she was producing less drinking chocolate than her aunts had, but she diversified her production to include bonbons, which require considerable labor input. However, she found that the market was difficult for bonbons:

"The (drinking) chocolate was more popular...the *pulperias* (mining company's buying cooperatives) ordered from me...(so) there were more sales, and steady sales.... They were my aunts' clients and so they came looking for me.... Now, I want to just make drinking chocolate, because of this: there are more sales."

Doña G. sold the factory in 1990 due to financial difficulties; it now has a new name and is under new ownership. She has a different business; she says her new business earns more, but she misses chocolate-making and would like to return to it in the next few years.

**Chocolates Martinics**

This factory was established by an entrepreneur who was both a successful merchant and a bank founder. The factory grew rapidly and enjoyed success, but like the Urioste and Rodríguez factories, it did not outlive its founder. The ease with which Martinics apparently made the shift from small-scale manual *casero* production ("in the house") to larger, mechanized "factory" production makes this an interesting case. The 80-year-old daughter of this factory's founder describes the history and development of this factory, as well as her role in it:

"My father founded the factory in 1930, but it was...just in the house, everything by hand.... They used batanes... Afterward, in 1935, he had that building built that's on the corner across from the telephone building, that the Taboada family has now. This used to belong to my father. He brought machines from outside the country, from Germany....

"My father was a merchant, he had his shop in the Plaza Zudañez, he was well known, his name was Rodolfo Martinic. One day, a young man came to see him, who had worked as an employee with the people who made chocolates, and he said that he had a recipe for bonbons. He came to speak with my father -- my father didn't know anything about such things, he was a merchant, but he wanted to do this, so that's how it began.... The young man wanted someone to help him make (chocolates)....

"There was a family, Urioste, that produced chocolates, more at the family level.... Sr. Urioste had a special recipe for creamy bonbons, they were very well known, and he was very jealous of his recipe, he didn't show it to anyone.... This young man had gone to work for him, and learned how to make (bonbons).... That's how he came to my father, and my father became interested. He said, 'All right, we'll try it.'"

At first, the factory had 10 workers, all women, and produced only bonbons.

"I was the only child, and I always helped my father, but not in the factory itself, rather, with the accounting. I kept all the books.... My mother died in 1932...I was the only child. Later, my father remarried...(but the children from that marriage) were still very young.... They're my sisters, but they could be my daughters....

"Everything went well (with the business) and after five years it was possible to have the factory built... They began to make a lot of products, not just bonbons but also small chocolates (*chocolatines*), chocolate bars, marshmallow candies, gummy candies... They made delicious *turrones* (rolled cookie with chocolate and peanuts inside)... They made "fantasy" boxes, they painted them... I made boxes too, painted, very pretty.... They sent (products) all over Bolivia, to La Paz, Cochabamba, Potosí, Sta. Cruz.... (My father) sent samples to other cities...and orders arrived from all over. The chocolates were very well known.... I don't remember quantities... but we sent all over Bolivia."

At that time they had about 40 workers, all women except for two male mechanics.

"He (my father) was always sending off to Europe for catalogs, all kinds of information, he also had ingredients brought from Europe...he was very active with all this... My father did a lot of things, he was always doing something, attracting clients... He also founded the Yugoslav Bank in Chile... He also worked in places where they were building railroads, always with his shop or *pulpería* that they gave to him....

"I always helped him. Then I got married, but just the same I went on helping him. Afterward, he got sick and had to sell the factory (because he could no longer manage it)... He sold it to a Sr. Zamora...(around 1950). He didn't have it long, less than a year, then he sold it to the -- family (current owners of Chocolate Factory #1)... My father didn't want to sell to them. They already had a small chocolate business....

"I didn't work with them (the people who bought the factory).... I went to work somewhere else (for salary)...." She did not consider continuing with the factory herself: "Why? It was just to help my father, and afterward, it wasn't the same..."

A current Sucre chocolate producer tells me that, "There was a time when Martinic bonbons were all the rage in Sucre. At that time, I think they were the only ones in Sucre who made bonbons."

Then, what is now Chocolate Factory #1 came along, as an informal, small-scale business:

"They were making their (the Martinics') factory suffer, nearly bankrupted them."

Although the Urioste and Martinics factories specialized in bonbons, another informant told me that they also made drinking-chocolate bars, which explains why some of the workers who left these factories were able to start up home-based drinking-chocolate productions. Below, we will consider some of the best-known chocolate productions in Sucre that came from the homes of ex-factory workers or their relatives.

**4. Chocolate Production by Ex-workers**

In the Martinic case, an ex-worker in a chocolate factory approached a local merchant with a bonbon recipe and an offer of business. Other people who learned about chocolate production through their jobs at local chocolate factories also decided to start up an independent production. These, however, did not search for potential partners, but began chocolate production on their own at the household level. Drinking-chocolate production fits Smith's (1984) description of a commodity where workers may become entrepreneurs -- entry costs are low, production is very labor intensive, and labor time has a low value. The majority of the current "*casero*" (homemade) chocolate businesses in Sucre can be traced back to a family member who was once a chocolate-factory worker. Here, we continue our survey of the history of chocolate production in Sucre by considering the production histories of ex-factory workers.

**Don Pablo's Descendants**

Don Pablo and his wife once worked in the Rodriguez chocolate factory in Aranjuéz. They later began their own business making drinking chocolate, and their family has now been producing chocolate in Sucre for three generations. The current producers are their grandson Don M. and his wife, Doña I (she was my initial contact, via the organization where she had taken out credit), listed as #9 in Table 1. Though never considered a "factory", this small-scale (*casero*) business has supplied markets in other Bolivian cities, hired as many as five workers, and often provided the sole source of income for its household. And it has done so with a minimum of technology and a very limited range of products.

Don M.'s grandparents began by working out of their home and using only hand equipment. They "took chocolate" (*llevaba chocolate*) to other Bolivian cities, such as Oruro and Potosí, to sell. Don M.'s parents continued with the chocolate business, and this was their principal occupation. They knew how to make bonbons, but they did not make them to sell; rather, they concentrated on production of drinking chocolate. They had about five workers from outside the family.

Don M. and Doña I. currently produce both drinking chocolate and bonbons. He formerly worked for the city telephone cooperative, and she used to be a market vendor. During that time they did not produce chocolate. About six years ago, Don M. had to retire and so he and his wife took up the chocolate production that he had learned from his parents. This coincided with her need to find a different occupation: with young children she no longer felt able to do market vending. Don M. and Doña I. began by producing only drinking chocolate, and later expanded to include bonbons.

Don M. commented that sales are lower now than the days when his parents and grandparents made chocolates, due to the closing of *pulperias* (mining company's buying cooperatives), which were formerly good clients. In general in the drinking-chocolate business, drops in production are associated with the diminishing importance of mines as employers -- the *pulperias* were formerly steady drinking-chocolate consumers (see the profile of Factory #3). Don M. did comment, however, that since he and Doña I. began producing chocolates, they have increased production "a little", from 400 pounds per month of drinking chocolate to, Doña I. reports, a current production of over 700 pounds of drinking chocolate per month, plus around 300-400 kilos of bonbons -- that is, a total monthly production of around 650 kilos.

The couple currently hires three young men to work in chocolate production, and recently another man has begun to help with taking chocolates to market. Both Don M. and Doña I. work in the business: he, primarily in certain stages of the production process, she in packaging and marketing. Though their rolled bar-chocolates are stamped with their family name, other products are unlabeled. They do not have an agency, though Doña I. hopes someday soon to have a shop; currently, they sell to market retailers and their product sometimes reaches other cities through relatives or traveling intermediaries.

Don Pablo's descendants also include two other chocolate-making branches. One of these, Don O. (#8) is a great-grandnephew of Don Pablo, and is now starting his own small factory. He explains his background:

"A relative of my grandmother had worked in a chocolate factory," he explains. "That's how she learned. ...She taught my mother.... I remember always growing up around it, since I was very small, they made chocolate."

Don O's grandmother and her daughter (Don O.'s mother) produced drinking-chocolate bars for sale, which they made by hand on a batán in their home; they hired one man to do the grinding. They also occasionally made bonbons. Customers came to the house, and the women traveled to sell their chocolate. While traveling, they became involved in cacao merchandising, an activity which Don O. continues. His mother is still a cacao merchant, but she now lives in Cochabamba, so her son is in business on his own.

Don O. started out by buying and selling cacao, and occasionally making chocolate "when I couldn't travel." He began producing chocolate on his own about 6 or 7 years ago, because of cash-flow problems with his cacao-merchandizing business:

"The chocolate factories want a lot on credit...I'll give them sometimes two month's credit, that's a lot.... To cover my expenses when I'm here, I started making chocolate.... At first I did everything by hand, I used a batán to grind the cacao.... Then I bought a mill (a motorized cereal mill) about three years ago."

In the past two years he has added two additional machines: an industrial bread machine that performs the mixing function of the refiner, and a locally made, non-copper rotating vat to make grajeas. He also has a small bag-sealing machine.

Don O. now produces a range of products, primarily molded chocolates (with a very limited range of molds) and grajeas, but also bonbons and drinking-chocolate bars. As a factory, he is "just starting out", and his production is hidden and unregistered. He produces about 500 pounds of chocolate per month (227 kilos), using various improvisations and a minimum of machinery (he does not have a vibrating table, for instance, and must buy or trade for cocoa butter as he does not have a machine to extract it), in a very small shop space. His chocolate has a brand name, but the labels are rustic, hand-stamped with an inkpad and cut out by hand.

Don O.'s grandmother taught chocolate-making not only to Don O's mother, but also to a daughter-in-law. This daughter-in-law, Doña R., later began an independent drinking-chocolate business, and she taught her second husband so that he could help her. This business had a brand name that was widely recognized in Sucre and Cochabamba, and the product was known for its quality, yet the business never arrived at the point of having employees, or more machinery than a simple cereal mill. It closed five years ago upon the husband's death, when there was no labor to replace him and little capital with which to continue production.

We see here that skills in chocolate-making pass down through families, but there appears to be no set pattern; men may teach women, women may teach men, and in-laws as well as blood relatives may be taught. Most interestingly, teaching is not confined to the household, but may include family members from outside the household; even recently, one of the chocolate producers mentioned above has taken on a young nephew as a helper; another said she has taught various younger members of her family, even though they don't currently produce. Yet, the "teaching" we see here most commonly refers to the relatively simple process of making drinking-chocolate bars. Even when it includes bonbon-making, this appears to be a very basic bonbon -- there were no references to "secret recipes" being passed down in such a way.

**Doña D. and Doña M.**

Two elderly sisters, each with her own chocolate-making business (#11 and #12 in Table 1), learned the skill of chocolate-making from their grandparents, who worked in the Urioste chocolate factory. Doña D. is the best known drinking-chocolate producer in the city; known most generally by her location, "on Tarapacá Street" downtown, where she has a small shop front. One informant referred to this as "a very old business." Doña D. sells her own hand-rolled drinking-chocolate bars along with bonbons and molded chocolates made by Chocolate Factories #2 and #4. She only makes drinking chocolate and produces only occasionally, making about 60 one-pound packets (27 kilos) of chocolate per month.

The second sister, Doña M., lives in a neighborhood farther from the center of town; she produces less frequently than her sister and is on the point of quitting altogether. Doña M. has a neighborhood grocery shop (*tienda de barrio*), where she sells her chocolates and other goods, but this is located in a quiet neighborhood. As a result, her shop sales are low, and she has had to rely heavily on sales to other retailers. She finds she no longer has the time or the physical strength to be involved in chocolate production:

"I've stopped making chocolate, ever since my eyes have been bad. When you make it, you have to shake (the beans)...to separate the husk from the beans.... Up there (at the factory) they have a big fan that does that, but we did it by hand, and it irritated my eyes.... Before, my daughters helped me, but they're older now, now they've left and there's no one to help me...and I have my grandchildren, they don't give me any time."

She and her husband recently made a batch of 25 packages (25 pounds) of drinking chocolate for Holy Week, but sales were bad because of the rain. She doesn't think she'll make any more: "Why make more, if it doesn't sell?"

Both of these sisters make only drinking-chocolate; they both hire young men from the countryside to grind the cacao by hand, on a batán.[6] Chocolate production in these businesses is completely manual. In addition to drinking chocolate, Doña M. used to make bonbons (with commercial powdered chocolate) but now she no longer does so. "Bonbons take a long time...Just one person, you can't do it." Her drinking chocolate bars are not as well known as her sister's, but are unusual in that she rolls them in coconut.

The grandparents and parents of these sisters also made drinking chocolate bars to sell, working out of their homes; Doña D. describes her grandparents' business as "a large workshop, with 4 or 5 batanes.". The parents made bonbons, as well. Chocolate making, Doña M. explained, was "from my parents. You grow up around it, that's what you know." Yet chocolate alone is not profitable enough; she has started a neighborhood store "to be a help, economically... Drinking-chocolate bars aren't a basic food item. You don't drink (chocolate) every day, you drink tea, coffee... This, you only drink at birthdays, or at Christmas...on special occasions." Doña D. also commented that her chocolate earning are low; she is thankful that she still makes enough money "to eat."

Another branch of this family also made chocolates in the past: the aunt of Doña D. and Doña M. (who must have learned from her parents) made chocolates, as did her daughter. The aunt made chocolates "for a long time" and took them to shops to sell, but she died fifteen years ago. The aunt's daughter continued with the chocolate production until two years afterward, then stopped, primarily for lack of capital. She is now in poor health and recently went to stay with her son and his family in Cochabamba. Her daughter, with whom I spoke, does not know how to make chocolate. Chocolate production seems unlikely to continue in Doña D. or Doña M.'s families either, as none of their children is interested. Nevertheless, Doña M.'s children know how, which means they could always fall back on this activity later, as Don M. (#9) did.

**Yurac Yurac Production**

To this point the chapter has described workers who came from the older generation of chocolate factories, yet workers from today's factories may also begin their own chocolate businesses. I found two examples of this: chocolate business #13, located in the outlying barrio of Yurac Yurac and owned by Don F. and his wife Doña E.; and Factory #2, discussed in Part 6 below.

Chocolate business #13 is primarily Don F.'s business; he makes the chocolate, though his wife helps with the marketing. Don F. and Doña E. are from a Quechua background; he came to the city from a rural community as a child, while she was brought up in the outlying barrio of Villa Margarita. Don F. formerly worked at the Briançon chocolate factory, and before that, at Chocolate Factory #1, for a total of 5 years as a chocolate-factory worker. When the Briançon factory was sold, he did not return to work there. He has now been making chocolate on his own for about 5 years. "But I don't do it continually, I don't do it every day, I do other things," he said. "Sometime, I go to Argentina to work." The last time, he and his wife went together, with their children, and worked as strawberry pickers.

Before beginning the chocolate business, Don F. and his wife produced and sold potato chips and popcorn. They also brought cars from the city of Cochabamba to sell in Sucre, but they are not doing that now because their capital was stolen. Currently, their only business is chocolate. Don F. makes only drinking-chocolate bars, and travels to other Bolivian cities to sell them; his wife sometimes goes with him to help with selling.

Don F. began production with a stone cacao grinder he made himself; he recently bought a grinding machine second-hand. He still mixes the chocolate on a batán. He knows how to make other products, such as bonbons, but in order to make the eating-quality chocolate: "You need machines," especially a refiner, with cylinders, to mix the cacao and the sugar. He has a small hand-toaster, but peels the cacao by hand, shaking it in a tray with holes punched in it, to separate grain from husk. He hires no workers, but does the entire process himself. He makes about 250 pounds (114 kilos) of chocolate per month.

Reviewing the list of chocolate businesses begun by ex-chocolate-factory workers, we find that the tendency has been either for modest growth (such as with Don M. and Doña I.); stagnation, often with dropping profit margins (as was the case with Doña M. and Doña D), or closing down. Most chocolate-making businesses which were begun by former hired factory workers never grew large; I only saw two cases where such businesses eventually grew big enough (in a later generation) to have any equipment beyond the basic cacao mill and toaster.[7]

In most cases, these ex-workers simply do not have the capital to expand; they did not have much money to begin with, or else they would not have been working in a chocolate factory, and once they left the chocolate factory, they usually did not have any other income source to help infuse capital into their business. (Doña M.'s husband had a job, but the main problem here was that sales were too low.) Chocolate business #9 (Don M. and Doña I.) seems to be doing well, and it is possible to argue that this may be partly because of an availability of savings from the owners' previous jobs and/or Don M.'s retirement income. On the other hand, businesses with good timing, such as Chocolate Factory #2, which enter the market when profit margins are high,[8] can capitalize themselves fast enough that they need not rely on other income.

When chocolate producers do not have significant other income, as is the case for many of these small businesses, chocolate production must support the household alone. Thus, if a business begins at a small scale, it can be hard for it to get far enough ahead to make substantial investments and expand. An example is the case of Doña R., the woman whose well-known drinking-chocolate production closed five years ago on the death of her husband. Here, profit margins were good (50%), but chocolate production was the only household income -- and the household had eight children. Thus, there was apparently little or no accumulation of capital. Once this household lost the chief member of its labor force, it was no longer able to continue production.

While most people who work in chocolate factories as hired laborers never begin to produce chocolate on their own, due to lack of capital, we have seen that some do so. The possibility of producing drinking chocolate with very simple technology, and a small number of inputs, make this possible. A bag of cacao, sugar, vanilla, and a batán for grinding would be sufficient investment for someone truly determined to begin drinking-chocolate production.

Realistically, however, a cacao toaster (at least a handmade one) and especially, a mill to grind the cacao, would be necessary investments; modern-day factory workers are not experienced at toasting their cacao in a clay bowl, nor are they inclined to take on the arduous task of hand-grinding cacao on a batán. Many would probably not consider producing chocolate unless they also had some sort of refiner to mix together the chocolate and the sugar, as they are accustomed to working with this equipment and not with the batán. Therefore, although it is possible for workers with limited capital to begin their own chocolate business -- as we have seen with Don F. and Doña E. -- it is understandable why more chocolate-factory workers do not take this route.

**5. Other Small-Scale (*Casero*) Chocolate Production**

Not all small-scale chocolate production is by ex-workers. People other than ex-chocolate workers and their relatives may choose to take up chocolate production, for a variety of reasons.

**Familia Baldiviesa**

Don Pablo's family has had a small-scale household-centered business which has survived, albeit with interruptions, over three generations as a primary source of income for the household. The Baldiviesa case provides a contrast; here, we see the same product produced with similar technology, but this business was short-lived and only a supplementary activity for the household. The Baldiviesas made drinking-chocolate bars, working principally by hand with a grinder for the cacao beans (actually, this was the same grinder which they later sold to Don M. and Doña I).

The Baldiviesas made and sold drinking chocolate from 1945-1950. They never expanded into bonbon production. The founder of the business was a well known carpenter/furniture maker and carver. His daughter, Doña E., explains what prompted this successful artisan to begin a new business:

"My father was interested in industry. He wanted each of us (children) to have a business, to work for ourselves. He didn't want us to ever have to go out and look for a job working for someone else.... So we had the coffee-toasting business, the chocolates, and the peanut toaster, and now the bakery, I've kept that."

"There were books that told them how to do it...the process isn't difficult," Doña E. explained. Laborers were available who had worked in other chocolate businesses. This business was begun for Doña E.'s older sister; she was the owner, though Doña E. and her father also helped. They had one employee, a "*peón*" who did the grinding. Doña E. does not remember how much they produced; probably only about a hundred pounds per month. They only sold in Sucre, to people who came to the house. When they began the peanut-toasting business, they found they could earn well with this; thus, "we became tired" of chocolate production and "dedicated ourselves more to toasting peanuts." Chocolate production was a very short lived business which never grew significantly; as Doña E. put it, "We really didn't dedicate ourselves much to this."

**Doña G.**

Doña G's shop (#14 in Table 1), demonstrates another, long-standing pattern of chocolate production. Doña G. has a typical neighborhood grocery shop, selling bread, soda pop, canned goods and so forth out of a small storefront less than half a block from the Central Plaza. She is a 60-year-old woman with two grown sons who study in the university. Her parents and grandparents before her owned this shop, and, like her, sold drinking chocolate along with their other products.

While she provides the cacao, sugar, and vanilla and hires the labor to make drinking chocolate, Doña G. draws a distinction between her role and that of a "chocolate producer"; she is, first and foremost, a merchant with a shop. She sells chocolate, but emphasizes that she does not physically participate in the chocolate-production process: "I don't make the chocolate, there's a man that comes...." Nor did her parents or grandparents consider themselves chocolate producers. "They didn't do it themselves, they had it made (*hacían hacer*)." These shopkeepers see chocolate-making as simply an extension of their merchant activity; the idea is to have the raw materials transformed to the point where they can be sold in the shop.

Doña G. still has a worker (*chocolatero*) who comes to make drinking-chocolate bars, but in small quantities: a 25-pound batch three times a year. Her parents and grandparents, however, produced weekly -- a 25-pound batch every week. The work also went more quickly then, because they had more workers; the work could be done in two days instead of four. A lack of labor is one reason Doña G. produces less. Another reason may be that, as other producers have pointed out, there is more competition now in the drinking-chocolate market. The perceived pressure of competition may also reflect the reduced market for chocolate, due to the closing of *pulperias*.

**Chocolate-Confection Makers: Doña S. and Doña X.**

Doña S. (#15 in Table 1) makes a wide variety of chocolate products -- but not for sale. With the exception of occasional sale of drinking-chocolate bars, her production is entirely for home use and to give as gifts. Nor is she, in a strict sense of the word, truly a chocolate producer. She begins her process, not with the cacao bean, but with blocks of prepared ground cacao -- liquor de cacao. She also buys cocoa butter for use in her chocolate confections. Chocolate making is, for her, a hobby; her business is a lunch restaurant and bakery. She makes a quality product, but knows she could not sell it at the price she would have to charge to make a profit. Her great-grandmother formerly produced chocolate-covered marzipan for sale; Doña S. has considered beginning a business making these, but she does not have the time, nor does she have the marble countertop she would need to keep the dough cool.

Doña X. (#10) is another producer who makes "chocolates" without actually processing the cacao bean; she makes homemade bonbons (in her kitchen) using powdered commercial cocoa as the base for the chocolate coating. She then sells these to women who have sweets stands outside of local schools, as an activity to make extra money while she is studying nursing at the university. There may well be other people who produce bonbons like this; however, this was the only case I discovered. Doña X's finished products, wrapped like the factory versions in twists of stiff cellophane, appear quite similar to factory bonbons; however, the labor intensity and low profits of this activity would not appeal to many potential producers.

**The Occasional Factories: #6 and #7**

Two chocolate producers, Don M. (#6) and Don N. (#7) have well-equipped semi-industrial factories which function only occasionally. The reason for the sporadic production is that the owners have other well-paying economic activities[9] and so do not have time to dedicate to chocolate production. They will occasionally produce chocolate for producers' fairs or special orders, but generally have more demand than they have time to fill. Neither Don M. nor Don N. employ workers from outside the household. These factories were begun when the households' other economic activities were less time-consuming. In one case, Don

N. and his wife had a bonbon recipe they wanted to try to market; in the other, Don M. knew how to make chocolate machines and so gradually invested resources in producing a set. In both cases, both husband and wife are now too busy to take charge of production, and the machinery is retained as an investment, with the hopes of passing the businesses on to their children.

### 6. Chocolate Factories Today

None of the early chocolate factories have survived into the present. Nevertheless, there is a sense that tradition has been handed down: one informant's account, though not particularly accurate, captures the spirit of the "passing down" of chocolate production:

"(The Rodríguez brothers) sold the factory to the Uriostes, my mother always said...and the Uriostes sold it to what is now (Chocolate Factory #1)."

The oldest of the existing chocolate factories was officially founded in 1948 -- although the owners had produced chocolate out of their home on a small scale, unregistered basis for five or six years before that. This factory inherited the bonbon-making tradition -- and possibly, the recipe -- of the Uriostes, along with the physical factory-space of the Martinics. This business is unusual among the existing chocolate businesses in that it was founded, and still owned by, two brothers.[10] The brothers had been friends of the Urioste family, and had helped in the Uriostes' factory.

### Chocolate Factory #1

Chocolate Factory #1 is a good example of a small-scale, household-based activity which evolved to become an independent, formal, industrialized business. It began as a "third patio" business -- that is, production was located in a house, on a patio where animals were previously kept. This was after the Uriostes had moved to La Paz. The brothers had their own machines made in Sucre: "The most important ones, we had made: a mill, a 3-cylinder refiner, a mixing machine...and also a toaster, this was a very simple (hand-rotated) apparatus." These machines, with the exception of the toaster, were motorized. At that time, the business produced only bonbons, around 80 (1-pound) packets a day, with three paid workers, "due to the inconvenience (lack) of space and having machinery of only local construction." This can be contrasted to the production levels of the Urioste, who had people- or animal-powered machines, and made only around 20 (1-pound) packets of bonbons per day.

Both of the brothers had other jobs or businesses (one had a gasoline transport business and the other worked in a bank); they later gave these up as the factory became more successful. The brothers were from two separate households; they thus divided the factory 50-50 by household, giving the wives who "helped" a small share. The son of one of the owners comments:

"My mother and my aunt came to help, to wrap and to keep an eye on the employees, to see that they were working well... Each woman had 2% of the factory, and her husband 48%...it's divided 50-50 by family."

Two other brothers from this family had attempted to enter as partners, but this didn't work out:

"At some point, the other two brothers had entered.... They collaborated and even managed to own 5% of the factory, but they had other things to do, and they left it."

It is unclear how the two brothers who stayed managed to make this inter-household partnership work, but it may have been because the older brother was busy with other activities and found it convenient to leave the factory under the management of the younger brother, who thus gained a certain autonomy:

"He (the elder brother) wasn't around much, he was always traveling.... He was involved in other things," particularly politics.

The brothers' first major marketing move was to exhibit their product in the 1948 International Fair in La Paz. Their next step was to move to a larger space -- though this was still a "house", and expand their production to include new chocolate products, while continuing to produce about the same amount of bonbons. At this point, they had five workers. From there, the factory which had formerly been Martinics became available for sale, and they bought it. They expanded and arrived at the point where they had over 60 workers -- 58 women and 4 men on the factory floor, and two people who worked in administration. At that point, the factory ran into trouble:

"There were problems, there was inflation.... A law came out that said a worker could leave and you had to give him three months pay.... This was under the Villarroel government[11].... Well, for the people who worked here, three months pay was quite a bit of money. We had 58 employees at that time.... Well, of the 58, 38 left! It was a big drain on us.... But we installed new machines, we went on."

Economic swings, as well as such government policies, have made Chocolate Factory #1's growth difficult. The son of one of the co-owners explains:

"Little by little we've been acquiring new machinery. This always depends upon the crises; in Bolivia there are periods of bonanza and periods of crisis. In the bonanza times, we have bought machinery... The last machine, for production, we bought in 1984, or 1986.... For wrapping, we bought 5 years ago, in 1992...it cost $120,000 dollars.... For us, it's a monster, but we planned to diversify our products a lot. Unfortunately, the state of the economy hasn't permitted us to do it....
"There were periods of inflation when it was very difficult, the factory almost disappeared.... My father took a little from here, put it there...plugging the holes, so to speak...until things got better, and he was able to put it back.... The tendency is always to get better, to grow as much as you can, but everything depending on the economy of the country...and hoping that people's preferences don't change."

Despite the struggles, Chocolate Factory #1 is now an industrial-style factory which produces a variety of 50-60 different products, marketed throughout the country. Currently, the factory is producing around 2000 kilos of bonbons/month, and around 3500 additional kilos/month of other products, which include a variety of chocolate products, as well as gummy candies and powdered sugar. The owners have put two old cocoa mills (German make), a mixer, and a refiner (of the sort that is usually used for breadmaking) into storage, and their newer machinery for chocolate making is almost completely mechanized, with automatic feeding of beans from the toasting machine to the cooling tank, to the de-husking machine, to a machine that does multiple grinding, refining and conching functions. The factory also has a cocoa butter press, which separates the cacao into cocoa butter and cocoa cakes which are ground to make powdered cocoa. There is also an industrial packaging machine which makes and seals bags. The total value of the factory's machinery is around $750,000. Yet the making and dipping of bonbon centers is still done by hand, following the traditional methods of Sucre bonbon production, and bonbons must still be individually hand-wrapped.

This is still a family-run factory, owned by the two brothers, who are now elderly; the younger brother still comes to the factory frequently; the older brother also comes, but "he is tired.... He comes maybe an hour or two a day, then he goes." One son of each co-owner has entered in a salaried position: one as the manager, and one as chief of production. The factory has its own agencies (shops) in several Bolivian cities, and is the leader in the production of traditional Sucre bonbons.

"Of all the factories," said the chief of production, "the only one that could be considered competition is (# 5), and they make a different kind of chocolate, for another kind of client...shall we say, another sort of palate -- it's more European. We, on the other hand, we make chocolate that's pure, natural, no preservatives, acids...just chocolate, sugar, milk.... We try to maintain this purity."

**Chocolate Factory #2**

Chocolate Factory #2 is the only chocolate factory founded by a worker previously employed in another chocolate factory. This woman, Doña C., is a native of Sucre; she previously worked in Chocolate Factory #1. She began her own bonbon-making business about 30 years ago, using no mechanized equipment, only a batán. She hired a man to do the grinding on the batán, and worked out of a single room. She sold to local shops and sales posts. At the time, only she and Chocolate Factory #1 were producing bonbons, though there were other people who produced drinking chocolate. Doña C.'s husband was also a former employee of Chocolate Factory #1; he apparently helped in the business, though the idea and the impetus came from Doña C. This chocolate business has always been the household's main income.

Through the urging and support of their children and friends, this small-scale bonbon-making business developed into what the son-in-law considers "a real business" about twenty years ago, when they "went on the market" with their own brand name and packaging. At this point, the fledgling factory had a cacao mill and a refiner, both bought in Sucre. The factory used earnings to buy a larger refiner and a cacao toaster, and expanded production to include drinking-chocolate bars. They were also producing about four times the quantity of chocolate as initially, and took on between two and four employees to do packaging.

For the past five years, this has been a nearly complete, semi-industrial factory, with a powdered-sugar grinder (*pulvarizadora*), and a *grajea* machine; the family bought these two machines and raw material with a bank loan five or six years ago. I was given a production estimate of about four hundred pounds (181 kilos) of chocolate per day; a rough estimate, as production varies depending on the orders that come in. Employees vary from 12-15 people in the period of high sales (cold weather) to 4-5 in the period of low sales. Currently, this factory has about $40,000 invested in machinery. "We haven't invested a lot in machines, mostly we've been involved in construction on the building." Much up-to-date machinery is out of the family's price range; for instance, an industrial mixer they priced in Brazil cost $48,000. This factory, like all the factories in the city, has its own agencies which retail the chocolates. Production is located in a section of the family's home.

This factory was the second of the existing chocolate factories to be established in Sucre. It was able to compete with the much larger Factory #1 because it charged a lower price, and because of its small size:

"So if (Factory #1) goes to one shop, and they say they're buying chocolate from somewhere else, it's not really going to matter to (Factory #1).... They sell in supermarkets...."

Factory #2 has customers in other cities, primarily Cochabamba and La Paz; access to these markets was through friends who originally acted as intermediaries. About 70% of production is sold in Sucre, and 30% to other Bolivian cities.

This factory is an interesting case because it is at the transition point between being an informal household activity and an independent, formal business in its own right. It is the household's only economic activity; the grown daughter who has remained in the household has a university education and has taken on the position of manager, and her husband has joined the household and helps with the factory full-time as well. Despite the factory's success, however, it demonstrates considerable informality; the daughter/manager does not know exactly what quantities are produced each month, for example. Jobs are not rigidly assigned, rather, "we each do a little bit of everything"; and household members do not receive salaries. However, with the help of an accounting student from a local university who is using this business as her thesis project, they are in the process of setting up a system to record quantities produced, calculate the salaries each household member should receive, and otherwise formalize business accounting.

When I asked how it was that this small, unmechanized, one-room business had grown into a semi-industrial factory with a national market, the daughter/manager answered simply that it was "The necessity...to produce, to improve little by little." It was "little by little" (*poco a poco*) that they bought the machines, beginning with a mill to grind the cacao. Even now, production is increasing "little by little." Innovation may have a lot to do with this factory's success; they claim to be "the first" to have produced the popular puffed-cereal grajeas, and the first in Sucre to make chocolates molded in a variety of shapes; now they have brought out new products like chocolate-covered marshmallow sweets *(beso de negro*, of the kind produced in the city of Oruro) and chocolate-coconut bars. Yet as with practically all innovation in Sucre, the grajeas and shaped chocolates were quickly imitated; now all the factories in Sucre make them.

**Chocolate Factory #3**

As with the two factories described above, the founder of Factory #3 also had prior contact with existing chocolate factories. In this case, he was neither an ex-worker nor a family friend; rather, Don A. came from a family of mechanics and inventors which had worked with various factories in the city, particularly the older generation of chocolate factories, such as Urioste and Martinic. Don A.'s father and brothers worked in factories:

"...making parts, adapting, inventing.... And one of the brothers (Don A.), who wasn't himself a mechanic, he's a lawyer, said, 'Here we are making machines for everyone else's factories, why don't we have our own factory?' So he and his brothers made the machines, and he began to produce."

Don A. retired from his job as a legal assessor when the Banzer dictatorship entered in 1971; he began the factory shortly thereafter, focusing on drinking-chocolate production, as he perceived a market opportunity here: "At that time there were few chocolate industries, and those there were, made low-quality products." Don A.'s wife also worked with him from the beginning, and one or more of Don A.'s brothers was apparently involved in production early on. Now, however, ownership of the factory is limited to Don A.'s household: himself, his wife and his children. For the first three years, the factory produced only drinking chocolate, then expanded to include the production of bonbons. Don A. elaborated his own bonbon recipe through experimentation; this is a secret recipe, known only to his household.

The factory began by selling in the local market, but entered the national market through the miner's cooperative COMIBOL, which became a major client for its drinking chocolate. Thus production grew from an initial level of 1800 to over 8000 kilos per month. Now, as a result of COMIBOL's closing, this factory's drinking-chocolate production has decreased to about 1000 kilos/month; current bonbon production is at 240 kilos per month, and the factory also makes about 200 kilos of grajeas, along with a smaller production of fancy molded chocolates, gift baskets and so forth. The factory now has Brazilian machinery valued at about $60,000, and hires around twenty workers. The profit margin for this factory has dropped; it used to be about 30% but now is "minimal"; nevertheless the factory continues to function and, as Don A. puts it, "If the economic situation would improve, it is very possible that we would be able to return to our good times."

**Chocolate Factory #4**

Like Chocolate Factories #2 and #3, Factory #4 is a semi-industrial business. It was begun by Don H., who is the son of the owners of Chocolate Factory #2. While Don H.'s two sisters and his brother-in-law continue to work in their parents' factory, Don H. and his wife Doña D. began a factory on their own -- a factory which charges lower prices and has become an important competitor for Factory #2. The range of products is nearly identical to the parent factory, and the factory has chosen a similar name.

Factory #4 started to produce in the early 90s; at six years old, the owners consider it still "very new." Its technology is very similar to Factory #2, but Factory #4 has more workers: 28, primarily women. Factory #4 has *two* agencies on main streets in Sucre, and the city of Sucre is its principal market. This is perceived as a successful factory; as a worker in the local health board stated:

"(It) has really overwhelmed the market. They have a big variety of products...even Easter eggs... It's made it hard for the little producers."

The owners are, however, dissatisfied with this factory. Doña D is too busy with her children to be involved in chocolate production, but nevertheless considers herself co-owner; she comments that the factory has the potential to grow, but increasing competition from imports in the last two years has hurt sales. She said that she would prefer to have a business that did not involve production. Don H says that he is considering the possibility of closing the factory, now that he has found another, promising economic activity:

"Its time has passed. It's possible that I'll close it.... The good time period for chocolate has passed."

He describes his factory as "Practically an artisanal production. We don't have big machines, it's not a big factory." He claims that production levels have not changed much, that "we maintain ourselves" at the level of a small family business.

**Chocolate Factory #5**

Chocolate Factory #5 is Sucre's newest; it differs from all the cases described above in that it was not founded as a small business, but rather was purchased as a complete factory from the previous owner. The owners do not work directly in the factory, although one acts as general manager, and factory ownership crosses household lines. The principal partner, Don G., is a professional manager educated in the States; he bought the Briançon factory in 1990 as an investment, and to give him the opportunity to exercise his managerial skills on a business of his own. Don G.'s brother is a silent partner; he is part-owner in the factory, but does not participate actively in its management; the third partner, also silent, is a lawyer from outside the family. Don G.'s daughter took an active role in the factory from the beginning, and now manages it; the lawyer's son entered later, and the factory is now owned by a partnership of these five individuals.

The factory has grown in the last seven years. Initially, Don G.'s brother, an electrical engineer, helped make new machines to complement the existing Brazilian ones (the factory had about $50,000 worth at the time they bought it). From there, Don G. imported additional machinery to achieve a more mechanized and, in some stages, automated production. The factory now has more than twenty machines and a current investment of around $300,000. Production has increased tenfold since they began (it is now around 2000 kilos/month), but the factory is only working at 20-30 percent of capacity. Along with innovations of various new products, developed with the assistance of technical aid missions from Canada and Holland,[12] Factory #5 still produces the traditional Sucre bonbon, with its high manual labor input.

The factory currently has about thirty production workers and seven others employed in marketing and administration; initially it had only eight employees. Its market is primarily tourists; sales are through agencies located in airports and the downtown Sucre agency, and the chocolates are also sold in supermarkets in other Bolivian cities. Contacts in other cities were made through personal acquaintances and by sending product samples. This factory has not yet been able to export but has taken steps in this direction by participating in an international exhibition in Paris and, formerly, by contracting to provide chocolates to airline customers.

Although this factory is based on a formal partnership, the influence of the household is still apparent. In the early stages of the business, Don G.'s wife (who has a salaried job elsewhere) helped with the business, as did their son, who later left to take a banking job. The wife of another partner also helped in the beginning, although none of these family members ever became formally involved the business. Don G. has kept his job as manager of another local industry, and so does not have a lot of time to manage the factory; note that his daughter -- rather than someone from outside the household -- takes over in his place.

Factory #5's chocolates compete primarily on the basis of quality, not price; this factory also offers certain products (such as bite-sized, flavoured chocolates, and large chocolate bars with typical Sucre scenes on the wrappers) which are not offered by other Sucre chocolate factories.

"We can't compete in price with the others.... We dedicated ourselves first and foremost to quality, in this the international consultants were useful to us. And we have achieved our objective, I believe we are satisfied, and now what we have to do is expand our market, because we still have productive capacity that is not being used.... We have achieved a high quality that has been accepted in the national market, with sales in practically all parts of the country."

**7. The Sucre Chocolate Industry: Window into Development**

The history of chocolate production in Sucre shows how successful chocolate-making businesses can have a variety of origins, from the back-rooms of ex-workers to the chequebooks and management expertise of wealthy professionals. A few patterns seem to emerge, however. Among the first generation of chocolate factories (Uriostes, Briançon, Martinic) the tendency was for chocolate-factory founders to be entrepreneurs from outside the region; newcomers, rather than old Sucre families, were the ones who started factories. While newcomers were stimulating industry in the region, wealthy Sucre families tended to be living from rents and interests. An editorial in local newspaper in the first decades of this century lamented this situation:

"In Sucre are concentrated the great fortunes of the Republic, in Sucre are found the most powerful capitalists in the country, but these fortunes are sleeping in people's safes or in bank accounts, earning a 2% annual interest, and those wealthy people believe that, because they have guaranteed their livelihood, they have fulfilled their mission in this world. ...(In other cities) men are more active, more entrepreneurial and more ambitious...." ("La República" 21 May, 1908)

Sucre's social environment was not one which encouraged innovation and entrepreneurial activity. Without the influence of newcomers, it is doubtful whether Sucre would have ever developed a chocolate industry.

The existing factories belong to a second generation of chocolate producers; most have some connection with the first generation of factories, but all were begun in the last fifty years. Considering these five factories, as well as the present-day "*casero*" chocolate producers, a couple of interesting patterns emerge. One is that the largest businesses (Factories 1 & 5) tend to have partners from two or more households; that is, the capital, labor and expertise they enjoy come from a wider source than a single household. Another pattern is that people who begin a business on a very small scale are unlikely to see their businesses grow significantly, unless their timing is such that they enter the market when competition is low and demand and profit margins are high.

All together, Sucre chocolate producers are turning out around 15,000 kilos of chocolate per month. The five factories produce the great bulk of this, averaging approximately 3000 kilos each. The largest of the small producers (#9) makes around 650 kilos/month; the others much less (between 25 and 200 kilos/month, and some do not produce regularly). Of some 15,000 kilos monthly production, over half is sold locally in a city of about 165,000 people. Obviously, the market could absorb more chocolate than a consumption of some 50-100 grams/person per month, especially considering that tourists are an important market for chocolates as well. However, locally produced chocolates are not the only ones available to Sucre consumers.

Locally, Sucre chocolates must compete with imports from other Latin American countries -- Chile, Argentina, Brazil. Companies such as Nestle, Hershey, Cadbury and so forth, on the other hand, are not important competitors in the Sucre chocolate market; only one *bombonería* (candy shop) in Sucre carries imported chocolate bars of the sort available in the US, these are quite expensive (around 3 bs.) compared with local products, and few are sold. Conversely, the South American competitors produce low-cost products in attractive wrappings, and unusual varieties like toy-filled eggs:

"They produce very cheaply.... We have our agency. And right next door they are selling this other stuff, chocolates with toys inside.... If it were just the Bolivian companies, we could compete, but we can't compete with the Chileans on price." (Doña D., Factory #4)

The competing products tend to be of lower quality, containing less cocoa butter, but their wrappings give the impression of high quality, and the chocolate is not bad. More advanced machinery than that which is available to Sucre producers mean that the foreign producers can produce more cheaply and in greater quantity.

Other Bolivian chocolate production is only a minor source of competition in the Sucre market, though important for those who consider selling in other cities. Bolivian chocolate producers in other cities do not make the Sucre bonbon, but they use national cacao to produce other chocolate products. La Paz has a couple of large chocolate factories (one of which is an enterprise of the cacao-growers co-op El Ceibo), but very few chocolates from La Paz arrive in the Sucre market. In Cochabamba, there were formerly three chocolate factories, but now there is only one; the others went bankrupt. The surviving factory's products (which include a variety of chocolates, especially *grajeas*) are almost never seen in Sucre, while Sucre chocolates *are* sold in Cochabamba. Thus, though the Cochabamba and La Paz factories are in general more industrialized than their Sucre counterparts, they do not appear to be a significant source of competition for Sucre producers.

The main source of competition from national chocolate is for drinking-chocolate makers; a few small factories produce drinking chocolate, and their product is slightly less expensive than Sucre's; nevertheless, Sucre drinking-chocolate has a high reputation for quality, enabling it to do well, on a small scale, in markets such as Cochabamba which do not have much or any local production. The sweetened powdered-cocoa drinks ("toddy"), produced both in La Paz and in surrounding countries, are likely to be the most significant competition for drinking chocolate in the long term; while the quality is vastly inferior, preparation is simpler, and the price is much lower. "Toddy" is a daily drink, along with coffee and tea; drinking chocolate, melted in milk, continues to be reserved for special occasions.

Macro-level economic indicators show an untapped national market for chocolate; Bolivia imported chocolate products worth $673,000 in 1989, and exported only $27,000 worth.[13] None of Sucre's chocolate makers export; they cannot compete in price, they lack the packaging (and market contacts) to attract a luxury market, and their flagship product, the bonbon, can only be transported with difficulty.[14] Most of Bolivia's exports are intermediate products such as blocks of unrefined chocolate, which producers in La Paz sell to European chocolate-makers. One La Paz factory has managed to achieve a limited export to Europe, making products such as chocolate bars with Andean puffed grains (*amaranto, quinoa*); Chocolate Factory #5 in Sucre has also experimented with similar products, but has not yet achieved an export market.

Sucre chocolate production suffers from a kind of schizophrenia of market; producers want to sell to tourists and consumers in other cities (building upon a reputation for quality), yet those markets cannot completely support them; as a result, they also must produce a product marketable locally, where nearly 70% of the population is low-income.[15] The desire to capture this market can be seen in the way bonbons have moved "onto the street" -- lower quality, cheaper bonbons, often sold individually, to meet customers' demand for chocolate that can be had for a few centavos. In the same way, the 10-centavo *palitos* (chocolates on sticks) came into being, appealing particularly to children. A few years ago, bonbons were a luxury good, sold in only agencies and marketed for the middle and upper classes, and tourists; palitos, puffed-cereal grajeas and other low-cost products did not exist.

The movement "onto the street" has been attributed to an increase in competition among chocolate makers. We see more people trying to make a living from chocolate -- they have observed a market opportunity and taken it. New producers like Don H. (# 4) and Don O. (#8) enter; they offer low prices and make a place for themselves in the existing market, and also expand this market a little in the direction of low-income consumers. However, these producers cut prices without appreciably improving efficiency. In Sucre's small market, prices are being pushed down and profit margins cut to a minimum. Quality suffers too; while low-income consumers are willing to exchange quality for price, their consumption is small, and because of the product's poor quality, it becomes less able to compete in other markets. In the end, the price-slashing strategy is unlikely to generate substantial profits to capitalize the business, and so efficiency cannot be expected to improve. Factory #4, the most successful of the price slashers, may have done a great deal for expanding Sucre chocolate's market to the low-income masses -- but Doña D. says profits are very low, and she and Don H. are considering closing up shop.

Meanwhile, more established chocolate producers, who also rely heavily on local markets (where even middle and even upper-class consumers can be lured away by a cheaper product[16]), have had to begin offering lower-priced goods to compete. They have not, however, lowered the quality of their bonbons, which they sell in their Sucre agencies and in other Bolivian cities. Yet available packaging is not good enough to allow these bonbons to compete successfully in a high quality, luxury market. Sucre bonbon-makers generally must take a quality handmade product and package it in simply printed plastic bags (which are, themselves, expensive), lowering its perceived value relative to more attractive imported chocolates. For molded chocolates, most factories have invested in colored aluminum foils, but these are both expensive and rustic-looking next to the elaborate wrappings on the chocolates which come in from Chile, Argentina and elsewhere. In general, production for a high-price market suffers from the inability to deliver a product which projects a "luxury" image (at a competitive price); meanwhile, production for a middle-to-low-price market is made difficult by the presence of South American competitors with efficient, highly productive machinery that Sucre producers cannot afford.

Sucre producers are currently trying to accommodate both low- and high-priced markets, and neither strategy has been particularly successful. Most of the producers are working *under capacity*; they could produce more. Don O., for instance, says he makes 5 *quintales* of chocolate a month (500 lbs.) in his semi-mechanized shop, but he could do 100:

"It used to be, it was hard to produce, and hard to sell. Now, the difference is...it's easier to produce than to sell. It's easy to produce, but difficult to sell." (Don O., business #8)

The owner of Chocolate Factory #5 says it is working at only 25% capacity. Factory #1 has bought an industrial packaging machine but has found this to be far too big for current production levels; sales are not what owners had hoped. A couple of the small-scale casero producers do seem to be working at capacity, but they are producing manually; others could make more chocolate but couldn't sell it. Competing with imported South American chocolate may require high-productivity, up-to-date machinery, yet Sucre chocolate makers know that such machines are beyond their means. This is the catch-22 of small industry in small markets: they need higher-productivity machines to both dominate and move beyond their small markets, yet within their small markets, they cannot generate enough capital to afford to even contemplate the purchase of such machines.

*Timing* is a vital factor for those who wish to start small and grow. The early Sucre chocolate factories may have had a chance to become like the industrialized Chilean and Argentinean chocolate producers of today -- but the most successful of these factories did not survive into the second generation: children were not interested in continuing their parents' factories. Many preferred to live elsewhere, and were more interested in professions or other non-industrial activities. The new generation of factories had to start over from the beginning, and they had to do so in situations of frequently severe macro-economic instability and unpredictability (e.g., inflation reaching almost 24,000% in the 12 months prior to 1985,[17] the sudden end of trade protectionism in the mid-80s,[18] political instability, and so forth). There were, however, periods of high demand and low competition, when chocolate production could start very small and grow -- witness the examples of Factories #1 and #2. Yet currently in Sucre, this is not the case.

Whereas Chocolate Factory #2 could start tiny and gradually expand while supporting a family on earnings, and Chocolate Factory #1 could begin production on a back patio and end up the city's largest and best-known chocolate factory, competition is now too tight in the chocolate industry to allow this. Factories that started more recently, such as #4 and #5, had to do so with much larger initial investments, in order to "catch up" with their competitors. Factory #5 made an initial investment of around $30,000 (buying an existing factory), #4 estimated that around $50,000, or more, is needed to start a factory in Sucre.[19] Meanwhile, many chocolate producers profiled above reported that over time, profit margins have dropped. For drinking-chocolate producers, this has a lot to do with the loss of mining markets (with their high chocolate consumption) and thus a lower demand for drinking chocolate. For bonbon and other chocolate producers, it is primarily the result of competition from imported chocolates from other South American countries (which have been coming in since the mid-80s, but in even greater quantities in the last three or so years) as well as cheap local production by Factory #4.

Producers who start small in today's market may survive, but they must be willing to accept the level of earnings typified by Don F. (#13) -- around 500 bs. per month. For a family living in an adobe house on the outskirts of town, this is a good income (see Table 5, Chapter 6 for income comparisons) and seems to allow for a small amount of savings. For someone in town, however, it would just be enough to keep the household going, and may not be enough to maintain the business, let alone expand it. New producer Don O. (#8) seems to have taken a middle road; his initial investment[20] in his business was about $10,000 -- small for a factory, but much larger than the perhaps 1000 bs. a *casero* drinking-chocolate producer like Don F. would start with. Anyone trying to start small and build up a strong business now (as Factory #2 did formerly) is unlikely to have much success; low profit margins, combined with a small market, mean it will be difficult or impossible to capitalize.

In conclusion, what are the options for Sucre chocolate makers, and what are their long-term prospects? Innovation is one important route; unusual products such as chocolate bars made with Andean grains have the potential to develop small but lucrative niche markets in the exterior, once marketing contacts are made. Another option, which Sucre producers are currently following, is to concentrate on marketing to tourists. Tourism is a growing sector; in 1996, tourists' expenditure in Bolivia totaled around 160 million dollars, with the number of tourists increasing 7.5% over the previous year (EIU 1997:22). Using packaging which appeals to tourists -- such as decorative wooden boxes, or wrappers printed with scenes of Sucre -- has been a more lucrative route than attempting to imitate the packaging of other South-American competitors.[21]

Yet the tourist market may be at risk, when price-slashing economies (such as lower-quality sugar, less cocoa butter, etc.) lower product quality. Sucrenses know who makes the best bonbons, but visitors do not. When I visited Sucre in 1994, I tried #4's bonbons -- their shop was as large and as colorful as the others, and their product was cheaper. My impression of Sucre bonbons at that time was of a dense-textured, too-sweet confection. Had I gone on to try the bonbons of Factory #1 or #2, I would have had a different opinion of the quality of Sucre bonbons. But how many people -- whether visitors or customers in distant markets -- try twice? Through this century, Sucre's quality bonbons have earned a reputation which reaches far beyond the region (as has Mackinaw Island fudge in Michigan, or salt-water taffy on certain parts of the U.S. eastern seaboard); however, a disappointing product could put this reputation at risk.

While at least three of the five chocolate factories (#1, #2, and #5) seem capable of continuing in the long run, other trends will likely characterize chocolate production in the coming years. One is the part-time or "hobby" production of chocolates. Producers #s 6, 7, and 15, for instance, have other, well paying jobs or businesses. As we will discuss below, the availability of labor is an important problem for businesses such as #6 and #7, which have machinery sitting idle; these producers complain, not of a lack of market, but a lack of time and reliable labor with which to fill the orders they must turn down. On the other hand, Doña S. (#15) sees no particular marketing potential for chocolate; she produces only as a hobby (occasionally selling a little to help cover costs).

Another trend in Sucre which is likely to continue is subsistence chocolate production; that is, production by small producers, willing to work for low returns, who only turn enough profit to support themselves and keep the business going. Most of the *casero* drinking-chocolate producers profiled above fall into this category. Such producers can occasionally accumulate enough capital to buy a machine to facilitate their work (as was the case with Don F., for instance), but production is unlikely to ever grow significantly. And while some subsistence producers (such as Doña M, #12) may find themselves pushed out of easy markets (customers who come to their doors), others who are willing to seek out markets more aggressively (such as Don F., #13) can, by making use of the underpaid labor of themselves and their households, continue to carve out a niche for themselves in the chocolate market. This kind of production will likely continue until the local economy offers such producers better alternative jobs or business opportunities.

The chocolate sector in Sucre highlights some of the important problems which face Sucre producers in their quest to build successful enterprises. "Underdevelopment" of productive efficiency relative to competitors in neighboring countries, small and impoverished local markets, difficulty in obtaining inputs (such as packaging materials) and the elevated prices of these inputs, lack of information about how to access distant markets, and so forth are not problems unique to chocolate production. Many will be echoed in the following chapter on carpenters, and in the brief survey of other producers in Chapter 3. Yet despite their problems, Sucre chocolate producers manage to stay in business and some even demonstrate modest growth. Sucre still has the undisputed reputation for creme-bonbon production in Bolivia, and its producers have managed to drive a major Cochabamba factory out of the bonbon market. Overall, Sucre chocolate businesses have the potential to grow, but this will require innovation and an active seeking-out of markets in order to do so.

[1] "*Liquor de chocolate*", blocks of unsweetened ground cacao, may also be used, but the only person I spoke with who used this (#15) did not produce primarily for sale (she only sold her drinking chocolate, and only to help cover the cost of production for home use); this material is likely too expensive to use in commercial production.

[2]The process of circulating the chocolate to remove bitter flavors.

[3]A certain Constatine Aramayo. The occupation was not identified, but I assume someone in a managerial/quality control capacity.

[4]Drinking chocolate sells best around Christmas, Easter/Holy Week, and Mother's Day.

[5]Doña R. said they "sold" it, but the factory building was already closed down before the 1954 Revolution; either the new ownership was short-lived, or only the machinery was sold.

[6]For Doña M's pre-Holy-Week batch of chocolate, the *chocolatero* did not come, and Doña M.'s husband ended up doing the grinding.

[7]Don O.'s chocolate business #8, and Factory #2.

[8]Formerly, Chocolate Factory #2 had a profit margin of 100%. I refer to *margen de ganancia*, what the business earns relative to costs. A 100% *margen de ganancia* means that a product that costs 100 bs. to make, sells for 200 bs.

[9]Don M. is a dentist, Don N. a supervisor in the petroleum company who also has a business in road-construction materials.

[10]As we will see in Section 2, it is unusual for married brothers to be business partners in Sucre.

[11]But Villarroel was only president until 1946; the informant must be mistaken.

[12]A group of retired individuals who provided the factory with technical assistance in production methods (quality control, use of preservatives, etc.).

[13]Trade Policy Review -- 1993:200.

[14]Product loss due to breakage, melting and spoilage is always an important cost to consider, particularly for delicate bonbons.

[15]From the 1992 census, cited in Hurtado p.17. Census takers classified people into lower, middle, and upper income brackets based on housing type.

[16]Even many families with good-quality housing, classified as upper-income, still have to watch their budget; some would buy a cheaper, though lower-quality product, particularly for children's consumption.

[17]Cited in Trade Policy Review 1993.

[18]Part of the IMF-prescribed market-liberalization plan to reduce inflation.

[19]In the case of #5, the money was available from investors and savings; in the case of #4, the prospective owners were able to borrow money from relatives.

[20]Primarily using earnings from his cacao-merchandizing business.

[21]Such packaging is also very expensive, but the result is unique and particularly appealing to tourists; there is a market willing to pay for it.

# Chapter 2: Carpentry, A Growing Sector

## 1. Carpentry Production in Sucre

Sucre has many carpenters -- estimates range from 150 to about a thousand.[1] I identified over two hundred carpentry workshops and enterprises in Sucre, and my list was not exhaustive. One of the most striking things about this sector is the similarity of the businesses within it. There are no truly large carpentry enterprises in Sucre. The largest carpentry businesses still have the same basic structure, and similar technology, as the very small ones. Most shops have at least the three most important carpentry machines; they may or may not have three additional ones. The largest shops are not qualitatively different than this; they tend simply to have more (duplicates or even triplicates) of these same kinds of machines. Marketing is similar; so is the organization of production. Almost everyone works primarily "to order" (*a pedido*) rather than retailing or wholesaling their product, although a couple of small shops do this as well. The range of products is similar across different kinds of shops. The difference is, the largest workshops have more capital than the small shops. Also, owners of the larger shops tend not to be carpenters by trade.

Carpentry is a growth sector in Sucre; demand for wood products has an average growth rate of 4.6% per year, particularly in construction-related products.[2] In Sucre, "there's a good market.... The market is growing in this entire zone," say the owners of the city's largest carpentry enterprise (#1). Construction is booming, but other orders for furniture are frequent as well. Carpenters' clients include individuals, NGOs, local governments, hotels and other institutions, who often order even from very small shops. Carpenters have work, although some noted that, since jobs are done to order, work is not as steady as they would like. Sometimes carpenters have little work; at other times, they are overwhelmed with orders. A credit assessor at a local NGO commented:

"Carpenters have a good market. A lot of people come here with businesses that don't have a good market, and we don't give them loans, but carpenters do."

Carpenters with their own shops take in around 1000 bs. per month in net earnings (including their own uncalculated wages); this varies, however, as some (particularly those with new shops) may earn as little as 300-500 bs. a month, while others, who are well established with a good clientele, may earn 1500 bs. or sometimes even more. Income for everyone generally varies from month to month.

Carpentry products are of main two kinds: construction materials such as doors, door-frames and window-frames; and furniture (wardrobes, desks, tables, living-room sets and so forth). Many shops, large and small, do both kinds ("we do everything"); however, carpenters make a distinction between the two. The first sort of carpentry is recognized as easier; less-experienced carpenters can make *puertas y marcos* (doors and frames, sometimes referred to as *carpintería rústica*). Those who do only this kind of carpentry, "the easy work" may be referred to by other carpenters as *matapalos* (literally, *stick-killer*!). If these items are made unvarnished, this is *carpintería blanca* (literally, "white carpentry," referring to unfinished pale wood). *Puertas* and *marcos* are more profitable, because they take less time. "Doors, windows you can make in a day. But furniture takes longer, there's more detail..." commented one carpenter. The production of doors and windows in Sucre grew by around 70% in the period 1988-93.[3] Orders for these do not come in all the time, however; as one carpenter put it "We don't do doors every day. This month we've done ten, fifteen.... If we had doors every day -- it would be great, winning the lottery!" (Don J., #155)

Furniture making is called *ebanestería*. "Carpenter" is the general term used to refer to all who produce with wood or wood substitutes;[4] however, those carpenters who make only furniture often prefer to call themselves "*ebanistas*"; the best English translation would be "cabinetmaker." "There are *ebanistas*, and there are carpenters. *Ebanistas* make furniture," (Don O., #145). Some furniture makers are also master carvers, often specializing in period furniture; these are much less likely to identify themselves as "carpenters", preferring the term *ebanista* or simply "artisan".

Carpenters in Sucre make a wide variety of products: wardrobes, desks, beds, chests-of-drawers, modular shelves, living-room sets (they upholster the backs and seats themselves, purchasing the material), cabinets, and many other items for the home; counters and display cases for offices or businesses; beds and other furnishings for hotels; desks for schools; hand-carved colonial furniture for a luxury market; as well as doors, windows, frames, wooden floor tiles, and other items for construction projects. The latter may be purchased by individual families, but more often by engineers or contractors in charge of a construction job.

The carpentry sector has important, unrealized potential in the national economy. Bolivia is a producer and exporter of wood; its wood exports (to Argentina, the U.S. and elsewhere) increased by 400% between 1986 and 1990,[5] and they continue to grow. Sawn wood production has risen steadily, from 38,000 $m^3$ in 1985, to 100,000 $m^3$ in 1990 and 350,000 $m^3$ in 1994.[6] The value of wood exported from Bolivia reached $75.9 million dollars in 1995[7] -- representing approximately 8% of Bolivia's total exports. Bolivia exports the raw material, but very few manufactured products made from it. In 1992, about 85% of Bolivia's wood-and-wood-product exports were simply sawn wood.[8] Exports of furniture are less than one-half of one percent of wood exports; in fact, Bolivia *imports* furniture -- around 7 million dollars a year worth.[9] Such is the situation in a country where one of the smallest cities has hundreds of skilled carpenters.

In Sucre, local carpentry supplies only about 65% of the city's demand;[10] the remainder of carpentry products are brought from other Bolivian cities (primarily Sta. Cruz). Nor does Sucre carpenters' market extend beyond the region; their production is nearly all destined for Sucre itself and the surrounding countryside.[11] Yet Sucre carpenters could do much more. While demand is expected to grow 4.6% annually, a study by a local consultant projects that the amount of wood products supplied by Sucre producers will grow at only 1.8% per year.[12] This chapter will describe the Sucre carpentry sector and attempt to explain why it has been unable to meet local demand or extend its market outside of the region.

One of Sucre carpentry's primary problems is raw-material supply. Oak and *mara* (mahogany) are the woods most commonly used in Sucre carpentry, along with cedar. *Ochoó*, a low-quality tropical wood, is also used for some purposes. All of these must be brought in from lowland areas. Pine, though known, is not readily available; a joint pine-forest-planting project was organized between the Bolivian and Swiss governments in Chuquisaca, but most of this wood is monopolized by the project and its own carpentry shop. Walnut (*nogal*) used to be more commonly available, but is now scarce; a few carpenters report that they use it. Pressed wood products, manufactured in the city of Sta. Cruz, are becoming more commonly used, particularly for facing on certain kinds of furniture (cabinets, chests of drawers). Use of pressed-wood products does not represent any perceived drop in quality on the part of the carpenters or their customers. Rather, carpenters generally speak highly of the pressed-wood products; not only do these facings not require finishing, but they "do not split" as real wood does.

The "handmade" or "real wood" aesthetic is not of strong interest to consumers here.

Wood is not grown in the Sucre region; ecologically, this is semi-arid mountain valley. Wood for Sucre carpentry must be brought into the region; usually from the department of Sta. Cruz. The tropical areas of the department of La Paz also supply wood for Sucre carpentry. The great majority of carpenters obtain their wood from small local lumberyards, known as *barracas*; these wood retailers bring wood into Sucre by the truckload.[13] Sucre barracas do not get access to first-quality wood, which is either exported or used by a few Sta. Cruz carpentry enterprises which export. Wood which arrives in Sucre is of second quality. Carpenters must go to barracas in person in order to *escoger madera* (choose wood). Some barracas will give wood on credit, and carpenters may buy wood in the quantity needed. Only large carpentry businesses have the resources to bring wood themselves; a truckload of wood brought from Sta. Cruz represents an investment of about $4-5000 dollars.

Sta. Cruz, the city and the department, provides an ever-present counterpoint to the Sucre carpentry industry. Carpenters in Sucre frequently spoke of this economically vibrant lowland region. For them it is many things: the origin of their raw materials, the source of their most significant competition, the training-grounds in which various of them have worked, and the model of "big carpentry enterprise" to which some of them aspire. As a vibrant economic center near wood-producing zones, Sta. Cruz, not surprisingly, has its own carpentry sector. Sta. Cruz carpenters can be divided into two broad groups: the small-scale producers of cheaply made furniture and other items, and the large-scale producers of good-quality furniture and other items, for the national market and for a limited export.

Interestingly, the competitors for Sucre producers are not the large, capital-intensive Sta. Cruz carpentry enterprises, but the small carpentry shops which use a technology similar to their own. These small-scale Sta. Cruz producers have a very important advantage over Sucre producers: the Sta. Cruz producers are located near sources of extremely cheap wood supply. Not even the second-quality wood which is sold to Sucre's *barracas* (lumberyards), but the poorest quality reject wood, can be had cheaply in Sta. Cruz at the *asserraderos* or sawmills.

"People who come to buy from the exterior choose wood piece by piece.... The rejects, they sell in piles. .. Bolivians go to buy the rejects.... They don't buy wood by the piece like we (in Sucre) do.... That's how they're able to make furniture so cheaply there...50bs for a chair, that wouldn't even pay for the wood." (Doña J, carpentry enterprise administrator).

Input costs are low enough that, even with the cost of transport, Sta. Cruz carpenters' products can easily undersell their Sucre counterparts.

In the area of doors and other construction inputs, however, Sucre carpenters do not face significant competition from Sta. Cruz. This is mainly because there are no standard sizes for doors and windows (which must be made to order), and because it is important to have a local carpenter who will do the installation. Thus, Sta. Cruz carpentry competes with Sucre carpentry only in furniture. Cheap Sta. Cruz furniture has been coming regularly to Sucre for about the past ten years (along with cheap furniture from La Paz and elsewhere, produced under similar conditions). It is sold in a series of retail shops in the Campesino Market area of the city; thus, this is often referred to as "furniture from the Campesino Market."

Competition from Sta. Cruz furniture has made business more difficult for some Sucre carpenters, and local production of some kinds of furniture has decreased. This competition may be an important factor slowing growth in this sector, balancing the rapid growth in construction-material production; one report found that in 1993, less than a third of Sucre carpentry production was in furniture, compared to almost three-quarters in 1988.[14] Yet nearly all of the carpenters I met in 1997 still made furniture . And data from the report also show that for the given time period, production of certain kinds of furniture (chests of drawers, desks, couches) increased.[15] In general, while Sta. Cruz furniture has had an impact on Sucre carpenters' market, Sucre carpenters still make furniture, and the Sucre carpentry sector has survived and even grown -- just not as quickly as it would have without this competition.

The advantage Sucre carpenters have, which keeps them in business, is that many produce furniture of good quality, and they produce to order. High quality reflects not just in the product's appearance, but most importantly, in its durability. Most of the carpenters I spoke with were proud of the quality of their work and willing to guarantee their products; if anything went wrong with these products, the carpenter would repair them free of charge. Furniture brought from Sta. Cruz, on the other hand, is of low quality and does not come with any guarantee.

The large Sta. Cruz enterprises which produce quality furniture do not send products to Sucre. They perceive it as a very small market; thus, furniture arriving in Sucre is only from the small enterprises described above. The cheap wood used by these small Sta. Cruz carpenters sometimes has termites. Production is fast and rather sloppy; furniture tends to be badly joined. One carpenter explained the situation thus:

"Our work here is guaranteed. That isn't. They make (pieces of furniture) in quantity, and cheaply, and send them here, and they ruin. If someone brings us one of these to fix, it costs them a lot. They paid 300 bs. for the piece of furniture, and I charge 80 bs. to fix it. They say, 'Why so much?' and I say, 'If you want, take it back where you bought it and see if they'll fix it for you.'" (Don S.Z, #200)

Competition from cheaper furniture that appears similar on the surface has made retailing hard for carpenters; thus, few attempt to retail their furniture or sell it to shops. Rather, carpenters -- even the larger carpentry enterprises -- work primarily to order. This is an important selling point: consumers gain access to custom-made furniture. They can request the exact styles, sizes, and colors that they want. Carpenters are skilled at reproducing items pictured in carpentry catalogs as well as elaborating their own designs; a customer who hires a carpenter "to order" thus has access to a much wider variety of styles and products than those available in the campesino market shops. Customers also enjoy the convenience that carpentry workshops are located throughout the city, in practically every neighborhood. Carpenters, in turn, are able to ask for an advance (usually 50%). By producing high-quality work (both *puertas y marcos* and furniture) to order, carpenters in Sucre provide products and services to the local clientele that Sta. Cruz producers do not.

Working to order means irregular demand; however, all the carpenters I visited had work. Some months are full of well-paying orders -- one carpenter, for instance (#6), had recently earned a 2500 bs. profit in a single month doing an order for the city government. Some months, though, "when work is scarce," this carpenter only makes 800 bs. When work is scarce, carpenters may make pieces of furniture (not on order) to sell to clients. Some carpenters do not have as much work as they would like; others, however, are "running over" with work; they may be booked weeks or even months in advance, and end up turning jobs away. In general, carpenters have clients and keep busy. Still, carpentry is not as profitable as it was a few years ago.

"Before, we earned well, but now we have to lower our prices.... With the competition, if we don't lower our prices, we don't sell." (Don J., #155)

"What there is less of now is earnings. Before, 50% of your price was materials and 50% was earnings. Now, 75% is materials." (Don D., #15)

Part of the problem is increased raw material prices. Part is competition from Sta. Cruz furniture:

"...There's occasionally someone who appreciates quality, but for the most part all they want is something shaped like a piece of furniture." (Don B., #159)

In addition, more of the local lumberyards have begun their own carpentry workshops in the past five years, which adds to the competition: "They take work from us" (Don O., #145). As a result, some carpentry shops now produce less than they used to; one carpenter mentioned that he previously had 12 or 13 workers; he now only has two, plus two apprentices. Other shops, however, are producing more than before, increasing production and clientele as they become better known.

Wood prices have risen significantly in the last few years, and carpenters frequently comment about rising material costs and the effect of this on their profits. "Any carpenter will tell you raw materials are expensive," commented the president of the local carpenters' *sindicato* ("union" or guild). Wood is more expensive in Sucre than in La Paz and Sta. Cruz, reflecting the cost of transport and intermediaries: "In La Paz, wood that costs 7 bs. here, costs 4.50," one carpenter (#209) commented. *Venesta* and other varieties of pressed and imitation wood are also quite expensive, according to the carpenters; these must be brought from Sta. Cruz since they are not manufactured in Sucre. Wood used to be available from other sources, particularly from Chile and Brazil. Carpenters tell me that "this is controlled now", and so wood purchased in lumberyards now comes from national sources. Since supply is smaller, prices are higher. "Wood has gone up 10% in the past year," one carpenter (#60) commented. And the situation is likely to get worse, with the overlogging of Bolivian forests and poor forest-management strategies:

"In two or three years you won't be able to get wood...wood is scarce.... There isn't wood anymore in Sta.Cruz, now they're bringing from the Beni...the same people from Sta. Cruz bring from the Beni.

"No, they aren't replanting.... There was a law that said that when they cut wood they had to plant so many acres, but the (wood) enterprises protested." (Don T., President, Carpenter's *Sindicato*).

Recently, in 1997, the Bolivian government declared mahogany (one of Sucre carpenters' main materials) a protected species.

Bringing wood directly from Sta. Cruz, rather than buying from local lumberyards, can mean a considerable savings for carpenters. One carpenter estimated that when he brought a load of oak directly from Sta. Cruz himself, he saved about 1000 bs.(taking into account transport costs) -- as much as many carpenters earn in a month. Another carpenter said that wood was only about two-thirds of the price in Sta. Cruz; what he bought here for 30,000 bs., he could buy there for about 20,000 bs. However, few carpenters have the ability to make the necessary investment. Loans of over $1000 dollars are difficult to get, and guarantee requirements and payment periods seldom accommodate small-scale producers. Cooperative direct buying of wood is another strategy sometimes proposed (generally by NGOs) but never implemented; organization is difficult, and carpenters are wary of "free riders" who may not pay. Carpenters know they are paying high markups in Sucre lumberyards, but there is little they can do about it. Some feel an essential injustice in the system:

"The person who really makes the money is the one who brings the wood from Sta. Cruz.... That's all they have to do, bring the wood, and yet they earn a lot, whereas we who have the hard job, who have to work the wood and make something out of it, we earn very little" (Don G., #135).

The lumberyards do make a profit, but they also provide the valuable service of supplying Sucre carpenters with a reliable wood source. In addition, they must deal with their own conditions of supply: some of the wood they receive is of very poor quality and they cannot sell it. They must absorb this loss, while carpenters, conversely, have the luxury of choosing their wood board by board. Neither is wood merchandising the very-profitable activity it used to be; many lumberyard owners are turning to carpentry -- sometimes abandoning their wood merchandising activities altogether.

To salvage the usable pieces of damaged boards, as well as to take advantage of their ready wood supply, many lumberyards have established carpentry shops. This is an interesting example of merchants vertically integrating to include production activities. Carpentry has become a viable business option for lumberyard owners, especially as more lumberyards have entered the market and profits have fallen. Some lumberyard owners said that carpentry is now more profitable than wood merchandising:

"I don't bring a lot of wood, there's a lot of competition now...we don't sell much wood. ...In the last few years we've taken various training courses, to make furniture, doors, windows, we've learned a lot." (Don S.M., Carpentry Enterprise #3. This business now brings in about 4000 bs./month, mostly from carpentry).

While carpenters are almost exclusively men, furniture merchants are frequently women. In addition, women, as well as men, are often involved in the administration of carpentry enterprises. The wives of carpenters in very small shops will sometimes "help" their husbands in production; this is usually limited to sanding and polishing, but some women participate actively in a variety of carpentry tasks. I met one woman, Doña E., who once worked alongside her husband in his carpentry shop; now they have divorced, but she considers herself a carpenter in her own right. She runs a furniture-merchandising business, and assembles and repairs furniture on her own. Also, a local NGO has been offering carpentry courses and apprenticeships open to women. This program is geared toward those interested in working in and eventually establishing carpentry businesses, and several women have participated in it. Whether or not some of these women will actually choose to work as carpenters remains to be seen.

**2. Carpentry Processes**

Carpentry in Sucre is a semi-mechanized artisan activity. The president of the local carpenters' *sindicato gremial*[16] knows of no more than 10 people in Sucre who still work just with hand tools (none of whom are in the *sindicato*). Of the 29 small carpenters randomly sampled for this study (from a population of 149), 24 owned workshops in 1997;[17] 100% of these workshops had at least one carpentry machine. All but two workshops (#234 and #179) had at least the "essential" three machines: the circular saw, the router (*tupi*) and the plane (*cepilladora*).

The router edges the wood and cuts channels; it has a small, curved blade rotating on a central axis, which allows the carpenter to create different kinds of curved edges. The plane is for smoothing and evening flat surfaces of the wood; however, to achieve a finer finish and for curves, the carpenter must do additional planing by hand. The circular saw is simply a vertical, rotating cutting blade; generally, it also has an attached drill.

These three machines, along with hand-tools, do not, however, make a "complete" carpentry shop. In addition to the basic three machines, a complete shop also has a *sin-fin* (freestanding band saw, for cutting curves and unusual shapes), a *torno* (lathe, for rounding wood, such as chair legs), and a *groseadora* (a more advanced planer which planes two sides of the wood simultaneously). Only 13% of sampled carpentry workshops have a "complete" complement of machinery. The presence of the *groseadora* and the *sin-fin*, in particular, are indicative of a more prosperous shop, as these pieces of equipment are not of first necessity and cannot typically be homemade.

Production processes do not vary much among shops. In the largest carpentry enterprise in the city (#1), a mechanized sander and a more advanced cutting machine have sped up some stages of the process; however, production is still basically at the craft or artisan level, using similar technology to that of the small shops. Wood is still measured and joined by hand, saws must be adjusted and fed by hand, and so forth. As in all carpentry establishments in the city, a *maestro* or master-carpenter sees a product through from beginning to end (he may, of course, hire helpers to assist him). In Carpentry Enterprise #1, the maestro is only responsible for the woodwork, not the finishing; in many shops, however, the entire process, from the first cut board to the last coat of varnish, is under a single master-carpenter's control.

"Here, you make a piece of furniture from beginning to end; there (in big furniture industries in Sta. Cruz) it's not like that -- one person just does the first step, then another person just does the next thing, and so on, in a line." (Don J., #155)

Machines are a relatively new innovation in Sucre carpentry. Fifteen years ago, the great majority of carpentry products in Sucre were made manually (production *a pulso*). Carpenter Don L.A. (#241) reported that when he started out as a carpenter, in 1963 or 1964, production was "all *a pulso*." Later, some of the larger businesses bought imported machines. Loans (from the National Bank, the San Roque cooperative and elsewhere) and installment plans then became available, so that some of the producers with less capital were able to obtain machinery.

For those who could not afford ready-made machines, local innovation provided a solution: the creation of imitation, homemade machines, known as *hechizas*. The carpenter could construct the machine's frame of wood, and either buy or have the metal pieces made locally. After investing in a motor, the carpenter would have a machine that functioned acceptably, albeit not quite as well as the imports. Of the twenty-four sampled carpentry workshops, 71% had at least one hechiza (homemade) machine in use, and one-third were working strictly with hechiza machines.

"It used to be, rare was the person who had machines.... You've seen how the machines are wooden. They only had to buy the metal axis...for a saw, that's about 200 dollars, it's not expensive.... Later, they replaced their wooden machines with metal.

"A bank (National Bank) gave loans at that time, with low interests...8 or 9%...and long payment periods, 3 or 4 years, you could pay without feeling it...and a lot of people bought (machinery)." (Don T. president, carpenters' union).

Until 5 years ago, the carpentry sector was still in the process of changing over -- from an artisanal sector relying strictly on hand-tools, to a semi-industrial sector. Good quality machines of national manufacture are now available; Sucre's foremost supplier is Carmetal of Cochabamba. The three basic carpentry machines, bought there, would come to about $3000 U.S., plus transport costs.

Carpentry in Sucre is essentially artisanal: it is highly skilled, and, despite the use of machines, largely manual work. Carpentry does not get done fast:

"Some people come asking me to make something for them, but I turn them away, because they want work done fast. I don't like to work fast; furniture takes a lot of time, if it is to be well done." (Don J.L., #147)

Adjustments to machinery can be quite time consuming; there are a lot of creative uses of machinery which require a good deal of trial and error. Consider this excerpt from my observations of a day at Don S's (#117) carpentry shop:

*Don S. is making cots for a new hotel on Aniceto Arce Street. He wanted to use an attachment to his table saw to smooth and sand the edges of the headboards. The attachment was a wheel with sandpaper stuck to it, that would go on in place of the blade. There was a discussion between Don S. and a helper as to whether this wheel would fit in the slot meant for the blade. They tried it, and it was too thick. So Don S. told the helper to take the table-top off the saw. Then he sent the* *apprentice to buy sandpaper. The helper then had to chip the old sandpaper off the wheel, using a chisel hit with a piece of wood. Chipping off the sandpaper took ten or fifteen minutes.*

The attachment was finally ready, and the headboards could be sanded. This small task was, however, time-consuming.

Another day:

*While making a desk, Don S. had to make long, wide channels in the board. He used the router, attaching a saw blade to it and placing one nail above the blade and one below to make it wobble. This causes the saw blade to cut a wide channel. He used a piece of scrap wood to test the width of the channel, but it was too wide. So he took the two nails out, pounded them flat, and tried again.*

Many carpenters' inputs are improvised from available materials: a sealer to fill in cracks and pores in wood, for instance, is made from a mixture of glue and sawdust. Don S. told me he makes his router blades himself, using bits of scrap metal and a grinding attachment on his table saw. Carpenters often experiment; in Don S's shop, a young worker was experimenting with a kind of lard to cover pores. Improvisations may give shops a rustic look: glue for joining is usually heated over a fire built inside a large can (using wood scraps). Considerable attention is given to detail: furniture is carefully joined and well sanded by hand. Due to a scarcity of apprentices and helpers (*ayudantes*, who are not yet fully skilled), it is not uncommon to see a master-carpenter sanding, measuring, adjusting machinery, and buying supplies himself -- all time-consuming parts of the process.

Because production is done to order, carpenters seldom work in series, unless they have received a large order. One carpentry shop (which, unlike most, does occasionally retail furniture), recognizes that production in series in more efficient, allowing several products to be made with a minimal adjustment of machinery:

"We'll get an order but we won't just do one, we'll do four or five." (#12)

A worker in another carpenter's shop (#200) commented:

"Someone orders a dresser, and so as not to lose time we make three."

But then, he comments, these are hard to sell; it depends whether the clients want to buy them. A few carpenters spoke about the possibility of opening their own retail shops (and attracting a wider clientele); carpentry workshop #12, on the other hand, does a good business producing furniture in series for resale to campesino-market shops. Yet most carpenters do not have the materials or space available to produce in series. Production in series means having more capital available at one time, and being able to afford to tie it up until products are sold. Also, carpenter's workshops tend to be small, and space limitations affect the number of projects that can be done at once. "We don't take many orders, because of space," commented A., #140, of his father's shop. Many carpenters also lack time to produce multiple products, if they have many orders pending. There is also a perception that work done in series may be of lower quality:

"We don't do work in series, we make something well." (#3)

Doors, however, sometimes made in series; a carpenter may get orders for various doors for a single construction project; in this case, work goes faster. Also, sometimes an order for many desks, or many beds, may come in from a school or hotel, and these can then be done in series.

The production capacity of each shop depends not only on the amount of machinery available. It is directly related to how many *maestros* (master carpenters) are working at a given time. In most shops, a door takes a day and a half; a small piece of furniture, such as a dresser, about 7 days, and a large piece of furniture, such as a wardrobe or a queen-sized bed, between fifteen and twenty days. A shop owner, working alone, often produces three or four pieces of furniture per month; hired *maestros* tend to work shorter hours, producing about two pieces of furniture per month. As each carpenter works on his own project, shops which hire more carpenters produce more.

Machines facilitate only certain stages of the carpentry process; while their impact is important, calculations of capacity usage need to take into account that machines are not used continuously: episodes of machine use are spaced among episodes of hand-work. One carpenter (#209) estimates that his new *groseadora* (two-sided mechanized plane) lets him produce about 10-15% more per month, because of the time it saves in one stage of the production process. A *lijadora* (sanding belt) which only large shops have, can save considerable time in the sanding process: sanding which "we take two days to do, it could do in half an hour." (Don B., #159).

**3. Getting Started**

The bulk of the carpentry sector in Sucre is comprised of small workshops, where between one and five people work. These people belong to one of the following categories:

1. Shop owners. Usually, these possess the skill level of a master-carpenter, although in a few cases (see Table 2C) they may have very limited carpentry skills.
2. Sons of the shop owner who are skilled master carpenters. These are considered co-owners, and are generally paid a percentage of the selling price of the jobs they do.
3. Hired master-carpenters (*maestros*). These are skilled carpenters from outside the household who work in the shop and receive jobs on contract. They are paid either paid a flat daily wage or a percentage of the selling price of their work, usually less than what sons receive.
4. Helpers (*ayudantes*). These have some skills, and their role is to assist master-carpenters in the production process. Unlike master-carpenters, they do not yet take on jobs independently. *Ayudantes* are paid a flat wage per day (*jornal*).
5. Apprentices (*aprendices*): These are boys who are just learning; they are paid a small amount, and help with odd jobs and errands until they acquire enough skills to become *ayudantes*.
6. Members of the owner's household, such as sons who are learning carpentry, who help in the workshop but are not paid. Wives and daughters may also help, but this is less common.

In 1997, there were 24 carpentry shops in my sample (along with five carpenters without shops, see Part 5, below). Considering that Sucre has had a carpentry sector since colonial days, I expected to find the great majority of these 24 small workshops were long-standing family enterprises, owned by people whose fathers and grandfathers before them had been carpenters. However, this was not the case. In most small shops the carpenter's father had not been a carpenter. Only two carpenters (#135 and #140) said that they had learned carpentry in their fathers' shops.[18] Somewhat more commonly, in four cases (#9, #200, #145, #147) the carpenter had learned from an uncle who was a carpenter. Finally, in two more cases, the carpenter had learned in the shop of a brother (#168, #179). (See Table

**Table 2: Sampled Carpentry Shops in 1997**
**(n=24 Functioning Shops)**
**Key: G=Groseadora (two-sided mechanical plane); SF=Sin Fin (freestanding bandsaw)**

**2A: Carpenters who Learned from Relatives**

| | Learned from | Adult sons in shop | # of non-family workers[1] | Years in own shop | Total Machines | G? | SF? | Products | Sales |
|---|---|---|---|---|---|---|---|---|---|
| #135 | Father | 0 | 0 | 5 | 4 | no | no | Parquet flooring, frames, doors, a little furniture | to order |
| #140 | Father | 1 | 1 | 20 | 3 | no | no | Doors, frames, chalkboards a little furniture | to order |
| #9 | Uncle | 1[2] | 0 | 0.5 | 3 | no | no | Doors (including garage), frames | to order |
| #200 | Uncle | 0 | 1 | 20 | 3 | no | no | "Everything"; bedroom sets, door/windows etc. for construction projects | to order |
| #145 | Relative (uncle?) | 0 | 1 | 2 | 3 | no | no | Hotel refurbishing; doors, windows, frames | to order |
| #147 | Uncle | 0 | 0 | 10 | 5 | no | yes | Furniture only. Chairs (upholstered, carved), dressers, etc. | to order |
| #168 | Brother | 1 | 2 | 10 | 6 | yes | yes | Coffins, dining-room sets, modular units, highchairs | For sale & to order |
| #179 | Brother | 0 | 0 | 3 | 2 | no | no | Doors, desks, windows, other furniture | to order |

1. Master carpenters or hired helpers (*ayudantes*); not including apprentices.
2. Currently there isn't much work, so the son has gone to work at another shop

**2B: Carpenters Who Learned as Apprentices**

| | Age[1] | Learned from age[1] | Adult sons in shop | # of non-family workers | Years in own shop | Total Machines | G? | SF? | Products | Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| #60 | 32 | 11 | 0 | 2 . | 4 | 6 | yes | yes | Primarily furniture; also doors etc. for construction proj. | to order |
| #234 | 30 | 14 | 0 | 1[2] | 1.5 | 2 | no | no | Frames, doors, furniture, repairs | to order |
| #155 | 60 | 14 | 2 | 1 | 20 | 5 | yes | no | Doors,frames(75%) beds, cupboards, other furnit. (25%) | to order |
| #225 | 49 | 7 | 1 | 1 | 3[3] | 4 | yes | no | Doors, chairs, desks wardrobes, "everything." | to order |
| #208 | 57 | 15? | 1 | 1 | 20+ | 3 | no | no | Musical instrument manufacture & repair; furniture | to order |
| #117 | 39 | 13? | 0 | 3 | 5 | 4 | no | no | "Everything" desks coffins, doors, hotel furniture | to order |
| #15 | 45? | 19 | 1 | 0 | 17 | 3 | no | no | Doors, windows, wardrobes | to order |
| #40 | 40 | 13? | 0 | 3 | 15 | 4 | no | yes | Carved & upholst. living-room sets; doors & frames | to order, sales to clients[4] |
| #159 | 60 | 13 | 4 | 2 | 27+ | 4 | no | no | Doors, frames, some furniture | to order |
| #196 | 43 | 16? | 0 | 3 | 2 | 4 | no | no | Only furniture; wardrobes beds, dressers, etc. | to order |
| #209 | 64 | 15 | 0 | 0[5] | 23 | 3 | no | no | Dressers, beds, bookshelves, doors, etc. | to order |
| #109 | 55? | 19 | 4 | 1 | 25 | 4 | no | no | Day-care furniture, other furniture, doors, frames | to order |

1. ? indicates approximate age
2. Occasionally.
3. Had a shop at age 15, later began teaching and has had the current shop for the past 3 years.
4. Occasionally he makes furniture, not on order, and then sells it to his clients
5. At first visit. But he occasionally hires one or two carpenters temporarily.

**2C: Non-Carpenters Who Began Carpentry Businesses**

| | Previous Activity | Adult Sons in Shop | # of Non-family Workers | Age of Shop (in years) | Total Machines | G? | SF? | Products | Sales |
|---|---|---|---|---|---|---|---|---|---|
| #6 | construction | 0 | 1 | 3 | 6 | no | no | Doors, windows, frames, some furniture incl. orders for schools | to order, to clients[1] |
| #32 | commerce | 0 | 2 | 10 | 6 | no | yes | Wooden bowls, plates; sometimes furniture | street-vend., *feria*, orders |
| #214 | lumberyard (continuing)/ univ. studies | 0 | 5 | 1.5 | 6 | yes | yes | Frames, doors, built-in wardrobes, furniture, wood sales. | to order |
| #12 | commerce | 0 | 5 | 12 | 5 | no | no | Living-room sets, wardrobes, doors etc. for constructions | in bulk and to order |

1. Sometimes he makes furniture, not to order, and sells it to his clients.

2A). However, most carpenters did not come out of a family tradition of carpentry. Either they had learned as youths in the workshops of a non-family members, as apprentices (Table 2B); or else from courses (in two cases), from a background in construction work, or even from their own hired carpenters (Table 2C).

Nearly a third of carpenters, however, were actively passing on carpentry skills to their sons. (See Table 2A-C.) Six carpenters (25% of those with shops) had grown sons working with them full-time. Three other carpenters (13%) also had grown sons who worked intermittently in their shops, because they were busy studying at university. After university, sons may, nevertheless, return to their father's shop, as was the case with Don J.P.'s son:

"He didn't want to be a carpenter. He wanted to be a doctor, he studied at the university...but now, like it or not, he's a carpenter.... Sometimes a degree is just a degree, it doesn't mean you'll work in that." (Don J.P., #225)

While younger children of both sexes may also help around the workshop, especially with tasks like sanding, I found no cases of grown daughters doing carpentry in their father's shop.

Brothers may work side by side in their father's shop, but they will eventually establish separate workshops; once the father is no longer working, brothers will almost never continue working together. The only cases I found of brothers or cousins working in the same shop was when the shop definitely belonged to the older of the two, and the younger was only there to help, usually just occasionally. In general, people who learn carpentry from relatives are likely to leave their relatives' shop at some point in order to obtain wider experience elsewhere -- and, if possible, eventually to found their own workshop.

Many people have learned the carpentry trade even though they had no close family members who were carpenters. (See Table 2B.) Often, these carpenters started learning from the time they were very young. In such cases, the boy -- or his parents -- chooses the trade, and the boy enters a shop as an apprentice. Most Bolivian schools only run for half a day, and some parents are concerned that children pass the other half productively and not "wandering in the streets"; thus, the parents apprentice the child to a *maestro*. The usual practice for a boy wanting to learn carpentry is to begin at the age of about 12 or 13 as an apprentice in the workshop of a local carpenter. He may, however, start as young as 7 or 8. I spoke to one young boy who had recently entered to work in carpentry shop #168. "My father brought me," he said; his father is a laborer, not a carpenter.

These days, according to the carpenters, there are fewer young people eager to learn carpentry. Apprentices are scarce:

"Before, you had to suffer in order to learn.... The *maestro* made you sweep floors, run errands, if he went on vacation you had to watch his house.... Now, it isn't like that. Now we have to beg people to come and learn." (#109)

One carpenter characterized the sort of persistence shown by an earlier generation of would-be apprentices:

"When I was seven, I went to a furniture workshop and asked them to take me on. They laughed in my face. They said, 'What can you do?" ...But I stayed...heating glue for them, tidying up.... Then I was sanding. After three months I could do more, and by the end of the year, I could do quite a bit.... They didn't pay me hardly anything -- 50 centavos a week." (Don J.P., #225)

This carpenter went on to have his own shop (with hand-tools) by the time he was fifteen.

One carpenter explains the current role of the apprentice:

"They start out helping...and if they're interested, they will learn. We take them on out of necessity, without even intending to teach them anything, or exploit them either, but because sometimes you have to have someone to help do things." (Don B, #159)

To enter a workshop full-time, older, high-school aged boys who already know some carpentry may attend school at night. Generally, young carpenters work sequentially in several workshops before establishing their own. Some travel to Sta. Cruz or La Paz to work in large enterprise, often owned by non-Bolivians.

Of the sampled carpentry shops, half (twelve) had owners who started out as apprentices. (See Table 2B.) Observing this, we can conclude that carpenters who start as apprentices are not at a strong disadvantage relative to those who came from a family tradition of carpentry. Although many had to start "from zero" (as Don J., #155, put it), entry barriers are low enough that these apprentices -- many of whom came from poor backgrounds (some were migrants or even orphans) -- were able to establish their own, independent shops. The amount of time it takes to do so varies, depending on what occupations the carpenter has chosen in the meantime, and how successful he has been at saving money and/or accessing inexpensive sources of credit. A few opened their own shop about ten years from the time they began to learn; this seems to be about the minimum.

### 4. Carpentry as Enterprise

Although all the carpenters viewed their carpentry shops as businesses, one group of carpentry shops were run by people who were first and foremost business people, not carpenters. Many began as merchants. In their shops, these individuals may simply act as administrators, or they may do some carpentry themselves (having learned from courses or even from their own hired workers). One sixth (n=4) of the small carpentry shops sampled fit this category (see Table 2C).

One small carpentry shop (#214) started out as a lumberyard; now, it is a combination lumberyard-carpentry shop. University students M. and J. began this business; they are two friends, both in their early twenties. M. had a brother in the lumber business and contacts in Sta. Cruz. M. and J. soon found, however, that they were receiving flawed boards:

"We don't sell all the wood we get. The wood has to travel, and some of it gets damaged. Carpenters come to choose, and they will never take a damaged piece.... To recuperate (the cost of) this wood, we decided to buy machines...here, we can cut off the piece that's damaged and use the rest (in our own carpentry shop)." (M., #214)

M. and J. have no background in carpentry; they have hired two maestros and three helpers, who do the actual carpentry work.

Other small-shop owners entered carpentry via other kinds of businesses. Don C. and Doña V. (#12), for example, were furniture merchants. They formerly brought furniture from Sta. Cruz, but made the switch to producing furniture in the period when wood was still inexpensive. Don C. says he learned carpentry, "by watching my workers." Like Don C. and Doña V, Don F. (#32) entered carpentry through merchant activities. Don F. began by buying and selling artisan objects, particularly plates and spoons made of wood, a business he started with his brother when they both were living in Cochabamba. They later decided to try to teach themselves to produce these items, and so made the leap from merchants to producers:

"Things didn't always turn out looking like a maestro had made them, sometimes they would come out rough.... Sometimes it was just destroying the material.... But the clients would demand a finished product, and so we learned." (Don F., #32)

Later, Don F. moved back to Sucre from Cochabamba and set up shop on his own; he took carpentry courses at a local NGO and now produces furniture, along with his plates, spoons, and other small wooden objects. However, his shop is located in a marginal, low-income neighborhood, and he has found that furniture sales are low. He thus prefers to continue with the smaller, hand-carved items, which he can take to other cities to sell.

Don L. (#6) is another small-scale carpentry-shop owner who did not start out as a carpenter -- although he did have a background in construction, where he was a "first class maestro." Don L. had not worked in carpentry shops previously, but simply used his knowledge of construction work in establishing his shop, where he primarily makes doors and windows (and also occasionally furniture). Don L. decided to start a carpentry shop in his neighborhood, Villa Margarita, because, "the work is lighter...and also, to give people jobs. I bought this lot and built here, I bought the machines (little by little, with savings)...now I can earn to support my family -- and the others, they can also earn to support theirs." At one point, he has had as many as ten maestros working for him, though when I visited, in a slow month, there was only one. Like Don C., Doña V., and Don F., he is not strictly an administrator but also works in the production process. This is an important dividing-line between these small carpentry businesses and larger carpentry enterprises.

I spoke with owners of three larger carpentry enterprises in Sucre, which were not part of the sample. (See Table 3.) Enterprise #1 is the largest carpentry business in the city. Enterprise #2 is a large lumberyard with an attached carpentry business, and Enterprise #3 is a carpentry enterprise, which, along with #1, belongs to the local association of eight large carpentry businesses ("Asimatec"). None of the owners of the three enterprises I visited had started out as carpenters. Rather, they all began with a *barraca* (lumberyard). The lumber trade was once extremely profitable; now, however, some lumberyard owners are finding carpentry more lucrative.

The founder of the largest carpentry business in the city, Enterprise #1, for instance, made a successful business of his lumberyard, which he started in 1974. He hired maestros to do basic carpentry (door frames, etc.) for clients. By about ten years ago, the business had started making furniture to order, and about seven years ago the lumberyard part of the business closed down. Capital accumulated through the successful lumber business was instrumental in allowing Enterprise #1 to capitalize; now, it has over 20 machines (a total investment of $250,000 dollars), and produces a wide variety of products including furniture, doors, and wooden floor tiles. The founder is now deceased, but his wife carries on the business, with a daughter and a son assisting in the administration. The business hires about 8 master carpenters, as well as a few salaried helpers, a floor manager, a truck driver/metalmechanic, and a man in charge of furniture finishing.

**Table 3: Large Carpentry Enterprises**

| | Previous Activity | # of Non-family Workers | Age of Shop (in years) | Products | Sales |
|---|---|---|---|---|---|
| #1 | transport/ lumberyard | about 15 | 23 | floor tile, doors, windows, furniture | to order and for sale (tile) |
| #2 | lumberyard (continuing) | 5-6 | 19 | frames, wood merchandising | to order |
| #3 | transport/ lumberyard | 4-5 | 5 | doors, frames, dining room sets, other furniture | to order |

Enterprise #2, unlike #1, is not first and foremost a carpentry shop; rather, it is a lumberyard which also produces window and door frames. The owner, Don P., began his business in 1978, not long after Enterprise #1's; now, carpentry products comprise about 20% of his total sales. Don P. worked for five years in lumberyards in Sta. Cruz then came back to Sucre and founded his barraca at the age of 24; he was able to take out a loan from the Bank of Potosí, using his father's house as a guarantee, to start the business.

"I don't know anything about carpentry...but I'll indicate to the helpers how it should be.... When I began, I brought wood from Sta. Cruz.... I had worked there, and I knew how wood was extracted.... I bought from people I knew....

I'm a worker (*obrero*), that is, my father was just a worker, he wasn't anybody...and we've worked and gotten where we are, but working every day." (Don P.)

As we have seen with small carpentry workshop #214, carpentry can be a compatible sideline for people involved in lumber merchandising. One carpenter complained about the number of lumberyard owners now doing carpentry:

"Business used to be better, but now there's a lot of competition (in the last 5 years)...It used to be, a carpenter always had work.... But now, a lot of the lumberyards, they have their own shops, and a lot of the engineers, they have their own shops too.... They used to give us the work, but now they have their own shops. They take the work from us." (Don O, #145)

Enterprise #3 also began as a barraca in the 1970s, and like Enterprise #1, has nearly abandoned wood sales due to competition. The co-owner, Don S.M., said that the business began making carpentry items to order in 1992. "We began to make furniture, doors, frames.... At that time, I had no experience in carpentry, I started out from zero." Don S.M. then attended some training courses in carpentry. His wife did not have a carpentry background either. She was, however, formerly responsible for wood merchandising while her husband traveled. They are co-owners of the business, and now have about $20,000 invested in machinery of national make. Their enterprise primarily produces furniture, and hires an average of four or five maestros.

**5. Carpenters Without Shops**

Up to this point, this chapter has discussed the twenty-four carpenters who owned workshops in 1997. Five other carpenters in the sample (n=29 total) did not own a workshop at the time of my visit. In two cases, the shops had closed.

Three other carpenters had never owned a shop, though they had taken out micro-credit as independent business people. Don E. (#100), for instance, qualified for a business loan because he had his own set of hand tools. He has since lost them due to debt, however. He has a lathe, and uses it occasionally to make artisan goods for sale, but he was not producing at the time I interviewed him. Rather, he is working as a hired *maestro* in a carpentry workshop belonging to a local lumberyard. Don E. would like to have his own shop, but does not plan to start up one working by hand: "It used to be, people did, but now we are so accustomed to working with machines."

**Table 4: Carpenters in Sample Who Do Not Own Their Own Workshops**

| | Status | Current Activity |
|---|---|---|
| #236 | Never owned a shop | Studies and helps brother with carpentry |
| #232 | Shop closed | Unknown; went to Cochabamba |
| #100 | Never owned a shop | Carpentry -- works for a lumberyard's shop |
| #240 | Shop closed | Works for Health Board |
| #241 | Never owned a shop | Carpentry – independent, rents equipment |

For experienced carpenters, work in other people's shops can be on a contract or a *jornal* (day wage) basis; workers on contract will usually receive about 10%-15% of the selling price of items they produce themselves, while those on *jornal* will receive around 25-35 bs/day. Yet carpenters without shops who have clients and hand-tools can remain independent; they can go to someone else's shop to rent the machinery they need by the hour. This may mean higher earnings: "as a (hired) maestro, you don't earn as well, so I decided to become independent," explained Don L.A. (#241). Don L.A. rents machinery from his former employer (with whom he shares shop space), paying about a fifth of his profits in rent. Carpenter Don A.E. (#9), who now has his own shop, used to rent machinery, but he explained that it was both inconvenient and expensive: there were a lot of people using that shop, and the rent kept going up.

Younger relatives working in a shop occupy an ambiguous position; some act simply as helpers, and are paid as such, while others who are more skilled may take on contract jobs as a hired maestro would do. Don P. (#236) is in a transition between these two statuses; he "helps" his older brother with carpentry, but, his brother says, "sometimes I give him contracts." Don P. was never, however, an independent carpenter, whatever he may have claimed for the purposes of obtaining micro-credit. Don P. has acquired enough skill to be able to make doors, and his brother pays him about 15% of the selling price for every one he makes. In Don S.Z.'s (#200) shop, Don S.Z.'s younger cousin also works with him; Don S.Z. pays him around 35-40% of net earnings for jobs they do together.

Hired *maestros* are essentially temporary labor; they will generally not spend more than a year or two in any given shop, and often much less. "They are casual labor, when there's work. When there's no work, they rest," explained shop-owner Don S.P., #196.

"When we have a lot of work, I bring more people. I have a telephone here and I call them...in other carpentry shops, and they come. This is how we do it here.... Then, when there isn't work, they go again." (Don L., #6)

Carpenters employed in one shop check with the owner before agreeing to work elsewhere; if business in the first shop is slow, the owner will give permission for the employee to accept the other offer. Whether or not employees have other job offers, however, owners will let them go when work is scarce. Hired carpenters thus work in a situation of high uncertainty. They have a reputation for irresponsibility (turning jobs in late, disappearing), which is understandable considering that they have no incentive to demonstrate loyalty toward their employers. Yet employers who work to order must deal with the same uncertainty: work fluctuates from month to month.

Table 4 indicates that two shops -- 7% of the sample -- have closed. Carpenter #232 closed his workshop and went to Cochabamba two months before my visit; no data were available on his shop or why he had left. Don H.'s (#240) shop had closed as well. He had started out as an apprentice and founded his own shop in 1972 or 1973. He produced primarily furniture and enjoyed a good market. However, he failed to invest in any machines except a circular saw. His business was hurt by competition from Sta. Cruz furniture, and he could not easily diversify into doors and other construction materials since he lacked a *cepilladora* (planing machine). Three years ago, he tried to take out a loan to buy one, but ended up having to buy an electric meter instead. Lacking money for materials, he took a job as a public employee and relegated carpentry to a part-time activity. About a year ago, he stopped doing carpentry altogether, though he is considering starting up again, using money from his job to buy materials.

## 6. Inter-Shop Relations

Relationships between the larger shops (particularly, the eight members of the large carpentry enterprises' association, ASIMATEC) and the smaller shops (some of which are members of the carpenter's *sindicato*) are practically non-existent. There are no formal relations between the two carpenters' groups. Neither are the smaller carpentry shops receiving work (on a putting-out system) from any of the large carpentry enterprises; each carpenter has his own clients.

In a couple of cases, carpenters mentioned that they had received extra work from the carpentry shops of large institutions (a school and a government-affiliated development organization, which each had their own carpentry shop); when such institutions have overflow orders, they may "put out" jobs to carpenters known to them. This seems to work, however, like any other contract between carpenter and client; carpenters receive the advance and fill the order.

"It's steady work for this year.... PLAFOR was overloaded, they were busy through May and that was last year (1996), last year already they were busy through May (1997)! ...So my brother (who works there) said, 'I have a workshop.'

The first order was for 33,000 bs. worth of day-care furniture, of which 70% bought the raw material and 12-13% was for related expenses; "17-18% is left for us."

The only shop-to-shop putting-out I discovered was for hand-carving; some carpenters do not know how, or may lack the time to do it. Thus, if they receive an order requiring carving, they may hire someone to do this part of the process. Also, one carpenter (#147) who works alone and only does furniture, said he contracts out doors and windows when he receives orders for them. However, traditional putting-out, where one business frequently acts as an intermediary contracting out work, is seldom seen in this sector. (I did see it among sweater knitters in La Paz.) Individual carpentry shops cultivate direct relations with clients, and most have enough orders to keep them busy without needing to rely on other carpenters to supply them with work. Sometimes, when carpenters are overloaded, they do pass on jobs to friends. Yet to try to capture profits by acting as an intermediary would be very difficult; independent carpenters would be unwilling to work for a cut rate. Only in the case of their dependent, hired maestros are shop owners able to pass on jobs and keep part of the profits.

Relations among shops do exist but are limited. The carpenter's *sindicato*, or guild union (made up of small-shop owners) has only thirty-eight members; the great majority of carpenters in Sucre do not belong. Various carpenters I spoke with had formerly been members. In general, the perception of the guild is that it does not do much. It does not set quality standards or control entry as European artisans' guilds once did. Its *sindicato* ("union") name indicates its orientation: to defend the interests of artisan businesses and lobby for their rights, particularly to the government. In fact, however, the sindicato functions more as a carpenters' association. The situation of the carpenters' union is discussed further in Chapter 9; here, it is necessary only to note that in Sucre, carpenters do not perceive it as an effective organization; nor does it have any influence on production. As one carpenter put it:

"The work depends on the carpenter, and his client, not on any *sindicato*."

Shops may have informal relations with each other, the most common involving the temporary use of equipment. A carpenter who lacks a piece of machinery will take his boards (or send them with an apprentice or helper) to the shop of a "friend" who has the appropriate machine. Ideally, the friend lives in the neighborhood, but often it is necessary to transport the wood in taxi. The decision whether to use another carpenter's machine will often depend on the volume of work; if the shop is not busy, many things can be done by hand.

Borrowers do not use the machines themselves; rather, the borrower shows the workshop owner or a helper what needs to be done, and the latter does it. The shop owner will charge a fee, perhaps 1 bs. to cut a piece of wood. Don S. charged 2 bolivianos for about ten minute's work on his router: a young man had brought the boards from his father's shop, where they have only one piece of machinery, a circular saw. Carpenter Don L.A. (#241), who rents equipment in the shop of his former employer, pays a set rate of 20 bs. per meter for doors and 80 centavos/meter for frames; this represents about a fifth of his profits. Don J. (#155), an independent carpenter, said that when he used his friend's groseadora, he was charged 2-3 bs. for a door; only about 2% of the door's total price (plus transport costs).

Tools may also be lent:

"It is important to know who the other people are who work in your area.... It's good to have friends, to know if you need a certain tool, you have a friend living near who can loan it to you. And I do the same if someone needs something." (Don S.Z., #200).

Don S.Z. belongs to the carpenter's union because he believes it helps him establish and maintain these kinds of contacts with other carpenters.

### 7. Carpentry and Development

Carpentry, unlike many other artisan trades is a high-investment activity; not only in terms of knowledge and the time needed to acquire it, but capital as well:

"Young people... they want to enter and make money right away. But carpentry isn't like that. There's a lot to learn. It's a lovely occupation...but it's what you would call high investment. A construction worker, he has his (couple of basic tools) and he's ready to go...a tailor has his work table, his mannequin, his machine... and that's all he needs... But a carpenter needs his circular saw, his *tupí*, his *cepilladora*, his *torno*, *groseadora*...a complete carpentry shop will have maybe $10,000 dollars invested." (Don L.A., #241))

The investment needed for startup in carpentry is high, and growing. However, the ability to make (literally, *amarrar*, or put together) one's own *hechiza* carpentry machines has been an important factor allowing small, as well as large, carpentry workshops to make the transition to mechanization. Various carpenters described to me how they had put together their shop piece by piece:

"It used to be that you just had to save up money little by little (rather than taking out loans)... I bought the parts I needed and put the machines together myself." (Don Q., #40)

A *hechiza* table saw will run between $90 to 200 dollars (460-1030 bs.) in materials, plus the time to build it. The same machine of national manufacture (of higher quality) will run about 2000 bs; imported machines cost more. A set of carpentry tools is also an important investment; carpenters may have as much as $2000 dollars invested in their hand tools.

The carpentry shops of Sucre impressed me as remarkably independent; they are not caught in ties of dependence to large enterprises in Sucre or elsewhere. Carpenters sometimes begin by using jobs in large carpentry enterprises, such as those in Sta. Cruz., to gain expertise and capital, but the goal is practically always to begin one's own, independent shop. Skilled carpenters who plan and save often achieve this goal. While shops begun this way tend to be small, they do allow the owner considerable freedom. Master-carpenters who have worked many years in the sector and do not have their own shop may have had particular difficulties or setbacks. Ill health of family members (requiring savings to be spent) was one such problem which prevented master-carpenters from establishing their own shops. One carpenter from a small town in the department of Sta. Cruz had to close his shop and come to Sucre to help his ill daughter; he now works as a hired *maestro* in shop #168. Another carpenter (#6) is just recently opening his workshop; he formerly lost his store of saved-up machinery when his wife became ill and he had to sell it to raise money.

Becoming a carpenter with a business of one's own is a viable option for people from very poor backgrounds; several of the carpenters I spoke to were from rural areas and/or came from families without much money. Carpentry, for these people, provided both a good livelihood and a certain amount of upward mobility. "I used to be just a worker, but then I went buying tools...now I own a workshop." (Don A., #179). Entry barriers are still low enough that a poor apprentice can become an independent shop owner within a few years -- if he works, saves, and suffers no major misfortunes in the meantime.

Large carpentry shops do not share a common origin with the small shops; the large shops I visited were all begun by non-carpenters. A good market for wood in the seventies provided a springboard leading to the success of business which started out in lumber marketing -- they were able to accumulate more capital early on. Nevertheless, the carpentry process in the large shops is not noticeably different from that of the many small shops which comprise the great bulk of the sector. And in both cases, the market is primarily local (although Carpentry Enterprise #1 does send about 50% of its production to the neighboring city of Potosí). While one might expect small shops to grow larger in the second or third generation (if shop equipment is not divided up among various sons), the shops owned by sons of carpenters in my sample were no larger, and sometimes smaller, than those which did not have the opportunity to benefit from a prior accumulation of carpentry assets.[19]

What is the growth potential of the carpentry sector in Sucre? We have seen that demand for carpentry goods in Sucre is growing faster than supply. Projected 1998 figures suggest that high-income families in Sucre will demand carpentry products equivalent to 300,000 feet of worked wood board, middle-income families about 1,500,000, and low-income families nearly 1,000,000 -- a total of 2,800,000 feet of local wood product consumption for the year.[20] Meanwhile, a carpentry shop with four machines (the basic three plus a *groseadora*) produces about 2500 feet of wood products per month. If these numbers are accurate, then Sucre carpentry demand is only about enough to support 93 such shops! What this estimate fails to take into account, however, is wood-product consumption by non-family units: offices, schools, hotels, and new constructions of all sorts, all of which are important markets for Sucre carpenters. The size of these markets is difficult to estimate, but considering that construction materials may be nearly three-quarters of the total Sucre wood-products market[21] (and most of these are consumed by institutions and contractors) it is not surprising that most of the Sucre carpenters I visited had plenty of work. And as demand is growing, they are unlikely to lack for work in the near future.

Yet the distribution of the work is not even. Some carpenters are producing much less than the average, while others are "running over" (*rebalsando*) with work and have to turn jobs away. For producers themselves, small-scale carpentry is rather democratic; everybody has about the same amount of labor, and about the same amount of machinery; good carpenters "run over" with work and have to give up some of their jobs, while less-skilled or less-known carpenters find enough work to get by. As we shall see below (Chapter 8), the structure of credit and the limited availability of skilled labor mean that the "best" shops are limited in the amount they can expand; instead of absorbing new orders and profiting from them, these shops must turn work away. As a result, carpentry shops tend to stay at about the same scale.

Sucre's carpenters still dominate their local market, supplying about 65% of carpentry goods consumed,[22] but they have lost ground to outside competition in the furniture market, particularly the market for low-income consumers. Sta. Cruz offers cheap, convenient furniture which, despite its poor quality, appeals to customers who have little money. Middle and upper income groups are the primary consumers of Sucre carpenters' higher-quality furniture products.[23] As we have seen above (p.108), these groups form the bulk of Sucre's carpentry market (89% of total carpentry demand).

So long as Sucre carpenters do not have access to inexpensive cast-off wood, there seems to be little hope of their recapturing the low-income furniture market by out-competing cheap furniture from elsewhere. Rather, Sucre carpenters' advantage lies in their quality product, for which a strong market does exist among the middle and upper classes, and with institutions. Sucre carpenters need to be aware, however, that they risk losing high-income customers who may be attracted by good-quality ready-made furniture sold in other cities; about a fifth of high-income households in one study had traveled to another Bolivian department to buy furniture. It is important to determine what products are drawing these customers away, and whether it would be possible to produce such products locally.

Carpenters' market potential is not limited to Sucre, but includes the neighboring city of Potosí, where the carpentry sector is weak and where a new, paved road has opened up better transport opportunities. Sucre's Carpentry Enterprise #1 already sells about 50% of its production to Potosí. As Potosí also suffers from problems of wood supply, the high wood markup Sucre producers must pay does not disadvantage them in that market. However, if Sucre producers are to have any hope of competing in other cities or abroad, they will have to solve their problems of wood price and supply. In the long run, as shops improve productivity, and as transport improves, there is no reason why skilled Sucre carpenters should not cultivate distant markets. Unlike in Potosí, where carpenters are an aging population,[24] Sucre carpenters include the young, the dynamic, and the entrepreneurial. Yet it is urgent that the carpentry sector address problems which lower its productivity and growth potential -- before producers from other Bolivian cities and abroad step in and out-compete them.

Lack of space, manpower, and working capital, along with the high prices of raw materials, are all factors limiting the growth and productivity of carpentry businesses in Sucre. While the production process is labor-intensive, skilled labor is scarce and unreliable (see Chapter 5). Capital to buy materials, improve machinery, and expand shop space is also scarce, and it may have to be detoured away from the shop to attend to family emergencies; meanwhile, credit is difficult to get (see Chapter 8).

Overall, carpentry businesses in Sucre are busy and independent -- the positive side -- but the production process involves much drudgery and many low-productivity tasks. Highly skilled master carpenters must spend much time doing tasks by hand which could be much more efficiently carried out by hired workers or by machine: sanding, for instance. Carpenters are very interested in acquiring machinery, but current credit conditions make it nearly impossible for the majority to acquire *groseadoras* (at about US $2000) *sin-fines* (at about US $1000) or *lijadoras* (at about US$1300).

"If we could mechanize, we could do so much more.... We are quite capable...it's not like in other countries where one person specializes in one step. We know the process start to finish" (Don B., #159).

The supply of raw materials is a particularly serious problem confronting this sector's future. The short-term concern is, of course, finding a way to obtain wood less expensively through bulk cooperative buying, credit for direct purchases, or other means. As we shall see below, this is one of the goals local-level organizations have tried to address. The long-term concern is more ominous: without better forest management, Bolivian carpenters in Sucre and elsewhere may find themselves trying to exercise their trade without wood.

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[1]ALA (1996) had the lower estimate, which agrees with another given by Hurtado (n.d); carpenter Don R., who works for a local NGO, had a list of 200 (some of them duplicates), but I found quite a few carpenters who were not on his list. Don T., the president of the carpenter's union, gave the estimate of "about a thousand, most of them hidden"; more likely, there are about 1000 *carpenters* but only 250-300 shops.

[2]Hurtado, n.d., p.17. Based on the 1992 census population growth figures and income levels.

[3]Hurtado, n.d., p.27.

[4]Those who produce furniture from other materials, such as metal, may also refer to themselves as carpenters, but these are not included in this study.

[5](GATT 1993:170)

[6]United Nations, *Industrial Commodity Statistics Yearbook 1994*.

[7]Economist's Intelligence Unit *Country Profile, Bolivia*, 1996-7 p. 38

[8]MECE, cited in CPI-Swedecorp, annex table B.

[9]CPI-Swedecorp, 1993 p.2; data for the period 1985-92. For 1989, however, GATT gives the figure for furniture imports at only 4 million (p.200).

[10]Hurtado, n.d. (1993?) p.49.

[11]New constructions (such as schools) in rural villages and small towns are good sources of orders for doors, window-frames, desks, etc.

[12]Hurtado, p.36. Wood products are defined here as furniture, construction materials, and artisan products.

[13]One smaller, new lumberyard, on the other hand, did not bring wood itself, but bought on credit from a female intermediary.

[14]Hurtado p.28.

[15]Characterised as "less essential" furniture, as opposed to "basic, essential" furniture, the production of which declined. Hurtado, pp. 27-28.

[16]They refer to themselves as the *"sindicato"*, which I translate "union", although the organization, comprised of small-shop owners (not workers), more closely resembles what we would call a guild.

[17]Shops were identified by the owner's name, as given on lists of micro-credit organization clients (see Introduction, Part 6, on methods). Sons working in their fathers' shop are considered co-owners (which was the attitude of the carpenters themselves). I took great care to ensure that each workshop was counted only once, even when shops had multiple owners. Of the resulting 29 sampled carpentry businesses, 5 cases turned out to be workshops which had closed, or carpenters who had rented or borrowed equipment in someone else's shop and had never had a shop of their own.

[18]Considering the oldest generation active in each shop visited.

[19]There are a (very) few "medium" shops in Sucre -- those which are bigger than shops in the sample yet still not considered to be among the city's larger carpentry enterprises. This study focused on small shops; in future research, I hope to look more closely at medium-sized ones, in order to determine their background -- are these shops which have "grown up" over the course of one or more generations?

[20]From Hurtado, p. 18 and Bolivian National Census 1992 data.

[21]Hurtado, p.28

[22]Ibid., p.35.

[23]Ibid. p.42. According to this study, 47% of high-income households and 40% of middle-income households -- but only 3% of low-income households -- bought furniture on order from local carpenters. Meanwhile, 83% of low-income households -- but only 33% of middle-income households and 11% of high-income households -- bought furniture from the small shops which sell furniture from Sta. Cruz. These shops also carry some locally-made pieces, however.

[24]ALA 1996, p.15.

## Chapter Three: Other Production in Sucre

Thus far in Section One, we have taken an in-depth look at the chocolate and carpentry sectors in Sucre. Chapter 3 gives a very brief overview of other goods-producing businesses in the city.

Along with chocolates, the Sucre region is known for its sausages. The largest commercial sausage producer in Sucre is the Cobolde factory (similar in size to Chocolate Factory #1); people also make sausage at the household or *casero* level (the wife of chocolate maker Don O. does this). Another common product is soft drinks: there are several small soft-drink factories and bottlers in Sucre, as well as two beer factories (Sucre's Sureña, and a branch of the La-Paz-based National Beer Company); high transport costs mean that local beverage industries are competitive in the local market. Most production takes place on a very small scale, and even the "factories" tend to be quite small by the standards of other cities.

Among small and very-small businesses, there is considerable variety. The micro-credit sample (n=42 in 1996) included seventeen producers. One of these was a carpenter. There were also two sweater-knitters, two shoe-makers, four tailors or seamstresses, two goldsmiths, two chicken farmers, a metalworker, an ice-cream maker, and two women who were partners in a cooperative soy-milk factory. With the exception of the soy-milk factory (which was a special project established by a local NGO for displaced women from mining regions), these businesses are typical examples of the small and very-small manufacturing enterprises most common in Sucre.

### 1. Sweaters

Sweater-knitters are usually women; they knit by hand or by machine. Hand sweater-knitting is an ideal informal activity in the sense that most women (and a few men) already possess the necessary skills, and investment needed to produce a sweater is very low (around 30 bs. worth of yarn). Machine sweater-knitting is also an accessible activity; a machine may cost around 600 dollars and allows the owner, working alone, to produce one sweater per day. The markets for the two products are somewhat different; machine-knit sweaters are "finer" (*mas finito*), yet many intricate patterns can only be achieved by hand. A good hand-knit sweater can earn a higher price but also takes longer to make ("*tarda en hacer*"); depending on how much time the knitter spends each day, she can make as many as two per week, but more commonly she will produce one a week, or even one every two weeks. Machine-knit sweaters tend to be primarily cotton (made with imported yarn) although they may also be made from acrylic or fine wool. Hand-knit sweaters are often, though not exclusively, wool (made from either domestic or imported yarn or wool). It is not true that only the poor people knit by hand, while those with capital knit by machine. Most people who have a machine will also hand-knit sweaters, taking advantage of the two distinct markets.

In Sucre, the knitters I spoke with buy commercial yarn, already spun. Most buy it locally or in other Bolivian cities such as Oruro; much of it is imported from Chile. Thus, unlike carpenters and chocolate makers, knitters are not producing primarily with national materials. For a knitter buying yarn, the price difference between cities can be considerable; one knitter told me she travels to Oruro because she can buy yarn there for 25 bs. which costs 35 bs. in Sucre. In the altiplano city of El Alto (near La Paz), I spoke with a variety of sweater knitters, most of them poorer than the ones I knew in Sucre.[1] Many of the El Alto knitters also bought commercial yarn, but some bought wool and spun it by hand, and at least one household of knitters begin their sweater-making process with the purchase of sheepskins.

There is a local market for sweaters in Sucre, as well as in other Bolivian cities, and to a limited extent there is also an export market for hand-knit sweaters. Competition is, however, stiff -- not just from the used-clothing markets, which offer American sweaters to local customers for 10-15 bolivianos (2-3 dollars), but from other knitters. Because many people know how to knit, and few assign a cash value to their time, the local and national markets do not assign such a high value to hand-knit products as in North America. The price must be low enough, or the product exceptional enough, to tempt a buyer who could otherwise simply make a sweater herself. Machine-knit sweaters, on the other hand, must compete with imports from industrialized factories. And, whether they are knitting by hand or by machine, knitters face a market in which a large number of people are producing a product nearly identical to their own. Profits from sweater-knitting are low: perhaps 10-15 bs. a day for a very active knitter.

**2. Tailors, Seamstresses, and Jacket-Makers**

Both men and women in Sucre may have sewing businesses, and nearly a quarter (n=4) of the producers in the micro-credit sample were tailors or seamstresses. Two of the men sampled have proper tailor's shops, where they do clothing-to-order and alterations. Another, who is no longer in business, made jackets and other items from weavings and sold these to shops. The two women seamstresses work inside their homes, and mainly do bulk sewing of women's clothing for resale to market intermediaries. I also found one man in the marginal Barrio Japón neighborhood who does tailoring activities out of his home (using cloth that people bring him).

As with sweaters, competition from cheap imports (including used American clothing) has made the work of tailors and seamstresses less profitable. Doña T. (micro-credit- sample business #21) used to have workers and seven machines, but now she has cut back production, using only three of her machines: "Why work, when there aren't earnings?" Despite this, however, she still makes a good profit of about 800 bs./month selling her blouses in bulk to merchants at 6 bs. each. Another blouse-maker, #13, also makes aprons and skirts, using a single pedal sewing machine. She also sells in bulk to merchants, and earns 15 bs. profit on a dozen aprons, and 40 bs. on a dozen skirts. These she can do in a week; thus her total profits are similar to those of sweater knitters: about 250 bs./month. Such a low return is acceptable as a supplemental income, but is not enough to support a household. The two male tailors in the sample earned 500 and 750 bs./month respectively. These compare well to incomes from some salaried jobs; however, some of this money must generally be set aside for re-investment in the business. The tailors both had open shops and worked principally to order, though one (#22) spoke of plans to begin producing ready-made clothing.

A lucrative sub-field is making jackets and other sports clothes. While there were none in the micro-credit sample, a couple of these businesses were represented at local producers' fairs. These businesses are prosperous enough to have their own retail shops and invest in publicity and promotion. One owner started out as an importer (from Argentina); when he began to produce his own jackets, he was able to pass them off as Argentinean as well. He makes leather, as well as cloth, jackets. This entrepreneur's background in merchandising was particularly useful; his products have tags and brand names, unlike most of the sewn products made in Sucre.

### 3. Other Small-Scale Enterprise

Shoes, metal items, and jewelry are other items often made in Sucre by small-scale business people; like carpenters, they often refer to themselves as artisans. Shoemakers and sandalmakers usually produce by the dozen, and sometimes to order, for a low-income clientele. Don G. (#14) makes sandals with the help of his wife; they produce a dozen pairs per day. She then sells these to vendors in the Campesino Market, earning between 40 and 45 bs. after materials. Don M. (#8) makes shoes, both to order and for bulk sale in the Campesino Market; his wife markets them. They earn about 25 bs. net profit per pair of shoes, producing 2 pairs of shoes per day. Thus, both of these shops earn profits of around 1100 bs./month. Both shops work principally with hand tools and simple machines (a sewing machine, a machine to smooth and polish leather). Both are producing to capacity, and both mentioned the need for a *desbastador*, a machine to cut leather, which costs around US $2000. The principal purchasers of their shoes and sandals are indigenous Quechua woman. Other small enterprises produce the rubber sandals typically worn by indigenous men, and the rest of the shoe market is supplied from outside the region (mainly from Chile and Brazil).

Metalwork is another common occupation in Sucre. Metalworkers are referred to as *metalmecánicos*; they may produce gates, doors, troughs, and a variety of objects, using basic welding and soldering equipment. Don A. (#50) says he does general metalwork to order and also buys and repairs old cots to resell, with a total of about 600 bs. in net earnings per week. The monthly income for himself and his wife (who also works there) is thus much better than that of the shoe and sandalmakers, and this metal shop even earns more than most carpentry shops. Besides *metalmecánicos*, there are also many *torneros* (machinists), who make and repair machinery (recall the brothers of Chocolate Factory #3's owner, who made machines for various factories). Carpenters may hire *torneros* to make the metal parts of *hechiza* carpentry machinery, as mentioned in Chapter 2.

*Orfebres* produce gold or silver items, principally jewelry. Their market is primarily local, though tourists are a good market as well. While some of these jewelers have retail shops, others do not; in both cases the majority of their work is to order. The *joyeros* or jewelers' association in Sucre has about 40 members. Large seasonal fluctuations in demand, and difficult access to reliable sources of raw material, are among the difficulties that jewelers face. They tend to have much larger fixed assets than shoemakers and metalworkers, due to the various small machines and tools which jewelers use in their work; one business (#15) had nearly 33,000 bs. in estimated fixed assets, while another (#33) had 40,000 bs. As is the case with shoemakers and metalworkers, most jewelers are men.

Chicken farms (producing eggs or meat, and located on the far edge of town), ice-cream makers (who often hire vendors to sell from carts on a percentage basis), and a variety of other small and very-small scale food-manufacturing businesses (pasta, jams, breads, puffed wheat, milk candies, roasted peanuts, etc.) also produce in Sucre. Most of these work at a very small scale. With a few exceptions (chocolates, powdered sugar, sausages, pasta, and a locally made powdered-corn drink), practically all food products with brand names are brought in from outside the region; they come from Cochabamba, La Paz, Chile, and elsewhere.

**4. Hats**

Hats (made of felt) are practically the only Sucre industry which reaches any significant export market. Sucre has three main hat factories, as well as some small-scale artisan hat producers. The oldest of the factories, Charcas Glorieta, exports finished hats to Europe and the US. The newest factory, with is also the biggest (in terms of sales), is only about 5 or 6 years old, and makes unfinished hats or *campanas* (literally, bells, which is approximately their shape) many of which it exports to Peru (where each *campana* is worth $10, compared to $2 in Sucre).

This newest factory has invested about 1.5 million dollars in equipment and is still expanding; it currently has 150 workers, making it one of Sucre's main industrial employers. The factory produces 6000 *campanas* per day, up from an initial production of 1000/day. It was started by three partners who had known each other before starting the business. One was approached by a local expert in hat manufacture; the partners then contracted this person to organize production. The partners invested a total of $600,000 to establish the factory. Wool from the Bolivian departments of Potosí and Oruro, as well as from Uruguay and Argentina (which is of better quality) is used in production, and the factory sells to small-scale artisans who finish the hats.

**5. Seasonal Products**

Some products made in Sucre have a strictly seasonal market; these allow people to diversify and take advantage of a good, short-term market. Probably among the foremost of seasonal products in Sucre are *confites*, round white sweets eaten during the carnival period. Some people also produce miniatures which are sold at the folkloric festival *Ala Sitas* in July. Drinking-chocolate production as described in Chapter 1 may also be a seasonal business; the smallest drinking-chocolate producers only produce occasionally, taking advantage of high demands around Holy Week, Mother's Day and Christmas.

*Confites* are made with sugar and a "seed" of peanut, brazil nut, walnut or grated coconut. Women generally run these businesses; the daughter of carpenter #168, for instance, was making and selling confites, integrating this production with her father's peanut-toasting business. Doña F., a sweater-knitter (#37 in the micro-credit sample), diversifies her sweater-making and other business ventures with seasonal *confite* making; she joins with her mother and sisters to generate the necessary capital (500 bs. for a hundred pounds of peanuts, plus additional investment for sugar and for labor). This sort of inter-household cooperation is uncommon in Sucre; it may be possible in this case only because the business is under control of the mother. In confite production, the women provide the capital, chop the nuts, and do the marketing; they hire young men who come from Potosí to sugar-coat the nuts.

**Conclusion to Section 1**

In Section One, we have considered some of the main products manufactured in Sucre, with an in-depth focus on two of these -- chocolate and carpentry products -- and brief glimpses at others. An examination of the history and development of Sucre's chocolate sector shows how chocolate makers both large and small have managed to survive and even expand in difficult local circumstances, innovating new products and adapting to market demand. The current generation of factories demonstrates some continuity with the previous generation, but problems such as national economic crises have hurt their ability to expand and capitalize on par with factories in neighboring countries. Chocolate is not a booming market now, especially with the loss of markets in mining centers and the influx of competing products from neighboring countries. Many factories are producing under capacity, yet the sector has considerable potential if it could obtain quality packaging and seek out lucrative niche markets for its products.

Carpentry, on the other hand, is an industry which enjoys significant demand at the moment, particularly in the construction sector. Yet in the furniture market, Sucre's carpenters have lost ground to outside competition. Carpentry production is still at a very small scale, producing with limited equipment. Workshops are undercapitalized and lack reliable labor; thus, the vast majority are confined to producing to order, rather than more efficient in-series production. While the current system allows many carpenters to become independent and earn good income, inefficient production methods mean that Sucre carpenters are in danger of continuing to lose business to outside competitors in the long run.

Overall, we have seen that businesses in Sucre produce a variety of goods, but they tend to work at a small scale and serve a principally local market. This section lays the groundwork for the next two sections of the thesis. Section Two (Chapters 4-7) will tell of the internal structure of Sucre businesses and the relationships between these businesses, their markets, and the environment (legal, social, etc.) in which they work. Section Three expands the analysis to a community level, considering the relationship between local organizations and businesses: Chapter 8 focuses on non-governmental organizations and the credit services they offer, while Chapter 9 considers grassroots organizations and experiences with inter-business cooperation. Finally, the thesis draws conclusions about why very-small businesses predominate in Sucre by considering how a variety of economic, social and cultural factors work together to create this situation.

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[1]The knitters I spoke with in Sucre were part of the micro-credit users' sample; those in La Paz were users of a grant program aimed at very-poor businesses.

## Section 2: Inside Sucre Businesses

# Chapter 4: The Business and the Household

### 1. Characteristics of Sucre Businesses

We have seen how the term "informal sector" has been used in the literature to refer to the portion of the economy which demonstrates informal characteristics -- implicitly contrasting these businesses to "formal" ones. Yet, in the small city of Sucre, Bolivia, informal businesses are not a "sector" at all. The entire economy of Sucre demonstrates informal characteristics.

Small size is one characteristic of Sucre businesses. Any Sucrense will tell you: "There's no industry here." "You realize that here in Sucre, we have Sureña (the brewery) and Fancesa (the cement factory), and besides that, there aren't big businesses." Sureña is a micro-brewery, with a fixed-capital investment of only 5 million dollars. As for the cement factory, as one Sucrense put it, "the cement factory is big, but it doesn't contribute anything to development." Then there are the chocolate factories: "They make bonbons, but there's a ridiculously small number of workers." "If you look at the number of people they employ, it's a joke." Don G., owner of Chocolate Factory #5, commented, "A factory can survive in Sucre, but it's difficult. It's difficult to enter the market.... The (university) students are the (economic) movement here. When the students leave, there's not much movement." Larger factories, he said, tend to move to other places, such as Sta. Cruz.

Sucre's industry, commerce and services nearly all function on a very small scale -- microenterprise, if you will. In Sucre, the term "microenterprise" is practically useless. The tailor's shop with three sewing machines, the market woman with $500 in stock, the sidewalk seller whose entire working capital consists of 10 bolivianos worth of onions, and the knitter who makes sweaters in her spare time -- all are micro-enterprises, but they have very little in common. For many of the producers, Sucrenses prefer to use the term "artisan". "Sucre is an artisan city." Producers frequently told me, "This is just an artisanal production." They use the term in the sense of low-tech, primarily manual production which may include some simple machinery.

Small scale -- both in terms of the amount of capital and the size of the workforce -- is not the only characteristic which causes me to refer to Sucre's economy as "informal". Economic strategies such as diversification (carrying out more than one business or activity simultaneously)[1] and use of informal interpersonal relationships (family and friends) in production and marketing, are common in all sectors of Sucre's economy. In the micro-credit sample,[2] for instance, more than a third of the households of business-owners surveyed had two or more businesses: 14% of the business-owners had other businesses of their own, and 24% had a spouse or other household member with a business. Also, forty percent of households in this sample combined businesses with salaried jobs.[3] About half of the sampled business owners had household and/or family members who worked with them in the business (usually spouses and children, but sometimes paid relatives or children adopted into the household). And nearly all used informal relationships in their marketing (see Chapter 7).

Businesses in Sucre demonstrate other informal characteristics as well. With very few exceptions, among the larger businesses, workers are uninsured. Many are temporary. Accounting tends to be informal (a notebook where orders, materials and receipts are noted, for instance) or nonexistent, and owners seldom calculate a salary for themselves and household members who work in the business (skilled sons working in carpentry shops do, however, receive a percentage of earnings). House and business earnings and expenditures often merge. Frequently, living and production space are combined, even for factories -- located within the same building and sometimes, for small businesses, within the same rooms. In Carpentry Enterprise #1, as well as in three of the city's five chocolate factories, the factory was located in a section of the owner's house. Of seventeen producers in the micro-credit users sample, 71% worked out of their homes, as did half of sampled carpentry-shop owners, and all but one of the small chocolate businesses.[4]

As we saw in the Introduction, for de Soto (1989) and others the defining characteristic of "informality" is illegality -- unregistered, non-tax-paying, "hidden" businesses. Yet in Sucre, illegality is not necessarily a defining characteristic of informal business. Many businesses are legal, but still very informal, in the sense described above. As the Buechlers (1992:15) wrote for La Paz, "legal" and "illegal" businesses are often, for practical purposes, very similar, and separating them into two groups can be artificial. In Sucre, one tax assessor estimated that about 40% of carpenters in the city pay taxes; these are not the largest or the most "formalized", but simply the ones which have been found. Among chocolate makers, even some very small businesses are registered with the health board and pay taxes (Doña D., #11, for instance), while others manage to avoid taxation and registration. Yet the two groups do not represent two different "kinds" of businesses. Illegality exists, but it is not a defining feature of Sucre informal businesses.

**2. The Blurred Household-Business Line**

The *wiphala* is the indigenous flag of the Andes -- a checkerboard of many different colors. In explaining household strategies to a friend of mine who runs administration courses for small businesses, one Quechua woman used the metaphor of the wiphala. Household priorities can be pictured like the squares on a wiphala -- education, politics, work, social life and so forth, each represented by a square, each in a different tone, and, as the woman put it, no one thing more important than another thing. A household business, I would argue, can be seen as one colored block on the household's metaphorical *wiphala* -- it is simultaneously a source of income and a household investment, it shares time and space with other household activities, and it does not have an independent existence separate from the household.

Gudeman and Rivera's "house" model is useful for understanding the structure of Sucre businesses. The "house", they write, has two goals, to "maintain itself" and to "increase its base (holdings)" (1990:39-41). Expenditures are "for the house" when their purpose is to support household members and activities (p.44). While Gudeman and Rivera describe rural producers who enter the market primarily to purchase needed items, Sucre's business people are much more concerned with making money in active, continual engagement with the market. Yet their goals are still to maintain the house and increase its base. The accounting of house and business expenditures is not strictly separated; consider Don C. and Doña V.'s carpentry shop, for instance:

"We need to buy things. Sometimes she (my wife) buys, and sometimes I buy...we just let each other know." They don't write down what they spend, "That would be too much! We would see all this money that we are spending! ...Why worry about how much we are spending? We could cut back. But we all work, so I think we have the right to enjoy what we have." (Don C., #12)

When I asked various other producers why they did not keep accounts, they expressed themselves similarly:

"I'm not sure exactly (how much we earn), I don't manage numbers very well, but you earn, you see what's coming in and what's going out, and you earn...." (Don P., lumberyard owner)

"We don't do a balance. We don't know exactly.... I'm not sure, but we make enough to live on and pay debts...and we are a small family, just three of us." (Don A., tailor/shop owner)

"I don't keep accounts... I live by the day, as they say... I can't tell you how much (chocolate) we make in a day, I don't know exactly," said Don H. of Chocolate Factory #4. Yet he knows the business is not losing money, "You can tell.... We're not lacking for food."

Not keeping accounts helps maintain confidentiality; Don H. says that even if he knew, he would not share information: "I don't give prices, quantities, it's more peaceful that way. It's not to offend anyone, or that I am offended, that's just how it is." Avoiding envy (and possible theft) is a likely motive, as well as simply maintaining household privacy. Also, not keeping strict accounts can make it easier to underestimate earnings for tax purposes.

While the keeping of formal accounts is rare, this does not necessarily imply a lack of education or an inability to work well with numbers. Many people, especially merchants, demonstrated considerable skill in doing math mentally. As one lunch-seller replied when I asked her if she keeps accounts to know how much she is earning:

"I just know.... I don't write it down, but mentally I know how to multiply." (Doña A.)

Carpenters may keep a "notebook" with the details of a job: the raw materials invested, and the price charged for the finished product. Very few, however, calculate salaries for themselves. Rather, they are aware that they have a certain amount of earnings on a job, out of which they must pay light, transport, and other overhead business expenses (including money "for the machinery", or depreciation), as well as household expenses (rent, food, children's school expenses, etc.).

The management of Chocolate Factory #2 is a typical example of informal business management. After interviewing the owners, I spoke with a local accounting student who had taken on this factory as her thesis project:

"They have an accountant, but just to pay taxes.... They don't keep track of production.... If there are no *grajeas* in the shop, they make *grajeas*, but they don't note down how much they make.... Right now, they don't know what their profit is."

One carpenter's wife points out a danger of mixing household and business accounts: the *desvio*, or rerouting, of money:

"He's gone out to buy glue.... If you don't go at once and buy your materials, the money gets re-routed."

Another carpenter (#240) also mentioned this problem; he says that he would prefer for micro-credit organizations to offer used machinery on credit rather than cash loans: "because loans (in cash) get re-routed." In the extreme case, *desvio* can lead to the sort of mess described by Don L., son of the owner of Carpentry Enterprise #1:

"It used to be, if you had a construction project, you would give the work to a carpenter. He would charge a 50% advance.... Well, he had work now, so he had to celebrate, he had to *ch'alla* (toast).... Say the door cost 100 bs., he had a 50 bs advance, and he spends 20 or 30 of that.... Well, the other 20 isn't enough for him to buy materials...so he goes back to the customer and says, 'I don't have enough for materials' and the customer gives him 20 bs. more, but the 40 still isn't enough for materials, so he still can't do the work.... Well, you can see there's money, so it disappears, to do the (grocery) shopping...."

Don S.M. of Carpentry Enterprise #3 does keep accounts. He also keeps a budget to limit family spending; this is a workable alternative to actually assigning himself and his wife a salary:

"We have a budget (for the family)... The business is separate, we just take out what's in the budget."

This businessman was unusual in that he defined his business as "separate" from the household. Even so, the production area was located alongside the family's living quarters, and he and his wife are both involved in the administration of the business, which, he says, they co-own.

A tendency to house living quarters and business under the same roof, even in the case of several of the factories and relatively large carpentry enterprises, reflects the household- centeredness of businesses. One of the largest lumberyards in the city was located downstairs of the family's living area (in a large courtyard), as was the city's largest carpentry business (also in a large covered courtyard) and several semi-industrial chocolate factories. Semi-industrial businesses, where a few machines are used in the production process, are frequently located in an area of the family's home which is exclusively dedicated to the business. On the other hand, *industrial* businesses (that is, the largest, most capitalized and mechanized enterprises, such as the beer factory, the cement factory, and the two largest chocolate factories) are almost never located in the home. In other ways, as well, these businesses are separate from households; in particular, ownership frequently crosses household boundaries.

Low-capital, very manual businesses are often located in actual living areas of the house, where rooms double as workshop areas and living areas. This was generally the case with sweater-knitters, *casero* chocolate producers, seamstresses, and one sandal-maker I visited. Another pattern is for the front room or "shop" (*tienda*) of the house to be the seat of productive activity -- and often of sales as well. The "shop" may be separated by a curtain, a door or a courtyard from the main living space. Goldsmiths, carpenters and various other small-scale producers often work in this way.

### 3. Diversified Household Businesses

When small businesses contribute directly to maintaining the house, and households rely on them for survival, it is not surprising to find people using a strategy of diversification. The perceived risk that one business might fail, fluctuations in demand, and the inability of some businesses to support the household alone, along with a search for new and better income sources, are all reasons to diversify. Buechler and Buechler write:

"The high competition and low earnings in many occupations and the economic and political uncertainty in Bolivia have forced many small-scale producers, or at least their households, to engage in more than one economic activity at once, either to increase their income or to spread the risk." (1992:57)

While the political and economic uncertainty (particularly the situation of high inflation) have improved in Bolivia since the Buechlers' study, "high competition and low earnings" accurately describes Sucre's current situation. Thus some -- though not all -- business people decide to distribute capital and energy in more than one direction. If demand is down for jewelry, it may be up for furniture: thus one couple operates a jewelry-making shop and a carpentry shop. If one business is "taking off", households will invest more resources (time and capital) in it; however, if a business is just maintaining itself (providing an income, but not really growing), household members may seek out opportunities to diversify.

Multiple businesses often supply each other with capital during slow periods; for example, one carpenter I spoke with sometimes borrows money from the household's hardware store when he needs to buy wood. Lax accounting practices are an advantage here, allowing capital to flow more freely among a household's various business activities. The flow is not completely free, of course; different household members often have charge of each business and can choose not to cede or loan funds; however, it is generally in the entire household's interest to keep all income-generating activities afloat.

In some cases, one business may generate the capital for a new business, as was the case with chocolate producer Don N. and his wife, who earned enough money producing chocolates to purchase a dump truck to start a sand-and-gravel transport business:

"It was my wife's idea. She said, let's give it a try."

Similarly, a carpenter (Don B., #159) spoke of the household's use of carpentry-shop profits:

"We're going to start a chicken-raising business...one of my sons is an agronomist ...so you see, we always do something with the money."

Thus, households may use their profits to diversify into new areas. Don B.'s shop is not growing rapidly; he will not give it up, but chicken raising provides another potential source of income (and may also give the son a base on which to start his own household). When a household begins a new business, this business may take advantage of prior knowledge or abilities of household members, perceived market opportunities, and/or perceived opportunities for vertical integration. A taxi driver I spoke with, for instance, also planned to begin raising chickens, partly because he could then make use of chicken droppings as fertilizer on his farm.

### 4. Roles Inside the Household Business

As a household is generally comprised of several individuals, it is important to consider the roles that different members play in the "household business." Who, for instance, "owns" the business -- the entire household, or specific members? Who works in the business, and what is done with the profits? Finally, what is women's role in household businesses, and do women have businesses of their own?

In some cases, husbands and wives consider themselves co-owners of a business. This was always the case, for instance, when both husband and wife administered the business, or when husbands produced and wives marketed. In other cases, the husband may have his own business and the wife will work in something else -- a salaried job or, often, a separate business. Or the wife may have a job, and the husband a business. Some households have one business which is specifically the husband's, another specifically the wife's. If the wife is a housewife who does not work in her husband's business, she may or may not consider herself a co-owner. If she participated actively in business startup, or was previously involved in administration until other responsibilities (such as children) took up her time, she may still consider herself co-owner; in such cases, her husband may refer to it as "our business." In other cases, the business is "my husband's", but money from the business is expected to supply household needs: "the money is for us."

Among the carpenters, in workshops where the husband's principal occupation was not carpentry, the wife co-managed the shop. Such businesses (carpenters #196, #12, and Enterprise #3) tended to rely heavily on hired workers, and women played important administrative roles. "She's co-owner," Don S.P. of carpentry shop #196 said of his wife, who was too busy managing the shop floor to talk with us. Similarly, Don C and Doña V. were co-owners of carpentry shop #12, one of the highest-earning shops; both participating in the interview and offered information (he often deferred to her on questions of prices and quantities). These shops tended to be among the larger ones; carpentry shop #196 had over 35,000 bs. in capital (slightly larger than average), and carpentry shop #12 had around 50,000 bs. More capital is likely linked to having other household income (Don S.P and his wife are both teachers) and/or capital from previous successful businesses (Don C. and Doña V.'s furniture-merchandising business).

However, in shops where the man was a carpenter by trade, women tended to participate very little; in these cases, the shop belonged to the husband. The husband had learned carpentry from his youth and generally took charge of his shop and workers with little or no reference to his wife. This was the most common situation among carpenters. The wife usually had a completely different business, such as selling in the market or producing articles (such as sweaters) for sale. In one case (#117), the wife complemented the husband's activities by producing the decorative cloth lining for the coffins he made. Sometimes, wives would help with sanding or varnishing in husbands' shops, though the incidence of this was both reduced and under-reported due to verbal sanctions imposed by colleagues (many of whom do not think it appropriate for a carpenter to "make his wife work" in carpentry). In the smallest carpentry shops, such as #15, wives were more likely to be involved in the workshop (helping to sand and varnish) and thus seemed to exercise more influence as co-owners. In the case of #15, the wife had taken out a credit as a carpenter in her own name -- though actually she had hoped to use the money to start a small neighborhood grocery shop.

A frequent pattern is for the husband and wife to have different but complementary roles in a household business they co-own: most commonly, the husband will make a product (potato chips, chocolates, shoes) and the wife will take it to sell. (Were this process reversed, some academic would be certain to claim that men were taking control of the women's production!) This arrangement seems to suit both men and women. In the Andean region, marketing is commonly a women's role -- particularly for indigenous but also *mestizo* women. When a woman acts as a marketer, her husband has more time to dedicate to production. Also, the woman as marketer maintains greater control of the money, which Sucrenses, male and female, commented was the preferred situation: women can be more trusted to make sure money is not "detoured" to unproductive ends, such as drink.

In many cases, a business is not co-owned; it is the primary responsibility of either the husband or the wife. Particularly with very small businesses, one spouse or the other may consider the business his or her "own." The other spouse may "help", however (wives "help" husbands, and husbands "help" wives), and earnings go to supply household consumption needs. Doña L. sells shoes, for instance; when asked whether this was her business or the family business, she replied, "my business." Nevertheless, her husband and son, who do not have jobs, come frequently to help her. Don S.'s (#117) wife "helps" make the coffin linings, but they are, as he says, "my coffins." She is almost never seen in the carpentry shop which is the main center of production.

While one spouse or the other may run a particular business, both will say that the money is "for the house." This can mean for food, utility bills, and spending on children; it can also mean actual improvements in the living space, as was the case with Carpenters #179, #200 and #117, who were investing carpentry-shop earnings on house construction and improvement:

"I am having my house built,[5] and my workshop is going to be there too.... It's going to be better, we won't have to pay rent so we'll live better." He says his net shop earnings are 300 dollars per month: "It's for the house." (Don S., carpenter #117).

"I want to sell more, to have my house worked on. It still lacks some things...this is why I am working to earn money." (Doña G., shoe merchant).

"I earn for the house...I have several kids." (Don H., former carpenter, who now works as a public employee in the health board).

"There's always earnings, that's what we keep the household going with." (Doña I., *casero* chocolate producer #9).

"I don't keep a balance (for the business). My son's in a private school (*colegio particular*) and my wife doesn't work, so it's just my income.... You always have to take out something." (Don G., carpenter #135).

"It's a family business, so we're not all that organized.... We don't receive salaries, well, my sister always has (because she is married, has formed a separate household).... We just take out what we need, for the house expenses." (Doña E., owners' daughter and manager, Chocolate Factory #2).

I asked lumberyard/carpentry enterprise owner Don P. if his monthly earnings went for his family:

"For the family, no.... Well, I pay *pensiones* (school and lunch fees for the children) and some things, but mainly I invest in wood."

Generally household expenses are large enough that all household businesses must contribute to covering them; however, in some cases household members may make the decision to allow one business simply to capitalize itself, as an investment. Thus, school supply seller Doña A. reinvests all her profits in stock, while her and her husband's salaries as teachers supply household consumption needs. Occasionally, one spouse will take on the primary responsibility for provisioning the household, and the other spouse may not earn income at all. Don G., the carpenter mentioned above, is one example. Another interesting case is Doña E., a Quechua woman whose husband runs the household chocolate business (#13); she "helps" but does not have a business of her own. She says of chocolate: "He knows more about it." Yet she says the money is not just his, it is "for us."

Doña E. had a lot of previous experience with businesses, beginning as a child when she helped her mother, who was a small-scale merchant. Later, Doña E. raised chickens to sell, a few at a time; that was her business. She and her husband together had a car buying-and selling business, and a popcorn-and-potato-chip business. Her husband made the popcorn and potato chips, and she took them to sell in the central plaza.

"It was very hard work (literally, "I sacrificed myself").... Now, I don't do that anymore. My husband says, you've sacrificed yourself enough, now let me sacrifice myself.... I don't want to go back to selling in the plaza, and he doesn't want me to."

Doña E. had to carry a child while she was pushing her cart; also, she mentions the cold weather, and how she fell ill as a result of the hard work.

While one household member, such as Doña E.'s husband, will sometimes take on primary income-earning responsibility, economic necessity may dictate that husbands and wives each have their own economic activity:

"I sell in the Campesino Market...used clothing... My husband brings cattle to sell...from Monteagudo. Both of us have to work, if not, the money doesn't stretch." (Doña X, Barrio Japón neighborhood)

"I mostly administer (the lumberyard), as a man. Sometimes, she (my wife) comes down to help me but she's more occupied with the house.... There are also 4 shops that we rent. That helps, it's $100 dollars each per month, $400.... My wife administers that." (Don P., owner, lumberyard/Carpentry Enterprise #2)

As one business becomes more successful, hence busier, spouses may begin to take greater part in the venture. This is a pattern which June Nash has observed among pottery makers in Mexico: men began contributing more labor to their wives' pottery businesses as the businesses grew (1993:16). Carpentry enterprise owner Don S.M. explains how his lumberyard business expanded and his wife became involved:

"Since (the business) was making money, we began to bring a truckload (of wood) per week.... I did it.... My wife afterward formed part of the business too. I had to travel and she stayed here to sell." (Don S.M., carpentry enterprise #3)

In Chocolate Factory #1, the owners' wives[6] never had large shares in their own names, but they did help out regularly in the factory once it grew large. As a business becomes more profitable, it may make sense for more household members to invest time in it -- depending, of course, on what their alternatives are. In both the chocolate and carpentry sectors, I found that women frequently acted as administrators in larger businesses. Adult daughters, particularly, often take on administrative roles (as is the case in Chocolate Factories #2 and #5 and Carpentry Enterprise #1) -- as do sons. These daughters and sons nearly always have university educations.

Sometimes, husband and wife are involved in the same business, but may physically separate their activities so as to double their chances of capturing clients. One woman sells candies by the Central Market; her husband also has a candy stall near another door of the market. One tailor makes and sells folkloric clothing (*artesanía*), in his shop; his wife also has an *artesanía* shop around the corner that is run as a separate business. "That's hers," he said, "I work here." Or husbands and wives may work in similar, but distinct businesses; one couple, for instance, sold in the Night Market: the husband with a clothing post, the wife with a tennis-shoe post.

Often, the wife's activity is completely different from her husband's: two carpenters' wives machine-knit sweaters for sale; one sells food in the street; another sells cooked cereal in the Central Market; one runs a neighborhood store; another runs a *"pensión"* (lunch restaurant with a fixed clientele). In the latter two cases, the husband "helps" but it is "her business." Another carpenter's wife has a salaried government job. A shoemaker's wife sells drinks in the street. A bus-driver's wife has a sewing business. And so forth. Women will often work as market or street vendors to contribute to household income when their husband's salary is irregular, as it is with freelance construction workers (*albaniles*). The combinations of businesses and jobs are many and varied, with husbands and wives working both independently and jointly toward the goal of generating income for the household.

Children, both school-aged and adult, frequently help in household businesses. Sometimes a mother may go off and leave a marketing business in the hands of a daughter. For instance, Doña E.L. used to sell lingerie in the Night Market but left to sell in Sta. Cruz; now she sends merchandise back for her daughter, who is in secondary school, to sell in her place. Young daughters (of elementary-school age) may also tend a stall for an hour or so, now and then, and sons sometimes do this as well.

Grown daughters may act as intermediary buyers or sellers for their parents; for instance, one egg-and-cheese merchant's daughter brings cheese for her mother from Sta. Cruz. A man who owns a carpentry shop (#168) leaves furniture with his daughter in Yaicuiba for her to sell. Another young women works alongside her father in his puzzle-making business in Sucre, helping with production and taking charge of the marketing end of the business. Grown sons may help as well, though they are less likely to become involved in marketing. One son was helping his mother who has a grocery stall in the Central Market. He is a university student and so has time available, "but mostly he just studies." Sons will often help in their father's carpentry shops, eventually receiving their own orders; daughters often help mothers who are merchants, and may inherit the sales post.[7]

Children who live at home often contribute to family businesses and generally do not receive salaries: as a teenager working in her father's business put it, "After he's given to us all these years...we can't charge him.... But he gives me what I need, for my expenses." In this case, as with others, household and business accounts are blended. Yet even though children contribute to household business, they do so less than might be expected, because there is a generalized concern that "they study". As one lumberyard owner put it, "They don't help. I prefer that they dedicate themselves to (studying)."

A woman who sells hamburgers emphasized:

"The important thing is that (the children) study, that they become somebody."

A clothing merchant said that she works alone:

"I have no daughter to help me... She's studying (medicine)."

Sucre is a university city, and professional degrees are a recognized path to social mobility, whether children remain in Sucre itself or seek jobs elsewhere:

"He should be a professional," one carpenter said, when I asked if his son was interested in carpentry. "Those are the people that have the power...not people like carpenters, at least not in this country." (Don G.. #135)

About 20% of the business people in the microcredit sample, and at least 20% of the carpenter's sample, had children who were currently studying in university at the time I interviewed them. (Many of the children were not yet of university age, and a few had already graduated.) Even some of the lowest-income households sent children to university. Thus we see that, in Sucre, children's educations are an important investment for the house; many market sellers and artisans have children who are now "*universitarios*".

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[1]See Berry 1985:137, MacGaffey 1987:109 and Buechler and Buechler 1992:269 on the role of diversification, rather than expansion, as a response to unfavorable economic conditions and risk.

[2]n=42 businesses in 1996.

[3]Another two business people had spouses who were retired and received pensions.

[4]Don O, chocolate producer #8, was using space in a building belonging to his father-in-law. In some cases, producers had a shop facing on the street; the shop was the front room of their house. Many city houses are built this way to accommodate businesses.

[5]While Don S. is undoubtedly making the doors, windows, and other wooden parts of the interior himself, the basic construction would not be of wood, and thus he is "having it built."

[6]This factory is co-owned by two brothers.

[7]These are rented from the marketplace, but each vendor controls her own post and can pass on the right to occupy it to whomever she wishes.

# Chapter 5: Insider-Outsider and Household Boundaries

## 1. Ownership Within Households

We have seen that most businesses in Sucre form an integral part of the house. Because boundaries between business and household are blurred, it is difficult to conceive of business interests apart from household interests. Thus, while workers in Sucre may be hired from "outside", the idea of having business *partners* from outside the immediate family is immensely unappealing. Various people attempted to explain to me why Sucrenses don't form partnerships: People prefer:

"...to have their own business, even if it is small and unproductive, rather than join with others.... There's a lack of negotiation...and there's also technical problems. One person puts in capital, and another person puts in machines and labor, and the person who put in the capital comes to collect his profits, and the other person says, 'But I've done all the work!'" (J., a Bolivian microenterprise consultant).

"To work in common (is difficult).... In ceramics, for instance, one person knows more, another person knows less, one works more, another works less, and they start to criticize one another. It would be good, if it were constructive criticism, but people are *egoista* (self-centered, selfish)." (Don A., leader of an artisan's association, discussing why people in his association don't join together to produce goods in larger quantities).

Sometimes, NGOs and similar organizations encourage producers to work in groups, believing that by pooling capital and knowledge they could produce more efficiently. A carpenter explained that those who make such recommendations do not understand how difficult it is to work in common:

"They say if you work in a group, they can give you the loan faster, but they mean a group that's all working in the same shop, like partners... But that's difficult, because people don't all work the same, some work more and some work less, and so you end up with disagreements.... It's better to work independently." (Don L.A., Carpenter #241)

Where people are accustomed to running their businesses as household activities, blending accounts and maintaining little or no accountability outside the household, it is easy to see how "group" businesses could quickly become recipes for disaster.

Independence is particularly important for Sucre business owners. Having an independent business gives people the ability to set their own hours, make their own production and marketing decisions, and flexibly share time and capital with other income-generating activities. Independent business people need not accept the edicts of an employer, nor enter the time-consuming process of negotiating and compromising with partners.[1] Even the owner of Chocolate Factory #5 -- which functions more like a corporation, with two investors from outside the household -- spoke of the appeal of independence when deciding to start this business:

"What I wanted was to have an industry of my own. That is, the size of the business wasn't so important, but (I wanted) something where I could make decisions alone."

The limitation on working with people from outside the household applies even to blood relatives; as one carpenter put it:

"...(My brother) worked here...not anymore. Sometimes it's difficult with brothers, better to work with a son.... I gave him (my brother) jobs to do, and paid him, but then it started not working out." (Don J.R., carpenter).

In this case, the brother in question left voluntarily when he found a job with the cement company, Fancesa. Brothers or cousins may occasionally join businesses as "workers" or "to help" (for pay). But they almost never work together as equal partners. Often a brother just comes "a few days" to help, and is not a regular part of the shop. Even if he is there more regularly, this arrangement is usually of short duration, until the junior relative leaves to take up an independent activity. One carpenter, for instance, had formerly worked in his brother's shop, to learn the trade, but eventually left to establish his own shop. Another young carpenter, Don P. (#236), was studying automobile mechanics and worked occasionally in his brother's shop. The shop belonged specifically to the older brother: "I'm the owner.... He (my brother) helps me.... Sometimes I give him contracts."

In carpentry shop #200, the relationship was similar; there, the owner had taken a close cousin (*primo hermano*) to work with him -- but as a helper rather than as a partner. The cousin was about 20 years younger than the owner. Thus, he was more like a son than an equal; as he said: "He (the owner) is teaching me." Similarly, Doña V.'s husband's brothers used to help her (for pay) in the household's jewelry shop, but they later left to study in the university. Thus, we see that business people may provide employment (and training) for younger members of their extended family, who in turn provide a more trustworthy source of labor; this relationship, however, does not go on indefinitely, as the helper's desire is nearly always to *independizarse* (become independent).

Only about 17% of the carpenters in the sample took on brothers or cousins as help, and most of these were only "occasionally." *None* of the carpenters co-owned a shop with a brother or cousin. Many carpenters, however, worked with their sons. The difference, obviously, is one of power relations; a son will still tend to respect the father's authority, but a family member of the same generation will expect to negotiate on equal footing. Brothers may work alongside one another in a carpentry shop while the father is still alive (as in shops #155, 109 & others), but once the father dies they will not generally continue to work together: "Before, we had the shop on Calamá.... It was big.... My father died...and we divided it up." (Carpenter #135). In the city's biggest carpentry business, a brother and sister work together in different administrative roles -- but under the authority of their mother. Married children (male and female) may still work in their parents' business; once children have married and formed separate households, they receive a salary (or independent contracts to fill, in the case of carpenter's sons). Thus, the new household's accounts are kept separate from the old one's.

The independence of the household as a discrete economic unit helps explain why co-ownership by family members from different households is rare. In Bolivia, newly married couples will establish their own house when possible (often, by building it). When this is not possible, they will live in the house of one set of parents (matrilocality or patrilocality is primarily a matter of convenience, and generally only a short-term solution), but will do so as a separate "hearth" -- that is, a separate household which eats apart. (*Mesa aparte*, or "separate table" is another common term for this.) Weismantel (1989) has written about this establishment of separate "hearths" in her study of Andean households in Ecuador. I was interested to see a very similar process during one Sunday afternoon picnic with a group of friends from a rural, Quechua-speaking background: the parents and children sat together, except for the married sister and her husband and children, who had brought a separate pot of food and sat slightly apart from the rest of us. If every "hearth" is separate, the blending of business and household assets often seen in Sucre businesses could become uncomfortable among siblings, and easily lead to fights.

One reason to avoid working closely with family members of the same generation is to avoid discord: "Families are a lot bigger here (than in Potosí)...but they're not close; there's a lot of fighting in families," a friend told me. One carpenter from Sucre (#209) mentioned renting workshop space from a close cousin when he lived in La Paz:

"It's difficult with relatives, you don't want to get on bad terms with them. It's harder to deal with relatives than with just anyone...."

When a carpenter has relatives who are also carpenters, they have their own, separate shops. The situation is the same with other producers. A single family produced five male sandal makers, all brothers, but each has his own separate workshop, generating income for his own "house". Chocolate-making siblings don't work together either; one man even went off and started his own factory, which became the major competitor for the factory belonging to his parents and managed by his sister. Another family of small-scale chocolate producers had three women (two sisters and a cousin) producing chocolates, but each business was completely separate.

However, there is an interesting exception: the two biggest chocolate factories in Sucre, #1 and #5, are each co-owned by brothers. For Factory #1, the relationship has not been without difficulties. One brother seems to have taken charge of (or claims to have taken charge of) the management of the factory; he says that his brother was always too busy traveling, and too involved in politics, to help, "so it was I who was left with the factory." Factory #5's experience has been more straightforward. Owner/manager Don G.'s brother, along with another investor, act as silent partners; although Don G.'s brother contributed knowledge at the beginning to improve machinery design, neither he nor the other partner now participates actively in the running of the factory. Both Chocolate Factories #1 and #5, the only examples I saw in Sucre of co-ownership by siblings, had much more formalized accounting than the norm; thus, the portion of the business belonging to each household was clearly defined.

In no other businesses sampled were brothers, sisters or cousins working together, except under the direction of a member of the older generation. And the only small enterprises I found which had partners from different families were two cooperatives run by people from outside Sucre (a soy-milk business started by an NGO for displaced miner's wives, and a small textile project started by a grassroots organizer to train people in textile techniques). These were both primarily social-service projects with a business component; while each was an interesting case in its own right, they were not examples of how businesses in Sucre typically work.[2] Finally, there was one exceptional case of cross-family partnership in a small business: a lumberyard/carpentry shop (#214) run by two friends who are accounting students. Unmarried university students may start businesses with colleagues; one young man from Sucre had moved to La Paz and began a business there with former classmates from other parts of Bolivia. It is possible that such university-educated entrepreneurs may be more willing and able to formalize accounting, salaries and so forth; it is not certain, however, that cooperation and co-management will prove viable for them over the long term, particularly once they marry and form separate households.

Bigger factories, such as Chocolate Factories #1 and #5, the hat factory Sombreros Chuquisaca (with its three unrelated partners/investors), and the beer factory Sureña (begun by two partners), were the only other businesses which crossed household boundaries. These tended to be businesses begun as investments, rather than household activities, where partners were not all directly involved in everyday labor and administration of the business. Class appears to have some role in the decision to form cross-household alliances in Bolivia; Buechler and Buechler note that while most enterprises in La Paz are owned within families, "middle-class and elite producers may also use ties outside the family to start enterprises." (1992:57). University training in business and law can also equip people with the skills they need to form effective partnerships; as more people acquire these skills in Sucre's universities, it will be interesting to see whether business partnerships become more common.

**2. Secret Recipes and Household Boundaries**

The isolation of the household as a production unit is particularly marked in the case of chocolate production. In chocolate businesses, the house becomes a sort of fortress where recipes are known only to the "family" (meaning parents and children), and few outsiders are permitted within the factory walls. The most extreme case is Chocolate Factory #4; the owners not only would never let me in the door, but once shut the door in the face of their own *co-madre*[3] and left her standing in the street while they ground cacao bean for her. As she told me:

"I'd like to see the machine that does the *grajeas*. I'm curious about that, but they've never let me see.... I've never asked to look in their factory, why should I? So they can say, 'She wants to learn how to make bonbons'?.... Once I went (to pick up cacao)...and they left us standing on the street...and then they gave us the cacao, and shut the door.... Really, how do they think that, at my age, and barely able to walk, I am going to want to start making bonbons?... But that's how they are."

While the Sucre hat factory Charcas Glorieta has a display room for customers inside the factory, and the Sureña beer factory is pleased to give tours for customer relations, only one of the five major Sucre chocolate factories invited me onto the production floor. The owner of Chocolate Factory #3 has not even shared his bonbon recipe with his own brother, Don M., who lives next door and has his own machines with which he occasionally produces chocolates (using a recipe he elaborated himself). Don M. explained:

"(My brother) has a recipe; his are the best centers.... Other factories, their centers get hard, but his actually get softer as they set.... He mixes the recipe himself, only him, and no one knows the recipe.... Yes, his wife helps him, don't think he hasn't told her the recipe, but when she mixes it, it doesn't come out the same.... I've made bonbons, but my centers aren't like his. His are at 100%. Mine are at about 80%."

Another chocolate producer, Don N., guards his special bonbon recipe with great secrecy. He describes the business's beginnings in terms that emphasize the household members' role as "insiders":

"My wife and I worked day and night...only we in the family were working: me, my wife and the children, no one from outside. No one knows this recipe. People have offered to buy it for $3000 dollars, but no...."

Later, this producer received an offer to go into partnership with a Argentinean entrepreneur, but was suspicious of entering into partnership:

"The chocolates had arrived in Argentina, and this man -- he's of North American descent but he lives in Argentina...by chance someone had him try one.... He came all the way to Sucre to find me, two times he came, to beg me to go there. He promised to give me a chalet, 50 workers, a vehicle.... I said, under what guarantee?..in case we should fight.... I already have my house here, I have my job that I would have to leave, and he would have all the machinery and know how to make the bonbons, so what happens when he gets tired of me?.... I told him that, if we should fight, he would have to lose half of his machinery, because I would be losing my time, so I would take half the machinery with me...but he didn't want that.... He came back, but I told him it would have to be under those conditions.... I'm a descendant of Turks, so I know all about those schemes."

Partnership involves risk; negotiating an enforceable contract which is acceptable to both parties can be complicated, costly, and sometimes impossible. Yet entering into partnership without such a contract could be even more costly, as Don N. points out. (See North 1990:52-59 on the importance of enforceable contracts for economic transactions.)

Workers in chocolate factories learn the basic process of chocolate-making, but they do not have access to specific recipes (particularly, the well-guarded bonbon recipes); most workers who began their own businesses made drinking chocolate rather than bonbons. Recipes are valuable knowledge; they are household assets, kept inside the household. People tell stories of how one of the city's early chocolate makers (the Urioste family) took in the orphaned son of a friend, who was treated "like a member of the family", but then he "stole the recipe" (which was "very secret") and began his own chocolate business. The orphan himself, now co-owner of Chocolate Factory #1, tells a very different story:

"What happened with the Urioste was, they had had their factory.... At that time I worked in the National Bank, but in my free moments I went to the factory.... When the Señor died, they gave me the keys...they asked me what they ought to do; I told them that it would be good to produce a bit more.... I made it produce around 50 packets (of bonbons) a day (instead of 20), with the same workers, the same machines.... Afterward, they (the family) left, they closed the factory. After a year or two I decided to begin to produce chocolates."

His nephew, Don J., tells yet another version:

"The Uriostes were friends of my father's, they made a homemade (*casero*) type of chocolate.... My father helped because he was a friend of the owner's son. Afterward, the owner died and the whole family went to La Paz. My father took charge of continuing with the production of chocolate here in Sucre."

Both Don J.'s father and his uncle were involved in the establishment of Chocolate Factory #1; the part played by each brother is unclear in these narratives because, in each case, the narrator gives credit to himself or his father rather than to a member of the other household. What *is* clear here, however, is that the brothers considered themselves *insiders* -- trusted member of the Urioste household who received "the keys" and inherited the role of chocolate producer when members of the original family abandoned it.

### 3. Outside Labor

Ownership of businesses is nearly always limited to household members, but labor can be hired from outside the household. While larger businesses still may be located in the home, the scale of production means that they must necessarily hire workers. In such cases, the building is divided, with certain areas being dedicated to the factory/workshop and other areas being the exclusive living quarters of the family. In smaller businesses, production is often concentrated in a "shop" (*tienda*) -- the front room of the house, opening on the street, where laborers work. Production and living areas are thus somewhat divided, though not as markedly as in larger businesses. Very poor and/or very-small-scale producers, on the other hand, may not have even this minimum amount of separated space, and may produce goods directly in their living area. These producers seldom if ever hire labor.

Though hiring labor from outside the household is common, even in small businesses, a certain reluctance characterises it. Chocolate factory co-owner Doña D. says she wishes she had a business that was not producing goods, because of "problems with employees -- you always have to keep an eye on them." Of the seventeen producers in the micro-credit sample, six (35%) employed labor from outside the household; these were principally artisans: the tailors, the carpenter, and one goldsmith, as well as an ice-cream maker who pays sellers on commission. All of the chocolate factories, and slightly over half of the *casero* chocolate producers, hire outside labor at least occasionally. Of the carpentry sample, 79% of workshops employed labor from outside the household, permanent or occasional.

Production may be so low that extra help is not needed; it may even be unwanted. Skilled artisans who do very manual work, for instance, may not be interested in taking the time to train helpers; as one burnt-wood plaque maker said, "I work alone. It's my work... It's not the same if someone else is there." Also, labor from outside the household must be paid, and production and earnings may not be sufficient to cover the extra expense. Even if overall earnings are sufficient, paying salaries may exacerbate cash-flow problems. As one producer put it, clients don't pay on time but workers must be paid. The difficulty of enforcing the client's agreed-upon payment date may thus inhibit the efficiency and expansion of the business.

Sometimes, qualified and reliable labor is unavailable. Many producers, particularly carpenters, identified a shortage of labor as a main limitation on their production. "Any carpenter will tell you, they need helpers, and there aren't any." (Don T., carpenter's *sindicato* president). Working as hired labor in a carpentry shop is generally a temporary position rather than a long-term choice. Many carpenters save money until they can (literally) "put together" (*amarrar*) a shop with handmade machinery; those who do not have a shop work as master carpenters (*maestros*) or helpers in other carpenters' shops, until they can save enough money to become independent.

In the employer-employee relationship, there is often conflict. Quality control can be a problem, as can irresponsibility:

"They come and want to work, but the minute I begin to be demanding.... Well, they want to do things just any way; in some carpentry shops that's how they do it, but I have clients that know about the quality of furniture.... Also, there are some (workers), they come to work sometimes, and sometimes they don't show up. So I prefer not to deal with all of that." (Don J.D., carpenter #60).

Workers are outsiders who "come" but do not "know". One large carpentry business owner, frustrated with the irresponsibility of workers who frequently failed to show up for important jobs, declared, "They don't have brains, they have sawdust!"

The term, "*se pierden*" -- literally, they become lost -- is used frequently to refer to workers.

"*Se pierden*...They leave work one day saying, 'See you' like always, and the next day, they don't come...they don't even give back the material.... They disappear, they leave their families.... For us, it is a puzzle to deal with this kind of people." (Doña J., owner's daughter/administrator, Carpentry Enterprise #1).

Workers who "disappear", who fail to show up without advising their employer, are a common problem. "*Chocolateros*" (who do the labor-intensive *batán*-grinding and mixing in traditional drinking-chocolate production), for instance, are known for their unreliability, simply "showing up" at odd times or not "showing up" at all:

"Sometimes (people) come to buy (chocolate) but there isn't any, because the man hasn't come." (Doña G., chocolate producer #14)

For about three weeks, chocolate producer Doña I. and Don M. nearly suspended drinking- chocolate production because their *chocolatero* traveled to the countryside, where he is from:

"He went to the countryside after Holy Week and then there was a harvest and he only just got back.... So we haven't been making much chocolate, just bonbons."

Small-scale chocolate producer Doña M. (#12) complained of former employees: "They used to come...but they disappear (*se pierden)* a lot." This producer now only makes chocolate occasionally, and is on the point of quitting altogether. For the most recent batch of drinking chocolate (her first in three months), her husband had to do the *batán* grinding and mixing because the employees did not come. Her sister Doña D. (#11) uses the services of the same people to make drinking chocolate. Because there are few people who know how and are willing to do this very hard work (generally, they are *campesinos*, indigenous people from the countryside), Doña D. fears losing them even when she is angry with them:

"They come when they feel like it.... They're from the countryside.... A long time will pass and they won't come, then they show up and no matter how I feel, if I'm sick, I have to prepare the cacao. I'm afraid if I tell them to come back later they won't come back at all.... I've told them, they have to come on a certain day, when I'm well, when I can work, but they don't show. They tell me, in Quechua, well their *wawa* (baby) was sick...or they don't say anything at all."

The situation appears to be somewhat better in the chocolate factories, which are larger and more mechanized. There, it is easier to find people willing to work; as one small-scale chocolate producer who had experienced difficulties finding labor commented: "People don't want to do the work by hand, they want to use machines." In the mechanized factories, work is easier, and the employer-employee relationship is more formal -- employees are usually permanent, receive wages around 500-600 bs./month (well above the minimum wage; see Table 5, below), and have benefits such as access to a *caja de salud* (hospital). Thus, labor was not a problem cited by chocolate-factory owners. One young man who previously worked at Chocolate Factory #4 explained that his co-workers were mostly in their teens and twenties, having entered as young as 14 to work there. I suspected that there was a preference for young people because these are unlikely to possess capital to leave and start up their own chocolate businesses; they are also less likely to be distracted by household demands (sick children, etc.).

Sucre's Carpentry Enterprise #1, on the other hand, has serious labor problems; here, *maestros* are paid by the job (on contract). Work habits tend to be lax and workers irresponsible about completing jobs on time. The owners have tried a variety of strategies to increase employee loyalty, including loans, salary advances, and both prizes and sanctions, but the problems continue. This may be because the carpenters who come to them have worked in a variety of shops and accustomed themselves to informal work habits; as one administrator commented, "the old ones, they can't change."

A lack of reliability among workers is a serious limiting factor on the efficiency of businesses, lowering productivity and damaging customer relations as orders are not filled on time. The root of the problem may lie in the informality first demonstrated to the workers; in many carpentry shops, for instance, they are temporary, kept on only so long as work lasts. As a result they cannot be expected to demonstrate any particular loyalty toward employers. One carpenter explained why he had recently changed shops:

> "Sometimes there's no work... The other owner said, we have to rest, there wasn't any work.... When there isn't any work, you have to go somewhere else. Like now, we only have this *carrocería* (wooden truck frame) to do...afterward, if there isn't any more work, I'll have to go somewhere else." (Don E., #100)

Because workers are not of the household, the line between them and the household must be clearly marked.[4] Workers do not have claims of ownership on household assets, and may be segregated in other ways to underline this difference. "The workers...are in very non-important roles," said the son-in-law of the owners of Chocolate Factory #2. "They leave early, and the rest of us go on with the work." It is interesting, however, to see that chocolate workers in the smaller, *casero* businesses are sometimes adopted temporarily into the household as lodgers, since they are often from the countryside. Yet there seem to be limitations on the areas of the house where such workers stay and what they may do, as is the case with live-in maids (who seldom sit with the family at meals or sleep in the same section of the house). In the several times that I visited chocolate makers Doña I. and Don M., their workers were always in the two back rooms (dedicated exclusively to certain stages of production), not in the living areas, where household members carried out other stages of production.

When production takes place within the household's living area, people are understandably wary about taking on help from outside the household. As one shoe-maker said:

"I don't have workers.... You have to have people you can trust, and people these days aren't very trustworthy. Since this is a living space and workshop, they could come in, take anything."

Some producers are wary of theft -- of both materials and secrets, and so may resist taking on workers even when these are desperately needed:

"Demand (for chocolates) was tremendous, but I lacked strength to do it, I lacked human capital.... I haven't wanted to hire workers...what if they rob me?... Of course, it wouldn't matter if they take a little, to try, for their families...but people are envious.... They can get to the point where they will take your raw materials, anything.... I don't want fights, I don't like to fight.... (Also) people, seeing so much, they begin to get the idea (of how to make the chocolates)." (Don N., chocolate producer #7).

"My daughters used to help me, but they're grown up now, they've left now and there's no one to help me.... And with other people, it's difficult, you always have to keep an eye on them, you have to be there permanently." (Doña M., chocolate producer #12, who is stopping production. She used to have workers from outside the family but, "They would take things...bonbons, the chocolate...")

Workers can be an inconvenience, an expense, and may even use the knowledge they gain to compete with their former employers:

"I don't have any apprentices...I work alone.... I could take in people to teach them, but they have to be paid, and as for work, they don't do much. It costs money to teach. Then they learn halfway and go off to Santa Cruz, and say they know how to carve -- according to *them* -- and what they call carving they send back here to the Campesino Market, where people who don't care about quality buy it...." (Don A., furniture maker).

One carpenter had attempted to give himself more flexibility to do construction work by hiring someone to be in charge of his shop, with disastrous results:

"There used to be 9, 10 *maestros* working here... I had a man who was in charge, but there were problems.... He sold the wood...I used to have a lot of wood.... He had orders and he didn't fill them.... Then he said the business had gone bankrupt.... And I had taken out the loan from (an NGO) and I couldn't pay...." (Don L., Carpenter #6)

A lack of trust, and employee violation of employer trust, are therefore factors which may lead a household business to resist taking on outsiders as workers. Nevertheless, outsiders do come in to work; in certain cases these may even move in with the household (usually temporarily), as with the *chocolateros* described above. A chicken-farm owner also "took on two boys to help"; one now lives with him. Children (late elementary or secondary-school aged) are sometimes adopted into the household and provide labor services; for instance, urban Bolivian families may take in godchildren from the countryside who perform housekeeping duties while also attending school. The roles of such children within the household vary, but they are not household "stakeholders" (although in some cases, they may acquire certain claims over time). Such children may provide more trustworthy and trainable labor than an adult outsider; however, they can do less, and their presence in the household involves certain costs. These costs vary, as some children are better looked after than others.

One way that business people address the problem of untrustworthy labor is by hiring extended-family members or friends. This is also a good way for businesses to find potential workers in a city where very few institutional structures exist to connect employers with job-seekers (usually, they find one another through word-of-mouth from current employees and mutual acquaintances). Hiring family members or friends may not solve the problem of employee untrustworthiness, however. One couple had their entire savings, over a thousand dollars, stolen on their wedding night by the husband's nephew:

"He used to come here and help with the chocolates, I would feed him, to make sure he didn't go hungry.... He broke the window of the bedroom and stole the money, we had it in a clay jar...." (Doña E., chocolate-maker's wife).

**4. Inside Labor**

The preference is for family labor from the same household, which is "*de confianza*" (trusted) and need not be paid. Family members from *outside* the household, on the other hand, may be less trustworthy (perhaps only interested in capturing resources to benefit their *own* households), and must nearly always be paid. Some workers within the household may even be paid: for instance, grown sons working in their father's carpentry shop who earn a percentage on jobs they do. Of course, such in-household workers, who are considered co-owners, are more likely to invest time and energy beyond the immediate compensation they receive. They are more likely to be willing to work even when there is no money to pay them. Entrepreneurs who do not have helpers within their households may find themselves at a disadvantage; they lack access to a readily available labor force willing to work for minimal compensation when needed. One carpenter, for instance, was lamenting the need for someone to market his work. He did not consider hiring someone to do this, but rather mentioned that he was unmarried; ideally, the role of the wife is to market the goods the household produces.

Although it is desirable to use household labor, this is not always available; children's free time is limited by their studies, and spouses may be busy with other activities (businesses or jobs). As we have seen above, however, husbands "help" wives (by carrying ice for her juice-drinks business, grinding cacao for her chocolate business, minding her shoe stall) and wives "help" husbands (by marketing his product, sanding his furniture, and so forth). Children help as well, minding sales posts for their parents or helping with some kinds of home-based production when they are young, and providing administrative skills or acting as market intermediaries to other cities when they are grown.

Household businesses are often given into the keeping of sons or daughters; a *gomeria* (tire shop) in an outlying barrio, for instance, was founded by the father, but with the purpose of giving the son a job. The son seems to hold primary responsibility for the business, at least in name: the father comments, "I help him." One carpenter (#168) has a sales post in the border town of Yaicuiba; the post is under the care of his daughter. Similarly, the owners of carpentry shop #145 gave their daughter charge of a family hardware store until she left this to go back to school. Larger businesses, such as chocolate factories #1, #2 and #5, frequently place managerial duties in the hands of the owner(s)' sons or daughters.

It could be argued that sons and daughters are now more likely to fill administrative roles in household businesses because many are now taking university degrees, often in fields such as accounting. Entrusting administrative positions to children was, however, seen in earlier cases -- for instance, the daughter of the Martinic chocolate-factory owner, who worked alongside her father in the 1930s and 40s:

"I always helped my father, but not in the factory itself; rather, I did the accounting. I kept all the books... I came back here to live and I didn't go away anymore to study, at that time it wasn't so important to study, but he (my father) had me sit down at a desk, and he showed me, you do it like this, and so that's how I learned." (E. Martinic).

Thus far, we have seen that the *household* is a key unit of organization for Sucre businesses. The line between household and business is often blurred, and businesses are not amenable to partnerships from outside the house. While outsiders may enter as "laborers", they may not enter as co-owners. Households may combine multiple businesses and/or jobs to increase the money available to the house; household members may share ownership in certain businesses, while in others, the business belongs to one household member. Some activities are recognized as "mine" while others are recognized as "my spouse's"; participation in "my spouse's" activities is defined as "helping" (*ayuda*).

Roots for this household division of labor could be found in the traditional rural culture of the region, where a dualistic complementarity informs the husband-wife relationship (Isbell 1978), with men and women taking charge of certain assigned activities within the household economy. In the urban context, the activities are more flexible, and tend to rely on individual tastes, skills and backgrounds. The wide variety of urban income-earning activities include baking, cooking and sweater knitting for women; carpentry, shoemaking, and wage labor in construction for men; and retail sales, sewing, and wage labor as teachers or civil servants for either women or men.

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[1]See Chapter 9 for a discussion of problems of negotiation and cooperation.

[2]The soy-milk cooperative was barely managing to stay afloat after being abandoned by the NGO which started it, and the textile cooperative produced only for occasional producers' fairs.

[3]Co-mother; they were godparents for her children, and/or she for theirs.

[4]See Bossen 1981:291: "The household develops economic security through an exclusive family membership that implicitly (or legally) defines claims on corporate investment"; workers, lodgers, and others do not hold such claims.

# Chapter 6: Informal Businesses in Sucre

## 1. Informal Businesses -- Alternatives to Formal Jobs?

In Bolivia, almost half of the work force is self-employed.[1] Formal, salaried jobs are scarce; informal jobs with small employers may be available, but the low salaries paid and low entry barriers to becoming independent encourage many people to try their hand at their own businesses:

"...I started work as a carpenter again, (working for) another person, but not for long, only about a year. Sometimes it's not a good thing to work with another person, you have to make a little effort to become independent...they don't pay much." (Don J.A., carpenter #234)

"I traveled from carpentry shop to carpentry shop.... I owned my own tools.... Not many people here know how to make living-room sets.... But I realized I wasn't making anything for me, it was all going to the owners of the workshops, so I started up here." (Don C., metal-furniture maker, who has his own workshop).

In Sucre it is often assumed that owners of small, low-capital, often one-person businesses have more in common with the working class than the owners of "*empresas*", big businesses. Many artisans -- at least half of sampled carpenters, for instance -- had previously been hired laborers.[2] Perhaps this is why the member-groups of the *Federación de Sindicatos Gremiales*, Sucre's second-tier artisan's organization for shoemakers, carpenters, goldsmiths, tailors and others, refer to themselves as *sindicatos* or "unions." This, despite the fact that only *owners* of businesses may join these "unions". The *Sindicato de Carpinteros* (literally, carpenters' union) is basically a guild, but it does not undertake the sort of quality-control or entry-regulating functions that a guild normally would; rather, its goal is to exercise political influence for the benefit of artisans. The rhetoric here groups the interests of artisans with those of workers, in terms of their poverty, lack of government support, and the effect which macro-level problems such as unemployment have on them. As one carpenters' union member put it:

"We are two groups (wage workers and independent shop owners), but we are very similar. It is the same fight. There were a lot of people who worked for a wage before...but they let a lot of people go from the mines, they had to become independent.... We fight, so that we may have work.... It's the same fight, but we are two groups...."

Although a lack of formal-sector employment may be at the root of widespread small-scale self employment, it does not necessarily follow that people will abandon their informal businesses once formal-sector jobs become available. Formal-sector jobs are not always preferable to the independence of running one's own business. They are not even necessarily more lucrative. Sometimes, formal jobs and independent businesses are combined. In other cases, people have even given up formal-sector jobs for the flexibility of self-employment. One woman, for instance, used to work in the city bus terminal. She gave up her job because the hours made it difficult for her to spend time with her children; but since the household needed money, she began her own wholesale buying and selling business. Carpenter #147 was trained as a physical education teacher, "but I don't work in that. Here (in the carpentry shop) I can earn more. What they pay the teachers is very little."

"It's much better to have your own workshop, you can work at your own pace...and people get to know your work, clients know who you are. When you work for a company, all they know is, you work for that company." (Don J.M., carpenter, #209)

"If you work on your own, the advantage is that you can work when you want, you can work until late and earn more... but if you're salaried, it's just the eight hours." (Warehouse/shipping manager for Chocolate Factory #1, who does wood work in his spare time).

People with professional titles (lawyers, engineers, etc.) may have their own businesses, either instead of, or in addition to, working in their field. A friend from Sucre commented:

"A lot of the people who have carpentry enterprises have trained in a profession that's not carpentry.... Don R., for instance, is an engineer, and Don X., is a civil engineer.... A lawyer has higher status than a carpenter...but a carpenter earns more; there are so many lawyers, and very few of them do really well."

Jobs and businesses may play complementary roles. Wages may, for instance, provide the seed capital for business. Several carpenters spoke of having traveled to Sta. Cruz to work in large carpentry enterprises there; they returned to Sucre with both savings and new skills, and opened their own shops. One carpenter, Don H. (#240), mentioned that he had worked about ten years in a job in city hall previous to opening his own carpentry shop: "You need capital, to start a workshop.... I didn't even have a hammer." Chocolate-maker Don N. used his wages from work as a petroleum company supervisor to start up his small chocolate business: "I set aside two paychecks to buy a small machine. We started with that." Some people abandon their wage jobs once they have saved up seed capital. In other cases, jobs pay well and are continued alongside the business, simultaneously.

While jobs take valuable time away from businesses, people with good jobs have access to a source of working capital that the solely self-employed do not. The co-owners of Chocolate Factory #5, for instance, all have salaried professional jobs, and so have been able to reinvest all their business profits. The student owners of a small lumberyard/carpentry shop (#214) look forward to getting professional jobs and having more money available to invest: "When we get our professional degrees, then we'll have money....We have to make (the business) grow."

On the other hand, people with low-paying formal jobs, particularly teachers, often must supplement their salaries with businesses:

"I was a professor in the Normal School (teacher's college)...I kept on working as a carpenter, too...professor's salaries don't cover everything."

"My salary as a teacher goes completely for my house, and what I earn here is for the business. Of course, that's not fixed. Sometimes I take something (from the business) for the house. To pay the light, or for things that come up." (Don S.P., Carpenter #196)

People with irregular jobs also find it useful to combine their jobs with businesses: Don X., for instance, a resident of the outlying Barrio Japón, works in construction, but "sometimes there's no work", so he also makes buckets. Bucket-making provides an income supplement to his irregular wage job. Similarly, sandalmaker Don E. uses his trade as a backup to the instability of Sucre civil-service jobs:

"I left off (making sandals) for awhile, I had a job (with the municipal government), but unfortunately, with the change of government, I had to return to my trade."

While Don E. considered sandalmaking a fall-back, to be taken up when the salaried job disappeared, carpenter Don H. (cited above) saw his City Hall job as a temporary source of funds toward his real goal: the opening of his own carpentry workshop. When this workshop failed, another wage job -- this time with the Health Board, at U.S.$120/month -- became *his* backup activity. He would still rather be a carpenter. Jobs are not always preferable to businesses, nor are businesses always preferable to jobs. Each is a potential income-earning activity, with advantages and disadvantages attached.

Table 5 shows the relationship between wages currently earned in a variety of formal sector jobs in Sucre and the earnings of independent, informal entrepreneurs. It is important to emphasize that these small-scale entrepreneurs almost never make a distinction between owners' salaries and business profits. While some income is reinvested, and other income goes to provision the household, the amounts quoted to me by entrepreneurs are their net incomes after production costs. These costs include raw materials, transport, salaries of paid workers, rent, etc., but *not* the labor of the entrepreneur and unpaid household "help." We can see from this table that monthly income from informal businesses is comparable to, and sometimes quite a bit higher than, income from jobs. At the same time, the total number of hours worked for informal businesses is often higher as well; merchants frequently keep their stalls open as many as twelve to fifteen hours per day; artisans often work late into the night or early in the morning when they have orders to fill; and all may enlist the help of household members.

The numbers given for small-scale carpenters and *casero* chocolate-makers in Table 5 are averages. It is important to note that some independent carpenters may earn more than 1500 bs./month, and some as little as 450 bs. Also, chocolate-making may be a seasonal or year-round activity, and the quantities produced vary considerably (one small-scale chocolate-making couple hired additional labor, had a good market, and earned around 2000 bs./month).

**Table 5: Income from Jobs and Small-Scale Businesses: A Comparison**[3]

**Jobs**

| | |
|---|---|
| Legal minimum wage[1] | 223 bolivianos/ month |
| Hat-factory worker | 500 bolivianos/month |
| Teacher | 500 bolivianos/month |
| Chocolate factory worker | 550 bolivianos/month |
| Construction worker (*albanil*) | 600 bolivianos/month |
| Public employee -- Health Board | 600 bolivianos/month |
| Cement factory worker | 750 bolivianos/month |
| Secretary | 1000 bolivianos/month |
| Accountant | 1250 bolivianos/month |

1. This would support one person, living frugally.

**Small-Scale Businesses**

| | |
|---|---|
| Sweater-knitter | 200 bolivianos/month |
| Neighborhood grocery owner | 350 bolivianos/month |
| Homemade-chocolate maker | 500 bolivianos/month |
| Tailor | 600 bolivianos/month |
| Produce merchant, central market | 900 bolivianos/month |
| Carpenter | 1000 bolivianos/month |
| Shoemaker | 1200 bolivianos/month |
| Retail Shoe Merchant | 1300 bolivianos/month |
| Furniture merchant | 2000 bolivianos/month |

## 2. Shifting Informal Activities

People sometimes give up one kind of business for another, more profitable one. For instance, some producers may find that marketing is more lucrative, as was the case with several former members of an *Asociación Departamental de Artesanos* (Departmental Artisan Association). According to the director, this association formerly had 85 members and now only has 37; "They've dedicated themselves to other activities...selling potatoes, corn, variety goods." However, there is a tendency (among NGOs in Sucre, for instance) to assume that "microenterprise" nearly always means impermanent activities, taken up and left off as needed. Some of the Night-Market vendors I spoke with demonstrated the kind of business fluidity which people expect from informal micro-enterprises:

"I studied computing.... After that, I brought clothing (to sell), but it didn't go well for me." Now he and his wife sell sandals and other shoes, and "It's going well." (Don F., night-market vendor).

"I used to sell blouses. After that, sweaters.... Now I sell tennis shoes.... It didn't go well for me with sweaters." (Doña E.).

Another night-market vendor comments: "I used to sell costume jewelry (*fantasia*)...but there was a lot of loss" from broken or discolored jewelry. Now she sells sheets and towels. In all these cases, however, the merchant activity is constant; the variation comes from an ongoing search for a more lucrative niche.

The Night Market, in the Central Market's parking area, is a new institution (only three or four years old); the rented posts are simply numbered spaces, and sellers sit on blankets. Unlike the main Central or Campesino markets, this market's population includes recent immigrants and is prone to rapid turnover. Yet some Night-Market vendors are long-term. Of the seven Night-Market vendors in the original (1994) micro-credit sample, five were still at their posts, with the same product, after two years; another had gone away to do commerce in Sta. Cruz, but her daughter kept the Night-Market post open.

In general, the 1994 sample of 50 microcredit users showed a surprising stability of businesses; over the two-year period from 1994-1996, only 6% of the sample (three cases) had changed from one business to another. These were the Night-Market vendor mentioned above; another Night-Market vendor who had gone to do commerce on the Brazilian frontier; and a young man who had formerly produced artisan textile products, who began a computer and electronics business. Everyone else was either continuing with the same business after two years, or else (in three cases) they had left off altogether for reasons unrelated to the business: personal travel, bankruptcy due to theft, or death.

While micro-businesses which take out credit tend to be well established (see Chapter 8), and access to credit itself may have a role in keeping businesses going, this pattern of long-term stability is not limited to micro-credit users. Many informal businesses in Sucre become long-term activities; particularly, market vending and various artisan trades. A factor encouraging business permanence is that many "informal" artisan jobs have required a considerable investment of time and skill. Facing a tight labor market from their youth, many people have chosen to learn a craft or trade (carpentry, tailoring, metalworking, shoemaking, marketing), and have invested considerable time in acquiring trade-specific skills. For carpenters, especially, the capital investment is also sizable. Thus, skilled carpenters tend to build their careers around their small, informal workshops. Marketing also requires a considerable investment of time and knowledge to secure a good market stall, find reliable and inexpensive sources of supply, and build up a clientele.

Most informal businesses require some specific knowledge or skill. Often it is knowledge or skill that the entrepreneur already possesses. Some men learned carpentry as youths in their fathers' shops; they may not set out to be carpenters but can fall back on carpentry, if necessary. Most women in Sucre possess the skills of knitting and cooking; they can make a business out of either one: knitting sweaters or baby clothes for sale, opening a *pensión* (lunch restaurant) or cooking for sale on the street. Economic necessity leads individuals to take stock of available skills and knowledge and use these to generate income. In some cases, the returns to their labor may be very low, as with sweater-knitting and neighborhood grocery shops, but still better than none at all.

### 3. Multi-Business Histories

Whether or not an informal business endures depends upon two questions: whether the business is profitable, and whether there are better opportunities available. "Better", obviously, need not be measured solely on the basis of economic considerations; individual work preferences may enter into the decision as well. Following are the work histories of several people who have, or had, informal businesses in Sucre. Note how the demise or persistence of old businesses is explained, and the kinds of priorities which are attached to new businesses. Note also the interaction between businesses and formal jobs.

#### Doña A. -- Home-based Merchant

Doña A. is from a rural community, but she is not identifiably of Quechua background: she dresses and speaks as an urban Bolivian woman. She runs a well-stocked neighborhood grocery shop in the outlying Barrio Japón neighborhood with the help of her husband, Don B. They both spent several years in the city of Sta. Cruz. She has always been a merchant. The couple used to have a business selling dishes and cookware in Sucre's Central Market, "But it's hard to go down there with the children," (who range from a few months to ten years old). Doña A. says this is why she and her husband began the neighborhood shop out of their home, five years ago. Doña A. manages the store; Don B. helps with the store, and he also has his own business making gold jewelry. Don B. currently earns 500 bs./month making jewelry and would like to take out a loan to open a jewelry store downtown.

Doña A's work history shows considerable continuity -- she has always been involved in commerce. Yet her particular choices of commercial activities were oriented toward family considerations. She likely returned from the more dynamic market of Sta. Cruz because of her family connections and/or her husband's (he is from Sucre). Then, the presence of young children led to the decision to give up a post in the busy central market and open a shop in this much quieter neighborhood, where she could work out of her home. Even though pure economic considerations have given way to family considerations, her business seems successful: she has achieved a balance. The location of her husband's jewelry business within the home, as well, makes him available to help with the store. However, this help will no longer be available if he is able to make his move downtown.

**Doña S. -- What People Want**

Doña S. (chocolate-maker #15) has a large, nicely decorated *pensión* (lunch restaurant) in the heart of the Campesino Market area. She opened the pensión about a year ago, but it is doing very well; she has recently expanded it to include a street-side table selling baked goods. "I came here and meant to do baked goods and desserts (*reposteria*), but I ended up serving food.... You have to offer what people want.... Before that, I had my bread-making business.... I still have it, but it's not working now.... Before that, I worked at city hall six years in the preschool, working with children -- then I became independent.... I used to make folkloric dolls.... I sold them, and exhibited, and won prizes...but you can't make a living from art." Doña S. also makes chocolate for a hobby, and occasionally sells a little, but does not make a business out of this: "How to make a business out of chocolate when there's already all of these factories?"

Doña S. is an example of an artisan with other options. She enjoys artisan activities, such as chocolate making and dollmaking, but does not have the tolerance for low earnings that other producers may have. She has capital, which has allowed her to rent valuable business space and equip it as a restaurant. She also has four children, which decrease the time she has available. She is an artisan who can afford to consider her dollmaking and chocolate making as a "hobby", because she has other options, such as restaurant-keeping, which are more profitable.

**Don C. -- All Kinds of Things**

Don C. has had a variety of jobs. "I worked a long time as a driver," he says; he had his own small truck and provided passenger service to and from the countryside. "We used to have land there, but not anymore." Don C. used to work in agriculture but gave it up because of "lack of rain, low yields." He says, "I've worked in all kinds of things, as a construction worker, as an agriculturist, and with the vehicles...and I'm a teacher." He graduated from the Normal School and worked in teaching about 10 years, "You used to earn well, just as well as the people with jobs in the petroleum company," but now the salary "*es una miseria*" (next to nothing) so he left teaching. He's helping his son in a *gomeria* (tire shop), which he began about five years ago to give his son a place to work. Six months ago, Don C. sold his small truck and bought a *micro* (mini-bus for passenger transport). A month ago, he took out a loan (his first) and bought equipment to expand his *gomeria* to include car and truck repairs.

Don C. had a salaried job -- as a teacher -- but gave it up when the wage declined too far (partly a result of inflation). Earlier, agriculture fell by the wayside when low yields meant that farming was no longer worth his while. His transport work appears to be a constant among these shifting activities, yet it has evolved as conditions change. He is now investing in a *micro*, generally used for urban, rather than rural, transport. Finally, Don C. has begun a business for his son, and now involved in expanding and horizontally integrating it -- customers who come for tires can now obtain repair services.

**Don O. -- Complementary Businesses**

Don O., a carpenter (#145), used to have a roast-chicken restaurant (*broasteria*) before he had his carpentry shop, "But it was very hard work... You don't get Saturdays free, you don't get Sundays free, there's no breaks...and with the children, it was hard." Before he had the *broasteria*, he learned carpentry in a series of shops, and worked for various other carpenters. Two years ago, he opened his own carpentry shop. At that same time, he and his wife opened a hardware shop -- his wife mostly takes charge of that. "They (the two businesses) complement each other. If I need varnish (etc.), I just get it from here." Of the two businesses, Don O. says the carpentry shop is better, "because you know how much you're going to make. For a job, you write down what you spend, and what you're going to charge.... And you know how long the work will take you.... But here (at the hardware shop) you have to wait and see what people come to buy."

Don O. left a low-paying job as a hired carpenter to begin a chicken restaurant with his wife. He did not comment on the profitability of the restaurant when explaining why he gave it up, only that it proved incompatible with lifestyle choices and family demands. The carpentry shop appears to be more compatible with his preferred work patterns. His wife sometimes helps him there, but she usually runs the hardware store. (He was also working in the hardware store on the Saturday I interviewed him, and business was brisk.) Opening the hardware store is an example of vertical integration of businesses, allowing Don O. access to production inputs at wholesale prices. These businesses thus complement one another. (Don O.'s accounting methods would be typical of the "notebook" that some carpenters keep.)

**Don C. and Doña V -- From Merchants to Producers**

Don C. and his wife Doña V. have a carpentry shop (#12) which employs four *maestros* and has a total current investment of around 50,000 bs. Don C. says: "I started out bringing furniture from Sta. Cruz to sell. There was a big price difference, furniture cost half as much there.... I did that for awhile, and then I realized that there was a need for a workshop here in Sucre.... At that time, wood was very cheap." He did not have a background as a carpenter, but he hired carpenters and learned from watching them. Don C. and Doña V. sold furniture out of their own retail shop for a while, then when they couldn't keep up with orders fast enough to keep the shop full they closed it and turned it into a hardware store under their daughters' management.

They continued to take carpentry orders for construction jobs and sell furniture in quantity to retail stores. When their daughters started studying at the university, Don C. and Doña V. closed the hardware store. They also have a jewelry shop which pre-dates the carpentry shop by two years. It has been closed for the last year because they have had a lot of carpentry orders and Don C.'s brothers, who used to help Doña V. in the jewelry shop, began to study in the university. "I still get orders," she says. She still has one worker to fill the orders, although the jewelry shop itself is temporarily closed. Now, Don C. and Doña V. say, "We want to start another business to help out economically," and they have bought a piece of land in the countryside planning to establish a house and a business there.

This is an example of a successful small carpentry business where husband and wife are both involved in administration. This business demonstrates the pattern (seen also with lumber merchants who became carpenters) of shifting from commerce to a related production activity. Don C. saw an opportunity in cheap wood and a market for inexpensive furniture. For a while the business was quite successful, although it lacked the labor and equipment to meet the demand for furniture in a retail shop. Finding an occupation for children again is a concern here; the hardware store made use of the available labor of daughters. When the daughters left to study, household labor was no longer available and so the shop closed. Similarly, the jewelry shop suffered because the relatives who helped out there were no longer available to work. The carpentry business took priority over the jewelry business as the former began to generate a lot of orders; but now, with high wood prices, the owners are casting about for another business opportunity that will prove more promising.

**Don S.M. -- A Migrant's Climb**

Don S.M. owns a furniture-making business (Enterprise #3). He learned carpentry late in life through courses offered by the technical aid organization, SAT. A poor migrant from a rural area whose parents sent him to Sucre to study, Don S.M. lived with brothers and sisters and worked in an auto-body shop as a teenager. There, he managed to save money to buy himself a small, old truck. He began a transport business to and from his home village. Later, he began to transport wood for people. "I was more than twenty years in transport. You earned well.... Afterward, you didn't earn so well, so I began (selling) wood." He bought wood himself, and brought it in his own truck. He had a lumberyard which his wife managed while he traveled. They gradually converted their lumberyard into a carpentry enterprise. "We sold a lot of wood and the business went well.... (Now), we sell little wood...there aren't a lot of sales, and you earn very little," so he is making furniture instead. His furniture-making enterprise is now one of the city's largest. His wife is in charge of administering the day-to-day business, while he manages the budget and client relations. The business belongs to "both of us."

Don S.M.'s work history is an interesting combination of activities, each leading logically to the next. The job he took as a teenager taught him about vehicles and allowed him to save capital. He bought himself an old truck and used the links he had with his home village to set up a transport business. When this became less profitable, he switched his truck's use to wood transport. Then he became a merchant by investing his own capital in wood and finding buyers for it. By the time he had established a lumberyard, the business provided work for both him and his wife. However, as more competition entered the wood trade and sales dropped, Don S.M. took advantage of his existing access to wood supplies and became involved in carpentry. While all the businesses are linked, each one lasted only as long as it remained profitable. The household has also made other investments: they own the large building where house and business are located, and all four children (two girls and two boys) have studied in the university; one is now a doctor with her own practice, while the others continue their studies.

**Doña M.L. -- The Baking Architect**

Doña M.L. has a degree in architecture from the university, but she is between jobs. She says jobs are hard to find in Sucre because the market is inundated -- too many architects and not enough jobs.[4] In the meantime, to make a living she does freelance drawing of plans, bakes bread to sell to neighborhood stores, bakes and decorates cakes to order, and makes and sells a variety of craft items, including painted tablecloths and knitted baby clothes which she sends to friends in Sta. Cruz. "I never thought it would come to this," she said -- doing bits and pieces of things to make a living. "But it's good that I know how to do many things."

Doña M.L. is a classic example of the use of informal business as a backup in an insecure job market; her preference is her profession, where she could earn more than with baking and handicrafts, but she is capable of making do with a combination of informal businesses until a formal job becomes available. Part of her difficulty is that many professional jobs tend to be with the government and are highly politicized. A few months after this interview, she changed her political affiliation in hopes of getting a job in city hall when the new Banzer government (widely expected to win) came to power. Shortly before the elections, she was hired in a job in her field. While she may continue to bake occasionally for sale, the low profitability of baking means that most of her energies will now be focused on her job.

**4. Informal Work: Businesses as Household Activities**

One characteristic of informal business, discussed in Chapter 4, is that they do not follow conventions of business administration such as calculating salaries for the owners. In informal businesses, owners generally do not assign a value to their labor. The concept of the "self-exploitation" of household members in household-based businesses, and their consequently lower labor costs, has been examined extensively in the literature (see Cook 1986, Cook and Binford 1990, Netting 1993, Huang 1990).

The idea is that low-capital, household-based informal businesses can compete with high-capital formal businesses because informal-business owners make use of their own and their family's labor without having to compensate this labor at the rate formal-business owners must pay their employees. Some writers see this as a kind of self-exploitation, while others tend to view it as a mark of informals' efficiency.

From the informal business owner's point of view, however, the situation is more straightforward. In Sucre, an informal business owner makes no conscious decision to exploit the labor of self and family at a low wage. Rather, the goal, which the household shares, is to draw as much income as possible into the household. This money may then be funneled back into the business, into other household businesses, into investments (such as education), or into household and personal expenses. In Sucre, the great majority of businesses do not keep formal accounts, but owners know about how much they are earning. The husband-and-wife co-owners of carpentry shop #196 are teachers:

"They showed us in San Roque (savings and loan cooperative) how to keep accounts, how to keep a balance, to know what we've spent and what we've earned. We don't write it down, of course. We don't keep a notebook...but we know what we're spending, and what we're earning." (Don S.P.)

It is not simply a lack of bookkeeping conventions which makes the concept of "owner's wages" useless. The ability to flexibly use business income within the household and other household businesses suggests that the household itself may be the main "business", while each individual "business" is an income-generating *activity* which contributes to the house. Each activity is controlled by one or more household members. If one activity is very successful, more household members, as well as grown children with independent households, may become involved in it. If children from independent households become involved, the need to distinguish among different households' share of the profits can be a spur to increased formalization and the payment of salaries. The formalization of successful household businesses can be compared to the Quechua custom of not naming a baby until its first haircutting -- at that point, it is likely the child will survive. The very-small businesses which act as household "activities" do not yet have a personality separate from the household because it is uncertain they will survive the next economic crisis, market shift, or influx of competitors.

The decision of exactly when the transition from informal activity to formal business takes place depends on the preferences of the people involved. The owners of Chocolate Factory #2, for instance, are currently in the process of formalizing the business as an entity distinct from the household -- household and business accounts will no longer be blurred, but the administrator (in consultation with the others) will assign specific salaries for each household member. This factory has not gone through significant growth *recently*; the family could have formalized its business a few years back -- in fact, the administrator (a daughter) was already assigning a salary to her married sister. But the fortuitous arrival of an accounting student willing to take on the complex task of putting the books in order caused the family to decide to take this step. Similarly, Carpentry Enterprise #1 also went through a process of formalization; but not until after the death of the founder, who controlled and distributed the business capital himself, and kept accounts in his head. Though this business is still located in the family's living quarters, the owner and her children (who now have separate households) receive salaries, and business accounts are kept separate from household accounts. Even so, the separation is not completely rigid; money may be taken from the business, "occasionally, for some little thing."

If, on the other hand, a household's business "activity" is not going well, it can be made to survive by cutting the compensation of owners and other household members to a minimum. Whether or not household members decide to continue with low-profit businesses will depend on their economic situation and what other options they have. If options are limited, households may be forced to survive extended periods of time in situations such as those the literature describes: working long hours for very little compensation. This is the situation, for instance, of some of the women who knit sweaters; they have limited capital, no skills to start other businesses, and often find it difficult to leave the home because of child-care responsibilities. Other people, however, have the option of trying out activities and then abandoning them if they don't work: "We're just getting started (with the carpentry shop). I have to see if I can make it work, or if I'll have to go work in something else." (Don J.A., #234)

The lack of basic accounting practices in small-scale, informal business, and the "sloppy administration" of blurring household and business accounts, has caused concern from members of the professional classes. These people see the lack of basic business and accounting skills as a key reason why Sucre businesses stay small. Various organizations in Sucre have offered, or are planning to offer, courses in business administration. The problem is that many people are too busy to attend courses, and few see a strong need to formalize business bookkeeping. Some people simply keep accounts in their head:

"We carpenters, we don't usually write down (accounts), because there is very little economic movement. In big enterprises, I imagine they have to." (Don Q., carpenter #40).

In such cases, informal accounting is more an effect, than a cause, of businesses' smallness. Other businesses, however, really don't seem to have a good grasp of their financial situation: they say they do not know how much they are making, only that "there is always money in my pockets"; thus, a decrease in business translates as "My pockets are emptier." (Don C., carpenter #12). Yet, sloppy administration or not, Shop #12 was the best-earning small carpentry shop in the sample.

While being able to calculate expenses and earnings is an advantage, the insistence on a strict separation of business and household accounts may be a rather artificial bowing to someone else's way of doing things. I would argue that the running of businesses as household "activities" gives businesses more flexibility, and should not be interpreted as merely sloppy administration. Profits from one business may be used to prop up another temporarily, preventing bankruptcy and the loss of a normally profitable business. The household, also, can use business capital as a safety net; households which claim to live on as little as 4-500 bs./month can make comparatively huge investments (10,000 or 20,000 bs.) in business stock, knowing they can take money or stock back out of the business whenever need arises. Thus, it would be better if accounting and administration could be taught in a way that recognizes, and allows the owners to keep track of, flows of money and materials among household businesses, investments, and consumption, rather than simply teaching how to keep balances within a single business.

### 5. Illegality

The avoidance of registration, taxation and regulation is often assumed to be a characteristic of informal businesses. De Soto's well known work on the informal economy in Lima takes such illegality as the defining characteristic of the "informal sector." Yet in Sucre, informal characteristics may exist either apart from, or along with, illegality. Some businesses avoid registration and taxation and others do not, but these share similar "informal" traits.

In Sucre, the national-level government organization that registers small industries and artisans, INBOPIA, has not been functioning since 1992; supposedly, there was a five-year "grace period" in which these businesses would not have to pay a registration fee (30-40 bs./year for artisans). The grace period for Sucre was to be over in 1997, but as of April the Sucre INBOPIA office was still not functioning, as it had not received instructions from the national office in La Paz. As a result, legal responsibilities for producers are confined to registering as businesses for national tax purposes (the *Renta*) and municipal registration and taxing. Chocolate-makers and other food producers must also pay to register with the *Unidad Sanitaria* (Health Board); some, but not all, small *casero* chocolate producers managed to avoid this.

The Renta provides a "simplified" tax category for artisans, who pay between 20 and 200 bs. bimonthly (depending on how much capital they have). The municipal tax is calculated based on square footage and distance from the plaza (100 bs/year would be typical for a workshop). For a workshop earning 1000 bs/month, the combined tax load would average around 6% of the artisan's monthly earnings, perhaps more, depending on location. On the other hand, a producer who does not meet the cutoff for the simplified artisan category (maximum capital 10,800 bs.) is required to pay the Renta 16% of *total* income; as well as a 25% year-end tax on profits; considering that some businesses may only have a profit margin of around 30%, this is a significant cut.

Among the small, artisan-level producers, complaints about taxes were not common. Some did share their techniques for avoiding or reducing taxation. Occasionally, larger producers would mention taxes, comparing their tax burden with what they believe to be the case in other cities or South American countries:

"In Chile, the government gives the factories money...to help out small business.... Here, the government *takes* money from us." (Doña D., Chocolate Factory #4)

"In Sta. Cruz, they know how to encourage small industry. I have friends there, one has a factory...and he pays 30 bs. per year. Here, the littlest artisan shop pays 100 bs/year." (M., son of owner, Chocolate Factory #3. He is referring to municipal taxes, as the national business tax does not vary from city to city).

The desire in general is to avoid taxes, but this is not always possible, even for very small workshops. One strategy is to underestimate or hide capital. A carpenter explained:

"I don't have my wood here. They come from the Renta and they look at everything, they look at this chair and they ask how much it costs, then they charge me 15% of that.... So I keep my wood in my mother's house, I just bring it little by little, as I need it." (Don J.L., Carpenter #147)

A couple whose chocolate business was located in the back of their house, and did not have any identifying sign, was nevertheless registered with the Health Board. They also said they paid Renta tax, because "they manage to find out" that there's a business. Many carpenters also mentioned paying taxes to the city, including several who did not appear on City Hall's list of registered carpenters. The larger carpentry businesses I visited were, however, all on City Hall's list.

Chocolate makers who only produced occasionally could usually avoid taxation:

"I don't pay taxes. It's an artisanal production -- well, you'd say it's just a family production, it's as if you were making cakes, just every now and then for people you know.... I only produce occasionally. If I started producing all the time, of course, I'd have to pay." (Don M., chocolate producer #6).

The idea of just producing "for people you know" -- stressing the informality of the business -- is a frequent justification for tax evasion:

"It's a very small shop, I just do work for people I know, and sometimes the shop is idle... I was afraid you were from City Hall, or the tax office... They come, and they want to charge tax, but how am I supposed to pay tax when the shop is sitting here idle?...Everything here in this country is taxes.... That's why the shop is back there." (Don G., carpenter #135)

Businesses may also say that they are "just starting"; legally, businesses have a thirty-day grace period from the time they open until they must register.

"They came here from city hall a while ago, and I told them I was just getting started, I still had to see if I could make the shop go, and I asked them if they would wait.... They said all right, that they would come back." (Don J.A., carpenter #234)

Moving production to a back room, and trusting to word-of-mouth recommendations from clients to bring sales, is a strategy some carpenters use to avoid registration and taxation. Many succeed. A tax assessor estimated that probably about 60% of the carpenters in Sucre were unregistered. "We are only eleven," he said, referring to the limited number of assessors available to seek out unregistered businesses. Don C., who makes metal furniture and runs an artisan's organization, estimated that about 40% of Sucre's artisans are unregistered. My estimates are similar; of the carpentry-shop owners I interviewed, 46% specifically spoke of paying some form of taxes, while an additional 13% had shops open to the street (and almost certainly pay as well); the remainder are probably unregistered.

While some businesses succeed in remaining unregistered, others are discovered and forced to pay. One carpenter (#18), for instance, is located in a back room on a main street; his front door is always shut, and the shop is too far back in the house for his machines to be heard over the traffic. Still, he has to pay tax:

"I don't keep the door open, the clients know me...(but) you can't hide."

One carpenter who had hoped to keep his shop hidden noted that his electric lines gave him away:

"I have to pay the city... I have four cables coming out of the house. An ordinary house has only two cables, so they see four and they know it's a carpentry shop." (Don D, carpenter #15)

Carpenter Don G. (#135) who did not pay taxes had, however, explained his extra cables by saying the building had been wired that way to accommodate two separate families -- the owners and the tenants (this may in fact have been the case). Carpenters who want their workshop to open on the street -- an aid for attracting clients in a sector where the vast majority of carpenters do work to order (*a pedido*) -- must necessarily pay taxes. Even if they keep the street doors shut, the whine of machinery will give them away. Sanctions are attached to non-payment: shops may be shut down, and it was common to see doors in Sucre with large government notices pasted on them: *Clausurado* (closed down) by the authorities for lack of payment.

In Sucre, the illegal, unregistered carpentry shops I saw were very similar to their legal, registered counterparts. In both cases, the products -- furniture, construction materials, or a combination -- were similar, and production was nearly always done to order (*a pedido*). The only difference was that the hidden shops lost access to walk-by traffic and had to rely more strongly on their network of existing clients. Technology was similar; nearly all shops, registered and unregistered, had the three basic carpentry machines (see Chapter 2). According to a local carpenter, there are very few shops in Sucre that now work with only manual tools; I ran into none of these during my time in Sucre, though it would be fair to assume that these are generally hidden.

Among the chocolate-makers, a business which appeared to be a classic case of hidden production (the product is sold unlabeled and made at small scale within the house), turned out to be registered with the Health Board and a business-tax payer. On the other hand, one of the major chocolate producers in the city, Chocolate Factory #4, did *not* have its registration up-to-date with the Health Board. Small-scale *casero* chocolate producer Doña D., probably the best-known drinking-chocolate maker in the city, sells her product out of an open shop and thus pays taxes. Yet three small factories, each with at least $10,000 in capital, are all unregistered (two only produce occasionally, and the other is just starting up business). The five principal chocolate factories are, of course, registered and pay taxes; their brand names and high visibility make avoidance impossible. In general, large producers tend to be registered, but this does not define a clear dividing line between formal and informal; small businesses may be registered as well.

It is important to emphasize that there is no rigid boundary between a "formal" and an "informal" businesses in Sucre. The vast majority of businesses demonstrate at least some of the characteristics of small scale, diversification, use of family and own labor, informal accounting practices, illegality, and informal marketing methods (to be discussed in the next chapter). But businesses have varying combinations of informal and formal characteristics. A chocolate producer such as #9 with only one small piece of motorized equipment may be registered, while another with several thousand dollars worth of equipment such as #6 is not. A small, household carpentry business doing work to order such as #159 may keep accounts better than a much larger business such as Chocolate Factory #2. And even the most formal businesses demonstrate a tendency toward family labor, with sons and daughters in key administrative positions. Also, as we will see in the next chapter, informal marketing strategies can be found even in relatively large businesses.

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[1]Data from the 1992 census, quoted in *Bolivia Bulletin* vol.9, #4, 1993 p.3.

[2]Data not available for all carpenters.

[3]These numbers are estimates; wages vary depending on sector, employer, etc.; business income varies considerably as well.

[4]She never mentioned any particular problems of clients or employers discriminating against women; it would be interesting to look more closely at how much of a problem this is for women professionals in Sucre.

# Chapter 7: Informal marketing

## 1. Market Vending and Street Selling

Many aspects of marketing in Sucre are informal. Perhaps the most noticeable is small-scale market vending; many of the products available in Sucre are sold from the small stalls of independent vendors. While there are a handful of small walk-in grocery stores and a few boutique-like shops downtown, as well as various tiny shops in the Campesino Market area which sell used clothing, bulk food, hardware and so forth, the majority of Sucre's retail commerce is carried out in the city's marketplaces.

The Central Market downtown sells primarily fruits, vegetables, meats, canned and packaged goods and other food items, along with personal hygiene products, kitchenware, cleaning supplies and gifts. The Mercado Negro ("Black Market"), an ordinary marketplace despite its name, sells legal goods including clothing, shoes, cloth, and bedding items. The Mercado Bolivar and two or three other small markets downtown are essentially mini-Mercado Negros. Finally, the Mercado Campesino (*Campesino* or Peasant's Market) includes both the actual market building and the neighborhood, a whole maze of streets filled with sellers of vegetables, fruits and other items, as well as small shops. There is also the Night Market, which runs from 6pm to 10pm in the parking area of the Central Market; sellers here have assigned spaces but no formal stalls.

Marketplaces, where every merchant owns the contents of her (or his) own small stall, where prices are subject to haggling and everything happens on a small scale and interpersonally, seem the perfect example of informality. Yet despite such informal characteristics, marketplaces are highly formalized and regulated. Vendors in each marketplace have a *sindicato* (union, or merchants' guild) through which they negotiate for the use of market space with city authorities or private landlords. *Sindicatos* also define how market space is used and regulates what may and may not be sold. In food markets, vendors of a given product, such as apples, may only sell in a specified section of the market. Thus all the apple vendors, all the meat vendors, all the spice vendors, etc. are found together. In the clothing markets, the regulation of the use of space is less rigid, but products are still segregated: cloth sellers don't sell jackets, shoe sellers don't sell socks, and so forth.

The idea behind these rules is to keep the markets "organized" and make it easier for consumers to find what they are looking for. Yet while such layouts may be highly organized, they are not always convenient for the consumer: related products may be on opposite ends of the market. In the Central Market, apple sellers may not bring cinnamon, flour, or other pie-making materials to sell along with their apples; meat sellers may not sell spices or sauces, and so forth. Even when some products are sold together, the categories are strictly defined: flour vendors may sell oats and dried beans, but not pasta. Raisin and nuts vendors may sell flour, but not fruit or baking tins.

Market vending is not a temporary or impermanent activity; rather, market vendors are established merchants. These vendors have usually been at their posts for many years, particularly in the older markets (Central Market, main Campesino Market, Mercado Negro). Vendors control their own stalls, and pay rent to the *sindicato* (which in turn pays the city or other property owner). Because stalls are controlled by established merchants and market space is limited, it is difficult for newcomers to enter as vendors. Generally, women control the market stalls: retail marketing is traditionally a woman's activity. Doña M., for instance, is from a rural community; she worked in various parts of Bolivia (including Sta. Cruz) and established her egg-and-cheese stall in Sucre's Central Market over twenty-five years ago.

Street-selling is market-selling's informal counterpart. Even here, vendors have a tendency to congregate with those selling similar products. Though this increases competition, it leads to the creation of enclaves which attract clients: tomatoes on one street, bananas on another, and so forth. This tendency to share existing market niches -- rather than take the risk of creating one's own -- has meant that even the informal street-selling sector shows a certain amount of formal organization. Although street sellers are generally uncontrolled by the health department, they are often legal taxpayers, for they must pay daily fees (50 centavos a day, about 10 US cents) to City Hall. Some try to evade this, and some apparently sell in areas where selling is not permitted.

Street selling is risky because street sellers have no legal protection for their goods; several spoke of having goods confiscated by city authorities, if they were caught selling in areas where selling was not allowed. One couple who sells at the Night Market also sells shoes on Hernando Siles Street during the day:

"We have to pick up everything...quickly, when the controllers come by... You have to keep on the lookout."

The current president of the Night Market sellers' union explained:

"We used to sell on Junín (Street)...We always had to worry about the police...chasing us as if we were thieves. ...There's an office of *Patrimonio Histórico* (Historical Heritage), they don't like for there to be sellers on the streets, because of the tourists."

"...I began to sell the shoes I had brought on the street, on Hernando Siles... Sometimes the *intendente* would come and take our merchandise -- I had to bundle everything up fast, put it in a shop, hide it. I sold like that for eight or nine months." (Doña L., who now sells shoes in a small marketplace).

Thieves are also a problem, especially for those who travel to a different city. Doña E., a woman of Quechua background, is the wife of chocolate producer #13; she sometimes travels with her husband. Recently, she was selling drinking-chocolate bars on the street in Cochabamba and had her youngest child with her:

"I had to take her to the bathroom, and my husband had just left with chocolates to take around selling -- and they came up behind him and stole the chocolates.... We couldn't catch (the thief).... I found some of them in a shop, he had sold them to the señora for one peso,[1] and I said to her, those are stolen chocolates, they're mine, and showed her how they were just the same, but she said, 'I paid for them,' and I said, Look at me, look at the kind of *pollera*[2] I wear, you can see I'm not from here, I'm from Sucre and you have to give me back my chocolates or I'll call (the police number). And another señora said, 'Yes, a guy with a green bag came offering chocolates... Why are you making her cry, she's not from here, she's come to sell and maybe that's what she feeds her children with.'"

Doña E. was able to recover the packets of drinking chocolate from the señora, by reimbursing her what she had paid, but there were about thirty-five other packets Doña E. never recovered at all.

Street and, when possible, market selling have become favored activities of ex-miners from the Potosí region. The current street-sellers are, according to an informant, mostly from mining centers that have shut down, and who used their severance pay to start up in commerce; others are *campesinos* from the countryside. Yet street selling is not a recent trend; as early as the 17th century, this was a common activity in Sucre, even then coming under some attack from local merchants.[3] Street selling has long been an economic strategy for those with limited capital and without access to market space. In some ways, street sellers may be in an advantageous position relative to the market vendors; as one city authority put it, rather than sell in the market, these people "go where there are more sales." New markets attempt to organize sellers and give them more security, while clearing the sidewalks of merchants. The latter goal is elusive, however; when former street sellers move into market stalls, new merchants tend to take their place.

**Profile: Birth of a Market**

Doña Lucía sells shoes in a new market on Junín Street. She explains the roles political figures play in the establishment of new marketplaces.

"(A well-known political figure) came and gathered all of us (vendors) together who were selling on the street, and so we had a mini-market on Ballivian Street.... We sold like that for awhile, and then this Omar...a city council member -- he came and threw us out.... He didn't want us there, he was very bad, he threw us out.... So we went to (another location) and we were there just a little while, and then we were there alongside that church, and only two weeks ago we came here.... "

This group of vendors has been moving from location to location, searching for suitable and affordable space to rent (from private landlords). Once the vendors' original patron abandoned them, they were put in a vulnerable position. Fortunately, they were soon able to locate another patron:

"There was a señora, a leader in the UCS (political party) -- when Omar threw us out of the market, Max Fernandez (former UCS presidential candidate) was just starting to come out on the political scene.... The señora said we should ask him for help, and he came and talked to us, and gave us $6000 so we could pay *anticrético*[4] or buy a place to sell.... We put the money in the bank, and now it's $9000 dollars. We gave it to the landlord here as a guarantee."

In the new marketplace, each vendor pays $15 rent per month out of her (or his) own earnings. The group has used its financial resources, obtained through a political patron, to provide the building owner with a guarantee and so gain access to market space. Informal patronage relationships with politicians stimulated these ex-street-vendors to organize themselves; as a group with financial resources, they are now able to seek a more formal, secure selling environment.

**2. The Voice Runs: Clients by Word-of-Mouth**

One characteristic of "informal" businesses is that marketing tends to take place at the level of personal relations: word-of-mouth sales, the use of friends as intermediaries, and so forth. Though a small amount of marketing in Sucre is done through media such as radio and television, Sucre is a small city where interpersonal links are still most important. The best source of new clients is still a word-of-mouth recommendation from current or former clients. Businesses which are just starting up recognize this: "We don't have a lot (of clients) yet, because we haven't been working long," one carpenter (#6) said. The initial image is important; a goldsmith's wife took great pains to correct her husband's professional image when they returned home to Sucre after years of living in La Paz:

"It wasn't easy (when we came back from La Paz)," he said. "We didn't have clients, because they didn't know us well."

"They said he was from La Paz," his wife explained, "so I went around saying, no, he's from Sucre, and he does good work...getting the word around."

As businesses gain experience, they build up their clientele through recommendations from other clients.

"My work itself recommends me. I do a job for someone, and they tell other people." (Don J.P., Carpenter # 225).

"My clients always come back, or if they don't themselves, they send their neighbors," said Don L. (carpenter #6). "People will go to their friends' house and see a piece of furniture that I have made and ask who made it. So then they will come to me and ask to have one made."

Of course, in some cases the success of word-of-mouth recommendations may depend on the honesty of the client, as carpenter #117 pointed out. He produces coffins for funeral homes, among his other products:

"One funeral home owner will ask another, 'where did you get that casket.' Of course, some of them are *egoístas* (self-centered) and don't want to say, but others do. And they come and ask for me."

Much work is done "*a pedido*", to order, rather than "*para la venta*", for sale. Many producers prefer to do work "*a pedido*", saying that they can earn more, and that less capital is required. Such a system obviously leads to closer client-producer relationships than when goods are ready-made for sale; it also eliminates the need to share profits with an intermediary. A direct relationship between producers and clients makes it easier for clients to communicate their likes and dislikes, and clients who are pleased with a product know who made it and can recommend this producer to others. Word of mouth in a small city like Sucre (where anyone you meet is likely to be a friend of a friend) allows business people access to clients without advertising. Small carpentry-shop owners usually have enough work -- sometimes even "running over" (*rebalsando*) with jobs, and feel no need for conventional advertising: "The best publicity is our work," said one carpenter, (#109). Another carpenter, Don B. (#159), says he would never advertise:

"It makes us ashamed to do publicity.... There are people who have capital, they buy themselves a saw...and they advertise. They say 'We sell wood', but not just that -- they say: 'We do (carpentry) jobs'. ...I don't want to look like I'm competing with those people who don't know anything."

For Don B., the fact that his marketing is all through word-of-mouth is a testimonial to the quality of his work. Carpenters who have newly set up workshops, on the other hand, often suffer from irregular work: "There was almost no money coming in this month (perhaps 100 bs.).... People still don't know us well, and not a lot of work arrives," said Don J.A. (#234), a carpenter who only re-opened his shop about a year ago. Established carpenters, on the other hand, say: "People know me. I have a lot of clients."

The amount of work a business takes in is, therefore closely linked to how well known the business person is:

"If clients don't know my work, they'll ask for one door, as a sample, but if they know my work, I'll get contracts for whole houses -- doors, windows, furniture..." (Don J.D., carpenter #60)

Chocolate-maker Don N. (#7) acquired a large clientele for his chocolates; this clientele seems to have developed solely through word-of-mouth. People come looking for him at his house to order chocolates from him, and he even delivers orders directly to the houses of his clients.

A producer's reputation not only influences how much work he or she takes in; it can also affect the price he or she can charge:

"Bigger carpentry shops, they can charge more because people know their work, they know it will be done (well).... People will pay it because they know the carpenter." (Don J.A., carpenter #234)

While producers can find clients through word-of-mouth advertising, they can also lose them the same way; if one client has a bad experience, "*corre la voz*" (literally, the voice runs -- word gets around). This is what happened to a women's cooperative soy-milk factory:

"We bought the chocolate (for chocolate milk) from factories here...but they gave us leftover pieces, and they got mixed with impurities...and this made the milk spoil fast.... Some people have rejected our product, because with that one bad experience, now they don't want to have anything else to do with us.... We'd like to change our name, packaging -- as it is now, the people know who we are."

Small-scale chocolate makers cultivate business relationships with retailers who know their work:

"There are señoras (in Cochabamba) who know me...They buy without a word (*calladito*)."

One former chocolate maker, Doña R, went to the expense of printing good-quality labels to ensure her product was recognized when she traveled.

"It wasn't cheap. And they didn't want to do just a few. Like I said, we only made a little (chocolate). But they wanted to sell by the thousands.... We would take (chocolates) sometimes to Cochabamba, and people knew they were good quality, they would buy from us without a word (*callado nos compraba*), but if the package didn't have a tag, they wouldn't buy.... 'Show us the blue tag,' they would say."

In this case, even if the market women recognized her from previous trips, they may have feared she was trying to pass off low-quality chocolate.

Brand names and labels give the consumer quality assurance; however, in Sucre, practically all products manufactured on a small, artisan scale are sold unlabeled. The expense of labeling products, along with the low prices consumers are willing to pay, make labeling impractical in most cases. Therefore, if the product (such as chocolate, sandals, or skirts) is marketed to retailers, it is identified with the person who physically brings it and offers it for sale to the market stall or shop. Nearly always, this person deals directly with the stall or shop owner:

"I'll sell those (*grajea* chocolates) here... There are shops where they know me." (Chocolate producer Don O., #8)

While the shop owner usually does not know the name of the chocolate seller, she often can describe the person physically -- even though the person comes irregularly, usually just a few times a year.

Chocolate producers may take the chocolate to shops themselves, or they may find someone -- frequently a child, but sometimes an adult -- to sell the chocolate. This work relationship is informal; in lieu of a salary, marketers receive extra chocolate for themselves: "They can eat it, or they can sell it." Chocolate maker Don O. (#8), for instance, hired two children, the brother and cousin of his only worker (the two boys said they were 13 and 15, but looked younger). Consider Don O.'s advice to them:

"You, that can write: Write down where you go, and we'll give each area a number, that way we can keep track of where you've gone.... We'll assume that they (the shop owners) will sell the chocolate, people will like it and want to buy from you again, then they'll say, I have my *caserito* (little *casero)*.... Where you go on Mondays, write that down, and you can go every Monday...."

**3. The *Casero***

The *casero* relationship is essentially the formalization of an informal buyer-seller relationship. This relationship is developed on the interpersonal level which is so vital to transactions in Sucre. Don O. explains: "A *casero* is your client... Or it could be the reverse, the person who sells to you." The institution of the "*casero*" is similar to the "pratik" relationship described by Mintz (1961); ideally, it is a long-term trading relationship in which each party gives the other certain preferences (discounts, loyalty, etc.). In Bolivia, its origins have been associated with the economic shortages of the early 80s, when food was hard to obtain and a *casero* relationship meant that a loyal customer would always have some of the best product kept aside for her. The use of the term "*casero*" may, however, pre-date the economic crisis.

"It means someone who is of the house," explained the son of the owner of Carpentry Enterprise #1. "It was originally used with the *pulperias*...people would come to the *pulperias*, to buy, and to sell, and when they had come five, seven, ten times, they would be considered of the house (*de la casa*).... They would become friends with the owner, and they would get preferential treatment...better products...even a lower price."

The *casero* relationship, then, can be economically advantageous for both the buyer and the seller, cutting down on transaction costs as trust develops between the two parties. It provides the merchant with a steady clientele and the buyer with certain advantages of price and quality. In the world of the "*casero*", however, investments are long-term; short-term economic utility may take second place. A friend observed: "Instead of selling their eggs in the countryside, people would rather travel to the city to sell to their *caseros*." This may be connected to the tendency to build social contacts -- including godparent relationships -- in slightly-higher economic classes (see Isbell 1978:115-116). "*Caseros* may act as *compadres*... If you're their *casero*, the next thing they'll be asking you to be a godparent for their child's baptism," commented another friend. In the long-term, such social investments can provide important economic advantages: a wealthy godparent can help with a child's education, for instance.

In general, we see that personal relationships become bound up with economic relationships, and vice-versa. Business may provide a vehicle to build social relationships such as godparenthood; in turn, social networks can be used to benefit business. Social, verbal enforcement of *casero* relationships (such as asking "Where have you been?" and "Why don't you come here anymore?") can be used to encourage customer loyalty. Disloyalty can be sanctioned by withholding credit.

Interpersonal relationships seem to facilitate the entrance of new small businesses into a market already dominated by several large producers, because producers can seek out friends, relatives or even acquaintances with shops and offer their product to them. In an economy where nearly every block has at least one neighborhood store -- and sometimes two or three -- a person will generally know several people with shops. The early chocolate businesses nearly always began this way, "selling to *conocidos*" -- friends and acquaintances, until the product became known. Even the founder of one of Sucre's two "industrial" chocolate factories began that way:

"My father took charge of continuing the production of chocolate here in Sucre, making (chocolate) for himself and for a few people he knew."

Clients will still come to a producer's house, a practice quite common in chocolate production earlier this century. One who was producing into the 1990s did business in this way: "People came to the house, they knew we made good chocolate."

Now, however, competition is tight for drinking-chocolate and traditional bonbons. New producers must seek clients beyond their circle of acquaintances. While it might be expected that "*casero*" loyalties could create a stumbling block for new producers trying to enter a market, these loyalties seem to be weakening. If a new seller has good timing, offering a product when it is wanted, and at a good price, he or she has a good chance of becoming an instant *casero*. Maintaining this relationship will be mainly a matter of timing -- as Don O. suggests above, coming back regularly to offer the product, so that the buyer knows when to expect you. The meaning of the term "*casero*" itself is being diluted to refer simply to any potential buyer or seller; this is the current use in the marketplaces. As one market vendor put it: "They pass by here and we say to them, '*Caserita*, buy from me.'"

"Now '*casero*' has passed into our vocabulary," says the carpentry-owner's son quoted above, "Someone can come here, maybe they've never been here -- or they've been here once, and they'll call me '*casero*'.... They're looking for a preference, a discount..."

How much the *casero* relationship has changed can be seen by contrasting this with the older attitude, demonstrated by an elderly shop-owner. She explains the complexities which taking on chocolates from a non-*casero* may involve:

"I sell (Factory #4's) chocolates.... The (Factory #2) chocolate is better: the centers stretch... I keep some of (Factory # 2's) chocolate here, but when someone from (Factory #4) comes, I hide it...because Doña D. helped me out one time.... They ground some cacao for me, and because of that favor I don't want to insult them."

Another chocolate maker brought her some bonbons once,

"He had me try and I thought, oh no, now I've sampled them I'll have to take some (for the shop).... I thought, how am I supposed to sell them, and keep them hidden, I already have the chocolates from (Factory #2) hidden, and they melt...."

The owners of Chocolate Factor #4 are this shop-owner's *compadres*; thus, the personal ties behind this business relationship are even stronger. By maintaining the relationship, this shop-owner ensures certain economic favors (grinding cacao), but must in turn give the appearance that she is not selling a competitor's product.

**4. Interpersonal Marketing**

Another characteristic of informal marketing in Sucre is the "*rebaja*" or reduction in price. I have translated this word as "discount": "They'll call me '*casero*'...they're looking for a preference, a *rebaja*: '*Caserito, rebájame*.'" The *rebaja* means that no price is fixed, and everything is negotiable. The possibility of *rebaja* encourages the forming of "*casero*" relationships, but even new customers may demand a *rebaja*, claiming that the product is cheaper elsewhere. Sellers often end up arguing with their clients over price; customers may not perceive quality differences, and may suspect that they are being quoted an inflated price. Sellers, on the other hand, may inflate prices since they expect customers will demand a *rebaja*. Related to the *rebaja* is the "*yapa*" -- giving a little extra for the money. Market retailers, especially one's *caseros*, are expected to give a *yapa* -- perhaps an extra tomato, or an extra scoop of flour.

Most transactions in Sucre are interpersonal, where one person is quick to advise the other of personal or business conditions which affect their ability to pay: a female funeral-home owner picking up two caskets from a carpenter requested a *rebaja*: "It's only fair...Everyone gives a *rebaja*... I have to, to my customers." Sellers tend to see the *rebaja* as an obligation -- an unpleasant one, but if they do not comply, they risk losing their client. One cacao merchant/ chocolate maker remarked about a client: "She always wants a *rebaja*." The *rebaja* is related to the stiff price competition found throughout Sucre's economy. As one carpenter put it: "People don't want to pay... You have to *regatear* (bargain)" (Don A., #179).

The interpersonal nature of business relations has perhaps helped to discourage innovation and change in businesses. Business people often have an idea of a certain direction they want their businesses to go, yet they do not have time to pursue this. They feel unable to abandon their current activities, and express their inability to change in terms of obligations toward clients: their clients "won't let me", as they put it.

"...What I really want, is to leave the other things and dedicate myself to toy making.... But the people won't let me, they say 'Make me this," and they are friends, old clients" (Don T., carpenter).

A sandalmaker and his wife opened a shop; they had previously sold by the dozen to market vendors.

"But they (the vendors) wouldn't let us sell.... The women (vendors) were people we knew, and they came and said, 'Give to me by the dozen', and afterward there weren't any left to sell."

"I don't like to do much of the old-style furniture, it takes a long time. But sometimes, my uncle's clients come and say to me, I want this piece of furniture, and I have to do it." (Don J.L., carpenter #147)

### 5. Reaching a Larger Market

Some Sucre producers reach markets in other Bolivian cities and even, rarely, abroad. Yet the quantities sold are quite small -- too small to show up in statistics of the region's exports. Trade relationships with distant markets often take place on the basis of pre-existing interpersonal relationships (frequently with relatives); trustworthy distributors are hard to find, and information about distant markets is limited or non-existent. Thus, producers take the informal route: either friends and relatives act as distributors or intermediaries; or, in some cases, producers travel personally to sell their goods.

Small-scale chocolate maker Doña I. (#9) explains how she sends chocolates sometimes to Cochabamba:

"I went there. I have a cousin there.... She's a merchant, she sells shoes...but she has a relative who has a shop, and she (the cousin) said to her, any time you want chocolate, let me know."

Chocolate maker Don N. (#7) comments "I sent chocolates to La Paz, Santa Cruz...through family members." Another chocolate maker, Don O., sends chocolates to Cochabamba through his mother, who lives there and acts as an intermediary, taking orders for his product. "The day before yesterday we sent bonbons to Cochabamba, and tomorrow my mother will call to tell us how it went for her." A sweater maker who got tired of earning low profits selling in bulk to Sucre market-vendors now sends sweaters (by bus) to her daughter in La Paz and her daughter-in-law in Santa Cruz, for them to sell. Another knitter sends baby clothes to friends in Sta. Cruz.

Suppliers as well as buyers are often contacted through people a businessperson knows. A pair of students who began a lumberyard business (and later started a small carpentry shop,) began by bringing wood from Santa Cruz:

"We knew people there...we contacted them for wood... It made things easier." (M., #214).

Large factories which have developed markets in other cities normally broke into these markets through informal contacts. For instance, friends acting as intermediaries opened up the La Paz and Cochabamba markets for Chocolate Factory #2. Even Factory #5, owned by a professional manager, made use of personal contacts in inter-city marketing:

"We sent samples to supermarkets...but we also took advantage of personal contacts.... It was primarily personal contacts (that allowed them to reach their market initially)...and later, together with publicity...radio and television advertisements (and other marketing techniques)" (Owner, Chocolate Factory #5).

Only with time did these chocolate become known by name and marketed to retailers on the basis of this name.

Trade with other Bolivian cities often involves the movement of sellers with their goods rather than merely the movement of goods. *Tojorí*, for instance, is a prepared corn drink; it is drunk in both Sucre and Cochabamba, but the Sucre product is better. I asked a Sucre producer well-known for her *tojorí* if she had ever considered "exporting" her product to Cochabamba; she answered that she had thought about moving there herself and starting up a *tojorí* business. The idea of prepackaging her product and shipping it off to a client in Cochabamba did not occur to her, likely due to technical difficulties -- even if she could design and obtain packaging to keep *tojorí* fresh, to whom would she send it? She does not have direct contacts with potential clients in Cochabamba, nor does she have access to a distributor, formal or informal, who could make these contacts for her. Similarly, when I spoke to the women who were members of a soy-milk cooperative about making contact with potential milk-buyers in Potosí, they immediately envisioned themselves traveling personally to sell: "We could go two at time (on the bus), ...not four, that would cost too much in bus tickets."

Carpenters generally produce only to order; however, a few also travel with their goods. One of the very few furniture makers who produces goods in series rather than *a pedido* said, "I think I'll take these (dining-room sets) to

Yacuiba...sales are better there." Family labor in distant cities is also helpful to this producer: his grown daughter is in charge of his sales post in the border town of Yacuiba. Small-scale *casero* chocolate producers selling outside Sucre will usually take their product themselves, and may sell directly to customers or to retailers. Doña E., wife of chocolate producer #13, sits on the street in Cochabamba to sell: "I sit in the doorway and sell to whoever comes by," while her husband walks around offering chocolate to shops.

Doña E.'s husband described an entire circuit of city-to-city buying and selling, a trip he makes about once a month, sometimes accompanied by his wife. He sells chocolate in Potosí, travels from there to La Paz to buy cacao, on to Cochabamba to sell chocolate, and returns to Sucre from Cochabamba. This way, he says, the bus tickets are cheaper. Another small-scale chocolate maker who closed down about five years ago also used to travel with her goods: "We would take chocolates sometimes to Cochabamba."

These informal long-distance marketing strategies are inefficient: they take producers' time away from production, depend on the skills and available time of relatives and friends (who may or may not be knowledgeable about marketing), and only achieve a very limited market coverage. Over time, however, these marketing methods have remained basically unchanged: a few decades ago, inter-city marketing was similar. The niece of the former Briançon factory owners recalls:

"(My aunts) sent (chocolate) to La Paz, Cochabamba, Tarija...through friends, and individuals... and took (chocolate), to deliver, as far as La Paz, Potosí." (Doña G., ex-chocolate producer)

Thus, we see the kinds of informal marketing institutions which people use in the absence of more efficient alternatives, such as distribution companies.

Formal distribution systems are practically non-existent, and hiring an individual to act in the capacity of a distributor can involve considerable risk. Chocolate producer Doña M. (#12) explains:

"I had to travel, to bring cacao from the Alto Beni, in La Paz. But one day a woman came and said to me, I'll travel, I'll bring you the cacao, the wrappings, all that, and I'll take the chocolates to sell.... So we did that for awhile. She took (the chocolate) to La Paz, to Cochabamba...but she left it with little shops and they don't just pay right away, you have to wait.... So I had to travel, to collect the money.... Later, I sent chocolates to her, and I never heard anything from her. They were lost, I never got anything.... She kept them for her own capital."

Or, the chocolates may have been lost in transit. Whether or not this woman intentionally stole the chocolates, the situation was far from ideal. The distributor did not fulfill the initial agreement, so the producer still had to travel. This sounds like an informal arrangement, and probably a contract was never written. However, even with a formal contract, it would have been difficult to do much about the missing chocolates. Institutions of contract enforcement are weak in Sucre; hiring a lawyer is costly[5] -- and of little use once the other party has disappeared. The best risk insurance is to make sure your distributor belongs to your social network (preferably, a relative): his or her trustworthiness is more known, and he or she can be found and social pressure applied, if this becomes necessary.

Independent intermediaries do exist, but they tend to be those who buy in bulk elsewhere and re-sell to Sucre market vendors. In a sense, they fill the function of a distributor, but they buy the goods outright, rather than contracting to provide a distribution service. They also tend to work on a small scale and travel personally with their goods. Businesswoman Doña María, for instance, is representative of a kind of merchant who travels to other cities to buy goods in bulk, then resells these goods to market vendors in Sucre. Market vendors themselves travel to bring goods when possible; many do so regularly (often once or twice a month). And producers, such as chocolate maker #9, mention people who regularly come and buy from them "*para llevar*" -- to take to another city, usually for resale. "*Para llevar*" (to take) and "*para traer*" (to bring) are common reasons for traveling in Bolivia, referring to the movement of sellers with goods.

Whereas many business people, such as the soy-milk producers cited above, assume that informal marketing is their only option, other producers may fall back on informal marketing strategies after formal ones have failed. One producer, for example, wanted to export his product formally, but he reverted to informal marketing when he realized he lacked the information, resources and contacts to export formally:

"(To export), a health certificate from your own country isn't enough, it has to be international... and it's a new product, so you have to develop a market.... So I take the product and leave it in the border...there are people who cross over all the time, with contraband, and they take new products, and bring back other things....

You can cross over as many times as you want...three apples isn't contraband... they're within the law." (Don G.G., powdered-corn drink producer)

Another producer, carpenter #32, tried to take some of his carved wooden plates and spoons to a seller's fair in Argentina:

"But they (boarder officials) stopped us in Villazón, in the (Argentinean) border, and wouldn't let us go through.... We didn't have a lot, so we managed to finish selling everything in Villazón."

Small-scale producers who wish to export find it difficult to get information about other countries' import regulations and guidance about how to fulfill such requirements. Faced with this situation, they can only reach an export market on a small, informal scale.

Large producers tend to have better access to legal information. Most belong to the Chamber of Industry and Commerce and can go there to find out what sorts of requirements they would have to meet to market across borders. However, they still lack contact with and information about distant markets -- they do not know what products are in demand, or who would buy what they have to offer. The Chamber of Industry and Commerce is trying to help identify export markets but thus far has had little success. Hats are practically the only manufactured product made in Sucre which is exported.

When considering producing for export, business people cite the need for "personal contacts" with individuals who will orient them. In Carpentry Enterprise #1, they are relying on the Chamber of Industry and Commerce to help find markets in the exterior: "We don't have any so far....The problem with exporting is having contacts...a direct contact with the clients." When goods are exported, this is often done through informal connections. For example, one Sucre artisan (who is also a part-time teacher) has friends in Japan who act as intermediaries for her engraved burnt-wood plaques. Another woman used to send handmade tablecloths, curtains and so forth to Holland, where a friend would sell them for her.

### 6. *Ferias*

The *feria*, or producer's fair, is another selling strategy which involves direct contact between producer and client. *Ferias* may also lead to limited export opportunities. Speaking of an elegantly carved bedroom set in process, one *ebanista* (cabinetmaker) told me he would take it to a *feria*. He assured me, "It will sell.... The last one I made I took to La Paz; the people who bought it were from Spain." While *ferias* involving the buying and selling of agricultural goods are common weekly events in country towns, artisan and industrial *ferias* are special events, requiring considerable organization. While local artisan's associations may organize these, they often run into problems (see p. 230 below). One local producer's association was founded on the basis of a need for a furniture *feria*: "They have *ferias* in La Paz, in Cochabamba, but they didn't have in Sucre..."

One carpenter, recognizing the importance of *ferias* for reaching new customers, said:

"There should be ferias, and for everybody, not just the people from Sta. Cruz, La Paz...they exhibit a door that is junk and people buy it...." (Don S.Z, #200)

His complaint was that producers from major cities have more opportunities to exhibit than do producers from Sucre. Sucre has *ferias* as well, but they are fewer and of course, not so well attended.

"*Ferias*," said another carpenter (#109) "are good, you sell and you get clients."

"I exhibited in the IPTK (NGO) *feria*...a living room set. One of the workers from the IPTK bought it...and now has come back to order doors from me."(Don L., #6)

A producer who makes wooden bowls, plates, and other items sells only in *ferias* because, "you sell best in *ferias*." Thus, we see that ferias, which permit the direct contact of buyers with producers, are valuable marketing tools. Even a large business, such as the Sureña beer factory, relies on the *feria* system; to obtain their barley, they buy from intermediaries who in turn purchase grain from agricultural *ferias* in the Bolivian countryside.

Several artisan-and-small-industry fairs were held in Sucre during my ten months there in 1996-97. A larger *feria*-expo was also held in the neighborhood of Yurac Yurac in December, in which various small-scale producers participated. I noticed that the population of producers in these *ferias* was rather different than the producers I found in my other Sucre surveys. The *feria* participants were mostly artisans producing small, decorative goods or folkloric clothing, along with representatives of a few larger local industries (one hat factory, one chocolate factory). Some producers were from other Bolivian cities -- people who frequently traveled around to *ferias* selling their goods. Others were local people who treated their artisan activity as a hobby; they produced only occasionally and did not rely on it for a significant portion of their income.

Most goods in the *ferias* could best be characterised as the kind of thing one would expect to see in a good-quality town craft fair, with a slant toward the kinds of "folkloric" themes likely to appeal to tourists. Jewelry-makers and jacket-makers sometimes exhibited; however, producers of furniture, shoes, suits, aprons, and other utilitarian goods typically produced in Sucre were absent. The artisan-and-small industry *ferias* do not seem to meet the needs of shoemakers, tailors, carpenters and other such artisans. While such artisans would occasionally express a desire for *ferias* to exhibit their goods, their actual participation is small. One problem is that in order to exhibit, the producer must have considerable working capital to produce goods in advance. One carpentry-business owner (#214) estimated that it would require about $5000 dollars of capital to make enough furniture to exhibit independently in a *feria*.

**Profile: A *feria***

The *feria* profiled here was called the "Femexpo." It was a joint effort of several local business-support organizations and was held downtown at the *Casa de la Cultura*. The Femexpo poster showed a silhouette of a nude female and the phrase, "With the hands of the modern woman"; however, of the twenty-one exhibitors I interviewed, eight were men.

I had hoped to draw a random sample of a third of the exhibitors, using the simple method of interviewing the exhibitor at every third stall. However, I did this over a period of three days, while exhibitors came and went, some arriving late and others leaving after only one day. Hence, the sampling did not turn out to be quite so neat. The total number of exhibitors at this *feria* was about seventy-five, though there were no more than forty present at any one time.

Of the twenty-one exhibitors sampled, three were merchants, not producers. Three of the exhibitors did not live in the Sucre area. Three seldom marketed their goods, or this was the first time they had attempted to do so. Five were small industries or branches of small industries (two small local sports-clothes makers, a branch of a book publisher, a local hat factory, and a small shirt manufacturer from La Paz). Artisan products at the *feria* included: engraved wooden plaques (folkloric designs), carved clocks, painted tablecloths, and jackets made from weavings

Just over half (12) of the exhibitors were artisans living in Sucre; of these, less than half (5) had a shop or stall from which to sell their goods. All but one of these were men. Most Sucre artisans represented in the *feria* produced and sold out of their homes, often taking orders. Two were women who only produced occasionally, and seldom or never sold their goods.

I had the impression, during the three days that I visited, that customers were not buying much. "We paid $10 for this booth," commented one exhibitor, "but business is not so good."

In this chapter, we have seen that informality is characteristic of marketing in Sucre. The institution of *caseros*, the expectation of *rebaja* and *yapa*, the often-direct contact between producers and consumers, the lack of brand names and prevalence of word-of-mouth sales, and the use of relatives and friends as small-scale distributors or intermediaries are all typical of the context in which Sucre producers must market their goods. Informal marketing is possible in an economy where retailing is the domain of the masses rather than of a few big corporations, and where people are connected by wide networks of interpersonal relations (large extended families, *compadres*, etc.). It is necessary in an economy where few businesses have advertising budgets, where distributors are unavailable, and where no institutions provide information about distant markets or import regulations.

Personal relationships link buyers and sellers; such relationships may increase efficiency in some ways, allowing clients to communicate their needs more directly and providing for long-term, relatively stable trade relationships. In other ways, however, the need to rely on personal relationships indicates that other, more efficient, institutions are lacking; thus, transactions tend to be on a small scale, and access to distant markets is limited.

**Conclusion to Section 2**

We have seen that there is not a sharp division between "formal" and "informal" businesses in Sucre. Informal characteristics are found throughout the economy, principally because most businesses are small and household centered. Concerning informals in Lima, Peru, de Soto (1989) argued that the government was responsible for creating a situation where informality became a rational choice. However, informality in Sucre is not a response to government over-regulation. There is little government regulation of artisan-level enterprise; the government's artisan-registration organization has not been functioning for several years. Taxes, on the other hand, are a source of complaint, and could be an incentive for smallness, encouraging small producers to stay within the tax office's size limits for artisans. However, producers in general were interested in expanding and acquiring new machinery, taxes or no. While taxes lead to a certain amount of evasion and illegality, the root causes of smallness, and of informality, are to be found elsewhere.

The lack of legal institutions to support businesses, such as enforceable contracts, is another characteristic cited by de Soto to explain the informality of businesses in Lima; this factor does play a role in Sucre. Producers frequently complained about clients (including, especially, public institutions) who did not pay on time, or who delayed picking up items they had ordered. This leaves the producer's capital tied up ("that money is sleeping") and may cause problems when taking out credit:

"They (clients) order a door and say they want it in three days, and then they disappear for two weeks.... When it is time to pay (my loan quota) I can have the work done and sitting here, but they don't come...." (carpenter Don B., #159)

While some producers make formal contracts with their clients, enforcing these contracts is costly: it requires hiring a lawyer. If a client is simply late in paying, it is usually not worth the cost and trouble of taking him or her to court, although lateness involves additional costs for the producer.

Similarly, when producers do not complete work on time, there is little or nothing the client can do. The producer will make excuses and promise that the job will be finished quickly, but on the next visit he or she may not even be in the workshop. Laborers, as well, often fail to fulfill contracts, and there is little an employer can do. Firing the offending workers is one option, of course, but a lack of qualified labor in fields such as carpentry means that employers must often simply tolerate irresponsible behaviour:

"They are good master carpenters.... They come back apologizing (*vuelven arrepentidos*), saying 'I'll never do it again,' and so we give them another contract." (Doña J., Carpentry Enterprise #1)

People in Sucre complain bitterly of "irresponsibility" (particularly, *incumplimiento*, not doing what one says one will do), and the costs this imposes on them. Yet there is no way to effectively defend oneself. Contracts can be made, and their legality is respected. But easy, inexpensive institutions of contract enforcement do not exist.

In Sucre, business people have a strong disinclination to work with partners from outside the household group -- even partners, like brothers, who are kin. This is partly due to a desire to minimize risk. Partners from outside the household may be irresponsible or untrustworthy; they may not pull their weight, they may take more than their share, and they may even be dishonest. Business people foresee the likelihood of "fights" and discord. While formal contracts can be written, and probably enforced, agreeing on terms can be difficult or impossible -- as can foreseeing all contingencies. People tend to avoid risk when the rewards are uncertain -- and in a country which saw hyperinflation as recently as the eighties, these small business people are understandably sensitive to risk. Within the household, long association, common interests and often affection, build trust; outside the household, risks and transaction costs are higher. The household becomes a unit of self-defense, wary of outsiders who might *aprovechar* -- take advantage of them.

As a result, we see an atomized economy in which many small, duplicate businesses operate; where businesses are continually separating, dividing up as new households are formed and the older generation retires or dies. Such an economy does not give birth to corporations or cooperatives. It emerges in an environment where independence is highly valued, and where the transaction costs involved in forming firm-like partnerships are too high. In the case of Sucre, distrust, suspicion, and difficulties with negotiation[6] encourage people to keep businesses within the household. At the same time, the blurring of business and household accounts, and the tendency for businesses to be managed as household "activities", mean that there would be a high organizational cost associated with having partners: accounting would have to become strict, and houses would lose the ability to flexibly transfer funds.

Suspicion and distrust are important factors encouraging households to be wary of outsiders. The idea of being on guard against those who might "*aprovechar*" or "*engañar*" (fool you) runs through Sucre society:

"I've sold just about everything (at some time or other) except meat.... They fool me (*me engañan*) in the market, I don't know which piece is which, but I'm learning." (Doña Inéz)

"Some people will come and *engañar*, they'll say, 'This chocolate is really good,' but then you'll taste it and it's not." (Doña R., ex-chocolate producer)

A merchant spoke of the problem of leaving his daughter in charge of their stall: "She can do it, but they see she's young, *le engañan*...(they fool her)." And a long-term Sucre resident, originally from another region of Bolivia, pointed out the prevalence of what she referred to as a "back-shop mentality" of suspicion in Sucre:

"People don't believe that what they see is all, they think that something's going on behind it.... Like, if a shop is doing well, they'll think maybe they're really selling drugs."

People expect to be taken advantage of, if they are not on their guard. In Sucre, the problem is not that legal guarantees of people's rights do not exist; however, appealing to legal institutions is costly. Consider the chocolate-making couple from an outlying neighborhood whose nephew stole their savings on their wedding night: They now have a signed agreement that he will pay them fifty dollars a month,

"But he was supposed to pay on the 5th, and he hasn't yet (this was the 8th)," Doña E. said. She was very worried about this and mentioned it several times, "And it's no good going to a lawyer, the first thing they want is money...and why bother? The money from what we went and sold has all turned to water."

For very poor families such as this one, the legal system provides very little recourse. And better-off families realize that even a positive legal judgment does not solve everything; as is the case anywhere, people may not have the funds to pay what they owe, or they may "disappear" with no forwarding address. The preference is simply to avoid entanglement in situations where the other party might prove untrustworthy.

Instability in the past, and a difficult economic climate in the present, make trust riskier; the cushion against disaster is thin, and people are wary of losing anything, since it may be more than they can afford. Patterns of mistrust can, as Putnam (1993:170) points out, become self-reinforcing over time. Households prefer to look after their own affairs, rather than stretching out to join forces with others. The result is an atomized economy dominated by many small uni-household (and frequently, one-person) businesses. In the next section, we will focus on local organizations in Sucre, to see how different kinds of organizations try to bring businesses together and provide services to help them.

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[1]One boliviano (1 bs.).

[2]Skirt often worn by indigenous women; small variations such as the number or kind of pleats can identify the wearer's region.

[3] As can be seen from an archived complaint lodged with the Audiencia de Charcas by merchant Matías Hinostrosa in 1681. *Archivos de Industria y Comercio*, Chuquisaca.

[4]*Anticrético* is a system of property lease in which the renter pays a flat initial sum in US dollars (several thousand dollars; the amount depends on the value of the property), and may then occupy the property for the term of the lease, paying little or no monthly rent; at the end of the lease, the owner repays the initial sum, while keeping the profits/interests he or she was able to generate in the meantime.

[5]This seems to be a problem mainly for small producers. Although there are many lawyers -- generally, more than the amount of work available -- low-income producers hesitate to pay their fees.

[6]This will be discussed further in Chapter 9.

## Section 3: Organizations and Producers

Production-related organizations in Sucre can be grouped into two categories: organizations *of* producers ("grassroots" organizations), and organizations *for* producers (that is, outside organizations, such as non-profit NGOs, where producers are integrated as clients). Sometimes the line between the two is blurred; some NGOs are dedicated to encouraging grassroots participation and thus frequently cast themselves in the role of catalysts or animators for self-governing groups of producers.

In Sucre, organizations *for* producers are principally microcredit organizations, which may have associated training programs. Training without credit is also provided by a few organizations, but the target population is generally students without businesses rather than business people. Microcredit organizations and their role in assisting Sucre businesses will be the subject of Chapter 8. Organizations *of* producers (artisan's associations, guilds, and industry associations) will be discussed in Chapter 9.

# Chapter 8: NGOs and Micro-Credit: "Developing" Producers

### 1. Micro-Credit: A Brief Background

Micro-credit is one of the "hot topics" in current development circles; even the World Bank has recognized the importance of micro-lending and micro-finance in general and created the CGAP (Consultative Group to Assist the Poorest) in 1995 as the Bank's micro-finance arm. Bangladesh's Grameen Bank is the case that made micro-finance famous; a village-banking system based on cooperative loan groups and group savings, it has succeeded in reaching more than two million clients[1], concentrating on poor people, primarily women. Micro-finance programs in a wide variety of forms, some modeled on the Grameen Bank, are now found in many parts of the world, including North America. Many of these have credit programs which target producers or other business people. Some hope that micro-credit will finally provide the key to "development", allowing small, poor businesses to grow, generate larger profits, and contribute positively to local and national economies.

While most everyone agrees that micro-credit is, at least in theory, an important resource for small-scale business people, there is disagreement about the way micro-credit should be implemented. Should micro-finance organizations act as traditional "aid" NGOs, providing low (subsidized) interest rates and at-cost training and logistic support, in order to help the poor build strong businesses? Or should they function first and foremost as financial institutions, pursuing profitability and thus sustainability by charging interest rates high enough to capitalize and attract investors in the long term?

The first approach is appealing at a social level; it is more accommodating of poor borrowers. Rather than draining business capital into interest payments, it allows businesses to keep this money to invest in their own growth. Yet it involves subsidizing businesses: it is an *aid* approach, and has been criticized for failing to build micro-credit institutions which will be sustainable in the long run. The second approach is a *market* approach: to set interest rates commensurate with risk, and to emphasize sound financial management in order to create sustainable micro-finance organizations. However, these kinds of organizations nearly always charge interest rates higher than banks charge (because of the perceived higher risk of lending to people with low-income businesses and little or no property). Such organizations have been criticised for exploiting poor people's need for credit in the interests of wealthier bank stockholders.

The sort of micro-credit now available in Sucre does not fit neatly into either of these categories. It is not inexpensive, "aid" credit: most interest rates range from 24-48% per year,[2] compared with the 18% annual interest which banks charge. Nor, however, is it self-sustaining "market" credit; many credit programs still must be subsidized (usually by international funds). As we shall see, there is quite a bit of variation in the programs offered by different organizations; some programs are more like "aid" credit, while others come closer to sustainability. In all cases, there is no shortage of clients. Whatever one's opinions may be about charging high interest rates to poor people, people seek microcredit because these organizations are more accessible, and require fewer guarantees, than banks. And micro-credit interest rates are much less than what marketplace lenders (loan sharks) charge -- 20% interest for forty days, or around five times as much!

### 2. Micro-Credit in Sucre

Nine organizations offer access to micro-credit for business people in Sucre. Each of these is different; some offer only very small loans, others offer larger amounts; some are cooperatives, others are non-profit social agencies. Some organizations have programs to target specific kinds of clients. Several use the "solidarity group" concept borrowed from the Grameen Bank model; in a solidarity group, borrowers join together to guarantee each others' loans; thus they need not offer other sorts of guarantees (which many do not have). All micro-credit programs profiled here offer business loans only to owners of businesses, not to employees. All offer credit on a small scale, often very small -- from $80 to as much as $5000, depending on the organization. Their target population is the micro-and small producer with a total capital investment between about $200 and $20,000 dollars; most are in the lower end of this range.

Loans fall into two broad groupings, "Individual" and "Group" loans. Individual loans tend to be larger, between $500 and $5000, and require "*garantias personales*" (personal guarantees -- a person who will sign to guarantee your loan) and "*garantias hipotecarias o prendarias*" (guarantees in the form of houses or other personal property). "Group" loans are given to solidarity groups of four or more people; such loans tend to be very small, usually starting at $100 and increasing step-by-step with each loan, usually in $100 increments. Each group member should have his or her independent business; within these solidarity groups, no guarantees are required except the *garantia mancomunada* (united guarantee) which holds all group members responsible for each member's payment quota. Unlike in rotating-credit associations, group members in most Sucre organizations do not pool savings. Members of a group are often heterogeneous as to sex, business type, and ethnic identification[3]. Sometimes, they are from the same family, but limits are usually placed on the number of family members in a group.

The system of repayment varies, but groups tend pay their quotas frequently: weekly or biweekly for merchants, biweekly or monthly for producers; individuals who take out loans usually pay monthly. In a group, if some members do not pay, the others are responsible for paying their share. The loan group enforces on-time payment through social, verbal pressure (as one delinquent borrower put it, "They came to yell at me") and the threat of being both expelled from the loan group and blacklisted by the loan organization. Payment dates and amounts for both individual and group borrowers are set in the original loan contracts; borrowers generally do not have the option to delay payment. The organization giving the loan may sanction late payment by failing to increase the amount of future credit, decreasing it, or withholding it altogether. Borrowers who do not pay may be taken to court. Payment periods vary; some organizations tailor payment periods to client needs, while others have set time periods. In Idepro, the payment period for a small loan is usually three months; for a larger loan, typically a year.

Credit to small-scale businesses is not a new idea in Sucre; as early as 1897, the local paper *El Eco Moderno* was speaking of "*instituciones de crédito popular*" that were making small loans to the artisan classes. In the 1980s, a few artisans were able to gain access to loans through a low-interest (8-9% annually) National Bank program, apparently financed with international funds; a handful also got *Banco Agricola* (Agriculture Bank) and Cordech[4] loans from international sources. Yet for the most part, small loans from formal organizations were unavailable. In the last three or four years, however, the number of loan-offering institutions in Sucre has rapidly increased. There are now nine organizations which offer micro-credit programs for business people. **Los Andes, Prodem** and **Idepro** are all national credit institutions entering the micro-credit market as competitors (Los Andes is a "private financial institution", the latter two are NGOs). **Madres, Promujer**, and **IPTK**, on the other hand, are principally social-service organizations which have other programs in addition to credit. **FADES** is confined to agricultural lending, and **COSAL** and **San Roque** are savings-and- loan cooperatives. Each of these institutions is profiled briefly below.

The two savings-and-loan cooperatives are the oldest of these nine, dating from the 1960s; however, San Roque's credit programs targeted at businesses are quite new (begun in 1993). Most business-oriented micro-credit programs began in the mid-1990s. Idepro's Sucre office was founded in 1993 (their first office, in the city of El Alto, opened at the beginning of this decade); Prodem's Sucre office in 1994 (though it dates back over ten years in La Paz); Madres in 1995; Los Andes (which grew out of the experience of ProCrédito, from 1991 to 1995) in 1995; FADES a bit earlier, in 1991; and the long-established IPTK began its credit program recently, in March 1996.

***Credit Cooperatives***

While cooperatives are theoretically a kind of grassroots organization, Sucre's two savings-and-loan cooperatives work much more like NGOs, with professional staff making policies, evaluating loan applications, arranging courses and so forth. The two savings and loan cooperatives in Sucre which offer loans for microenterprise are the Cooperativa San Roque, with its PRISMA and PROCOM programs, and the Cooperativa San Lázaro (COSAL). These co-ops offer credit specifically targeted for businesses, but unlike other micro-credit organizations they also offer consumer credit for house construction and other purposes. Other co-ops in the city, such as the Teachers' Cooperative, offer credit, but not specifically for businesses. Cooperatives require potential borrowers to become co-op members, and to keep a savings balance in the cooperative[5].

**Prisma/Procom**: The San Roque Cooperative, founded in the mid-1960s, has two distinct loan programs; PRISMA is for producers, and PROCOM for merchants. These programs date from 1993. In August 1996 their total loan portfolio[6] was US $337,840, with an average loan amount of $750 dollars. A business training class and inspection of the business are preconditions for credit. Within the PRISMA program, loans are for individuals; within the PROCOM program, for solidarity groups. Administrators say they have had more success with individual loans (which made up 73% of their loans in August 1996), as groups tend to join together too hastily and do not properly evaluate members' trustworthiness. In response, the cooperative is beginning to experiment with forming solidarity groups by neighborhood rather than by activity, so that clients may form groups with people they know well. Of all the micro-credit programs in the city, PRISMA was most frequently cited as having given credit for machinery purchase, particularly by carpenters. PRISMA loans in US dollars at a 24% annual interest rate; PROCOM loans in national currency (*bolivianos*), and thus charges an interest rate of 39% annually to cover the boliviano's devaluation relative to the dollar.

**Cosal:** The San Lázaro Cooperative dates back more than 32 years. It went through a period of crisis and restructuring in the early 90s, but has recovered and now has about 4500 members. Unlike the San Roque cooperative, it does not have separate credit programs for business people, but it actively targets small-scale businesses as part of its credit activities. Average loan size is around $400-500 dollars, at a 24% annual interest rate, and the total loan portfolio is $436,472, somewhat larger than Prisma/Procom's. The Cooperative's principal activities are savings and credit, but it also emphasizes training, particularly in administration, marketing, and cooperative organization. The cooperative offers credit both to producers and merchants in the city and to small agricultural producers in rural towns, as well as consumer credit. About 15% of the co-op's clients are currently from rural areas. Loans are given primarily to solidarity groups (about 80% of loans); these groups range from 5-10 members. Loans given to individuals are usually not for businesses. Eighty percent of credit users are women.

***The "Credit-Triumvarate":***

The three credit programs profiled below are active competitors with one another. The preferences of clients themselves do not, in general, seem to be particularly marked: frequently, business people who had taken out loans from more than one of these would confuse their names. Prodem has the advantage that it loans in national currency; some clients prefer this since their earnings are generally in bolivianos, and the boliviano has been devaluing relative to the dollar for the past few years. Los Andes is the only organization that offers individual loans to merchants, and Idepro has the widest variety of programs. All have a "step" loan policy which allows long-term clients access to progressively bigger loans. Interest rates range from 25-30% annually on US dollars, to 48% for national currency.

**Prodem:** This was the first micro-credit NGO in Bolivia. It began slightly over ten years ago in La Paz, though its Sucre office is relatively new -- two years old. Prodem works exclusively with solidarity groups (from four to eight people each), and has provided the model in Bolivia for work with solidarity groups in micro-business credit. Loans are given in bolivianos; initial amounts may range from 100 to 1000 bolivianos (US$19-$194), and the amount of subsequent credits increases by increments. In August 1996, Prodem had 1800 active clients. Every credit user must come to a pre-credit talk and is evaluated before each loan; the evaluation considers both economic and social indicators. In some Bolivian cities, this NGO has become a bank, BancoSol. Lending in national currency, Prodem charges 48% annually.

**Idepro:** Idepro was founded in the early 1990s in the La Paz/El Alto area and has had a Sucre office since 1993. The head office is in La Paz. Idepro had over 1600 current loan clients in September 1996, slightly fewer than Prodem, while Idepro's loan portfolio ($569,330 US dollars) was about the same. Idepro began by giving loans strictly to solidarity groups (from $80-$1000, beginning at $80 or $100 and increasing by steps) but expanded in its third year to include loans to individuals and, recently, to producers' associations. (Currently, it has facilitated the formation of a carpenter's association; there was also an earlier attempt to form an association of metalworkers.) Idepro offers training programs in administration and began a program in 1996 to help producers buy machinery. Idepro loans in US dollars and charges 25% annual interest.

**Los Andes:** This is a new micro-credit organization, with 1500 current loan clients in August 1996. Unlike Idepro and Prodem, Los Andes is not an NGO; rather, it is a private financial institution. It has a much bigger loan portfolio than Idepro: over two and a half million dollars. Loans are given almost exclusively to individuals; Los Andes does not use the group loan system. The average amount loaned is $500 dollars, and many of the clients are merchants. Los Andes' office is located in the busy Campesino Market section of the city. The organization offers loans in both bolivianos and dollars, charging 30% per year on dollars and around 40% on bolivianos.

***Social Programs and Credit:***

The loan programs profiled below are only one facet of NGOs which offer various programs oriented toward social goals. The image of these programs is to be more "aid" than "market" oriented; nevertheless, while some charge annual interest rates as low as 12%, others charge as much as 48% annually. These programs are all small and reach only a limited number of clients. Thus, their impact on businesses in Sucre as a whole is minimal, though they may have a favorable impact on individual households.

**Madres:** This NGO was a little over one year old when I visited in late 1996. It was founded by a group of professionals interested in promoting economic and social development in the region, with the specific goal of helping mothers and children. Microcredit is only one aspect of their programs, which include dental hygiene for children, and family planning. Eighty percent of their microenterprise loans are for women (a figure similar to other credit institutions), and an unusually large part -- 72% of total loans -- are for producers. Madres works only with individual borrowers, stating that there are "a lot of problems with groups", and had only 130 current clients and a loan portfolio of about $14,700 in August 1996. As with most credit organizations, a short course (or orientation) on credit is a prerequisite to taking out a loan, as well as a visit to verify the business activity. Credits are given in bolivianos, starting from about 500 bs. and increasing gradually, according to the step system, with an annual interest rate of 30%. Businesses must be at least a year old, and may be in manufacturing, commerce or the service sector. Two people acting as personal guarantors, one of whom must be drawing a regular salary, are required.

**Promujer:** This NGO is specifically targeted toward women, and is one of the two micro-credit programs in Sucre which regularly give small loans for business start-up (the other being the IPTK). Most organizations require that businesses be at least a year old. Promujer's program is quite a bit larger than Madres' and IPTK's: almost 1300 clients in June of 1996.[7] Its structure is rather different from the other organizations; their program requires the forming of associations (from twenty to thirty persons) intended to give women experience in independent self-organization. Only after the process of group formation and training may group members take out loans, in national currency, at 48% annual interest. Groups of four to five people from the same association guarantee one another; they are responsible for repaying any amount their fellow group members do not pay. Initial loans are very small -- a maximum of 500 bs. per person. Group members are required to deposit 20% of their loan into a common fund, as group savings, to be used later as a rotating loan fund for group members.

**IPTK**: This is a large, well-established NGO with a long history of work in popular education, health, and other areas. Their loan program is only about a year old, and receives financing from the European Community. The IPTK (Instituto Politécnico Tomás Katari), like Promujer, offers loans for business startup (as well as for existing businesses), but the program is small and its services are confined to one particular region of Sucre, District 2, targeted for aid to microenterprise. The approach of one project administrator to the question of micro-enterprise support typifies the social-service, "aid" attitude, and the link between enterprise growth and social development:

"(The program) is for the mothers and fathers...to have an income, to bring it back to their families and improve nutrition, housing, health...."

Loans are offered to both individuals and groups, and vary from US$100 to $2000. Loan amounts do not go by a "step" program; even new businesses may take out $2000 in some cases. The loan portfolio is only $50,000; in their first year, the program gave 250 loans. This program is exceptional among Sucre's micro-credit programs in that it charges an annual interest of only 12%; this is a subsidized rate, and thus the program is strongly dependent on outside financing to pay its administrative costs. Since the program only has European Community funding for two years, administrators are seeking a way to keep the program functioning thereafter.

**Fades:** Fades is a national-level NGO with a Sucre office. FADES offers credit only to agricultural or agriculture-related producers, at subsidized 16% annual interest rates. It also has other programs, geared primarily toward agricultural producers. The organization began seven years ago in Bolivia, and five years ago in the department of Chuquisaca. The credit program receives its funding through low-interest loans (8% annual) from the Netherlands; the additional 8% interest charged is used to cover Fades' administrative expenses. In Sucre, their clients are primarily people from outlying neighborhoods with businesses such as chicken raising, vegetable production, and textiles.

### 3. Microcredit Clients: Who Are They?

Micro-credit clients are small-scale producers, merchants, or service workers who own their own businesses. Market women with their own stalls are frequent users of this sort of credit, as are small artisans who need infusions of raw materials. In most cases, these are one-person businesses, though some may hire as many as four or five workers. The majority of microcredit clients are women: 65% of Idepro clients, and 80% of COSAL clients, for instance. Microcredit clients may join together in groups to gain access to loans, but the function of these group is strictly credit-oriented. In no case do these people consolidate their productive activities or pool other resources; we have already discussed the strong disinclination to do so in Chapter 5.

Small-business owners hear about microcredit from fliers circulated in markets, from radio advertisements, and from friends, acquaintances, and family members. These business people want loans to travel, so they can buy materials more cheaply or obtain wider variety of merchandise (to "*surtir*" -- offer a wide assortment of merchandise -- is a generally recognized way to attract clients). Business people also want loans to buy machinery, tools, and to make improvements in their physical workspace. They may also want loans to pay off existing debts, make improvements to their living space, re-loan to others at higher rates of interest, or buy consumer goods. Loan programs targeted to businesses do not approve the latter group of goals; loans are ostensibly given only for investment in the businesses. Nevertheless, loans do find their way to these other uses: this is the nature of household enterprise (see Chapter 4).

The three main micro-credit organizations (Idepro, Prodem, and Los Andes) have the majority of their clients in the commerce sector (55% for Idepro; 70% for Prodem and slightly under 70% for Los Andes); clients are primarily market vendors. Producers, however, form an important segment of these organizations' client populations: 30% of Los Andes clients and 28% of Idepro clients -- though only 10% of Prodem's. Of these producers, traditional artisan activities such as sewing, goldsmithing, and knitting predominate.

In 1996, I visited the Idepro micro-credit clients I originally sampled in 1994 (n=50). I discovered that of these fifty businesses, forty-two were still open, under the same ownership, in 1996. Some were continuing to take out loans with Idepro or other micro-credit organizations, while others no longer took out loans with organizations. The forty-two businesses are listed below in Table 6. Because many of these Idepro clients (60%) had also taken out credit at some point from other loan programs (usually Prodem, San Roque, and Los Andes), it seems fair to assume that client profiles for Idepro would be reasonably representative of the clients of these other three organizations as well. I did not, for instance, see distinctions between the kind of carpenters who were Idepro clients, compared with those who were Los Andes, San Roque and Prodem clients; these organizations seem to attract a very similar clientele.

In the 1996 sample of Idepro micro-credit clients (n=42), we see that women are well represented; among merchants, women are 88% of the total, while producers have a much smaller, though significant, female participation (35%). The age of micro-credit clients varies, ranging from as young as 24 to as old as 65. Education levels vary widely as well, from "none" to post-secondary education. Like small business people as a whole, Sucre's micro-credit clients demonstrate considerable heterogeneity, as well as a sizable presence of women as business owners.

Fifty-seven percent of Idepro credit clients were Sucre natives; of those who were not, many had been in Sucre at least ten years, and everyone had been there at least two or three years before taking out a loan. This suggests that a certain amount of business stability is a prerequisite before people are ready to risk taking out loans, and before organizations are willing to give them one. Very-recent migrants may have businesses, but these businesses are not firmly established. Since many organizations require that businesses be one year old to take out loans, and require businesses to make regular, on-time payments and cover an annual interest between 25 and 48%, it is not surprising to find that micro-credit clients are a population of established, generally full-time business people.

In 1996, Idepro clients tended to have monthly business earnings averaging around 1150 bs.,[8] with a wide range of variation (from a sweater-knitter with 150 to a chicken-farm owner with 6000). In one-third (14) sampled cases, the business is the sole support of the household. Many businesses are run by a single person, with no employees. In only 19% of cases does the spouse work regularly in the business, and in only 21% of cases is labor hired. However, in several cases parents or children help regularly with business activities. The ages of businesses at the time of their first loan vary greatly as well, from one year (the minimum) to nearly thirty years.

Producers who have been micro-credit clients have fixed capital ranging from as little as 300 bs. (a sewing machine for a blouse-and-apron maker) to over 150,000 bs. for a chicken farm. Merchants' inventories show great variation as well. The school-supply sellers, for instance had considerably more than anyone else: one claimed inventories of 45,000, another of 90,000 bs. Compare this to a coffee seller in the Central Market with only 800 bs. in inventory, or a neighborhood store with only about 550 bs. Service-providers such as street-cooks may have as little as 100 bs. in inventories, though they also have fixed capital such as stoves and refrigerators, totaling between 2000 and 5000 bs.

From this profile, we see that the clients of micro-credit organizations such as Idepro are far from a homogenous group of people. Microcredit appeals to both women and men, the educated and the uneducated, the migrant and the native, and the relatively new business as well as the established one -- and all groups have access to credit services. Comparatively wealthy businesses still find a need for microcredit, as do low-capital ones; nevertheless, while there is a considerable gap between a goldsmith with capital of over 40,000 bs. and a candy seller with capital of 150 bs., it is possible to define boundaries for the universe of micro-credit clients.

Many businesses are too small for micro-credit; for instance, those market vendors whose sales are slow, the people who spread goods on the sidewalk because they do not have a market-post, and most producers of sweaters and handicrafts.[9] These sorts of producers do not make sufficient profits to cover interest costs, and their turnover is often too slow or unstable to allow them to meet regular payments. On the other hand, there are many businesses which are too large for microcredit: Sucre's chocolate, hat and beer factories, and the larger carpentry enterprises, for instance, do not take out microcredit; nor do most boutiques or restaurants. For these businesses, the amounts loaned, even in the individual-credit programs, are too small to be worthwhile. Their credit needs are usually -- though not always -- served by banks.

**4. Local Views on Micro-Credit: Help or Exploitation?**

While micro-credit organizations are often praised for their ability to provide needed support to small-scale businesses and, in doing so, to stimulate business growth, in Sucre these organizations have generated a mix of positive and negative responses from small-business owners. The question is: Do credit organizations *help* small-business owners, giving them access to needed capital so that they can vary their merchandise, improve their products, and escape a dependence on loan sharks and expensive, inconvenient purchases-on-credit? Or, do such organizations *exploit* small-business owners, taking advantage of them with high interests while functioning for their own benefit and profit?

Business people who viewed micro-credit in a positive light often pointed to its superiority to alternative credit forms. Without microcredit, the only alternative for many small-business owners is borrowing from individuals -- often, individuals who charge usurious rates:

"People here borrow money...at 20% interest (for 40 days; about 183% annually)... This is why they never have money to expand.... People walk around in the market, taking advantage of necessity.... I tell people in the meetings, look, you're borrowing this much, and you're paying that much...." (Don A., President, Night Market *sindicato*).

An alternate form of borrowing is to buy on credit from suppliers. Some former Idepro credit clients seemed pleased with this arrangement, but it also has its problems: Doña C. (business #25 in Table 6) is a fruit seller in the Central Market who formerly took out micro-credit; she now uses credit from suppliers, but her suppliers do not always have the fruit she wants. Lacking cash, she does not have the option to buy from alternate sources. Also, when prices are low, suppliers may not want to give credit, as Doña F. (business #33) found while trying to buy sugar to make *confite* candies to sell.[10]

For small producers and merchants, banks are usually not an option for credit:

"(Banks) aren't set up to loan to artisans, they do other things." (Don A., furniture maker).

"With banks...if you don't have money, it's tough...they have a long list of guarantees.... And they come to see your house, and if you can't pay, they take away our house.... It's too much.... The NGOs giving money from Europe...are doing a great favor for artisans.... We were never able to get loans.... From the banks, there is a big list of guarantees, having a bank account.... I say, how is an artisan going to have a bank account when he doesn't have money to eat.... These organizations like Idepro are a blessing from God." (Don M.T., goldsmith, business #14)

Another goldsmith, Don J. (#29), points out that micro-credit organizations have filled an important gap for artisans:

"Three years ago, there were no loans (from institutions accessible to artisans). You worked with what you could, alone, or with a worker.... I had orders but I couldn't do them because I didn't have materials.... Then I took out a loan from an individual...the interest was very high.... Credit is very important for a workshop."

Many of the loan clients expressed satisfaction with their credit experience, often using the terminology of "help" (*ayuda*): "The loans are a help." "Idepro has helped us a lot." Another frequent positive evaluation was simply: "*Nos ha ido bien*" -- it went well for us, in the sense that all members of the group were able to pay back the loans without difficulty. Many business owners who reacted positively to credit emphasized how they were grateful to have a source of capital. They explained how this allowed them to buy raw materials and merchandise more cheaply and/or in greater variety (often, by being able to travel to other Bolivian cities to make purchases). Business people enjoy the convenience of being able to make a large purchase and then pay it off little by little, in weekly, bi-weekly or monthly installments. The majority of people in the sample had a positive view of their experience with Idepro, even if they were not continuing as credit clients.

A counterpoint to business-owners who praised micro-credit's usefulness were those who claimed that micro-credit organizations are self-serving, exploiting small business people's need for credit. Artisans, particularly, spoke of the "high interest rates" of micro-credit organizations. Some argue that since micro-credit organizations generally receive outside funding, they should charge low interest rates; otherwise, they are taking advantage of the people they are supposed to help. People see that banks give loans at 18% annual interest, while micro-credit organizations charge 24% or 30%, and sense that someone must be profiting from this. One artisan-association leader thus described Idepro, an NGO, as a "private, for-profit" organization. This artisan was among those who pointed out that low-interest money from abroad is funneled through such organizations and becomes high-interest money:

"Since everything is private, we (the artisans) don't get access to anything.... Everything will be at usurious interest rates."

A loan-program administrator at IPTK contrasted his organization's approach of charging only 1% monthly (12% annual) interest, saying that this is the only way to help businesses grow. Idepro and similar organizations, he says, "aren't helping people, they're exploiting them.... What people earn, it goes to pay the loan."

People are often aware that micro-credit organizations receive outside funding to help small businesses, and may perceive credit organizations as appropriating this money for themselves. Such critics overlook the costs involved in administrating organizations; money that is "for the organization" pays salaries, rent, and other expenses and keeps the organizations running. Idepro, for instance, receives funding, but this is in the form of loans which must be paid back. Operating expenses must be covered out of the interests generated by credits, and operations are ambitious -- Idepro has an institutional commitment not only to offer micro-credit, but courses in administrative training, provision of market information, and the formation of producers' organizations. Its program is ambitious, its geographical presence is expanding (as new offices are opening in other Bolivian cities), and its costs are high. Idepro Sucre is also facing pressure from the La Paz office to charge higher rates for training courses -- rates, unfortunately, higher than the local market will bear. All of these factors force Idepro, though an NGO, to function as a business, not simply as an aid intermediary between outside funders and local beneficiaries.

While creating strong, sustainable micro-credit organizations is a priority for funders, who want to assure that micro-credit will be available in the future even in the absence of aid funds, individual business people may be less interested in long-term institution building. Artisans, particularly -- who are often not as well served by credit organizations as are merchants – tend to feel that the organizations are something very separate from their interests. Money to benefit the credit organization is, in their view, something very different from money to benefit artisans.

"Tell us the truth," one carpenter asked an NGO representative, when told that money was arriving from the European Community, "Is that money to benefit artisans, or is it to benefit the institutions?"

Microcredit organizations need to cover their expenses; in the long run, many hope to attract investors and become banks (e.g. BancoSol) with their own capital base. The goal of creating sustainable micro-credit institutions, to serve a population unserved by banks, is important; however, many business people assume that the goal of micro-credit should be to "help" their businesses. People are willing to pay for this "help"; they do not expect gifts, they want loans -- but low-interest ones, funds *de fomento* (to stimulate, act as a catalyst) in order to help businesses grow. Since growing businesses would contribute to the local economy, business people see themselves as valuable investments; if only businesses could get "help," Sucre would not have to be so "backward." "The machines we have, they're in the stone age," said one carpenter (#200).

The strictness of micro-credit organizations sometimes hit a sour note with clients, who were more accustomed to flexible, interpersonal relationships, where ill fortune is accommodated -- and irresponsibility tolerated.

"They (credit organizations) are very bad. They don't wait...when there are no sales (they still want to be paid). They don't understand sickness, nothing." (Doña F., #33 in Table 6)

"They are very insistent, you have to pay.... They will threaten you." (Don J.P., carpenter #225)

The rhetoric of "help" and "support" which the organizations themselves use contrasts with the rigid, businesslike credit arrangements which they must enforce in order to survive:

"Oh, the institutions are no help, they say they're to help small industry and artisans -- yes, they say they'll help the artisan, but when you go, it's not like that, they put all kinds of obstacles in your way (*te ponen cualquier cantidad de trabas*), they're liars...they want all sorts of guarantees." (Doña Rosa, ex-chocolate producer)

While organizations explain interest rates and payment plans in pre-credit orientations, and attempt to communicate the level of responsibility and punctuality required, some people take out loans and find themselves over their heads.[11] This leads to negative evaluations of micro-credit institutions. Generally, dissatisfied clients are those who should not have taken out a credit to begin with: either because their family already puts too many demands on their budget; or because they did not know the members of their solidarity group well enough; and/or because their business is not profitable enough to cover the cost of interest and generate payments in regular installments. Doña F. (business #33 in Table 6) is a sweater-knitter with low earnings (only about 150 bs/month), and several children making demands on her budget; she found paying off a loan to be very difficult -- especially when she fell ill. Doña C. (#5) is another sweater knitter; not only does she have a very low-earning business (around 220 bs. a month), but two of her loan group members did not pay, so she had to pay their share. She concluded that the credit organizations "fool poor people.... They're thieves."

Doña L. (#10), who also had a negative opinion of loan organizations, was supporting herself and her children on the 600 bs./month she earned in the Night Market; she felt that the credit organization, in collecting their quota, was taking her earnings and depleting her capital. This vendor expressed more satisfaction with suppliers who leave goods with her on credit. While very small, low-yielding business were not the only ones which discontinued working with Idepro, these were the businesses that tended to speak most negatively of the organization once they had left. They were the ones most looking for *help* -- and the ones least likely to find it.

### 5. Micro-credit Effects

In this section I will present some of the results from a study of Idepro micro-credit clients over a two-year period. As this thesis focuses on explaining why businesses in Sucre remain very small, it is important to consider the credit options which these businesses have, and whether micro-credit can in fact help these businesses to grow, become more competitive, and seek out bigger markets both within and beyond Sucre. We have seen in the chapter on carpentry how carpenters have expressed a need for more efficient machinery. The carpentry sector's potential, the need to become more efficient to compete, the difficult access to skilled labor, and the fact that many carpenters work steadily (or are even "running over" with work), speak to the legitimacy of this demand. Carpentry is not the only case where producers have a lot of business but insufficient capital: shoemakers, goldsmiths and other artisans I spoke with were often in a similar situation. A need for credit exists; how are micro-credit organizations addressing this need?

While all of Sucre's micro-credit organizations serve producers (especially artisans) to some extent, the majority of micro-credit users are merchants. We shall see that there is a good reason: micro-credit, in the way that it is currently offered, is more accessible and useful to merchants than producers. By considering how micro-credit organizations interact with both kinds of small-businesspeople, we will be able to see to what extent the organizations' claim that micro-credit organizations stimulate business growth holds true.

Table 6 lists all 42 sampled Idepro businesses in 1996. Some were still taking out loans with Idepro, some with other organizations, and some were no longer taking out loans from any organization at all. All of these business people formerly or currently participated in Idepro's solidarity-group program ("PCP" program), with its initial $100 (per person) loan amount for three months. With the PCP program, the loan amount may increase by steps every three months, up to a maximum of $1000 per person. More recently, Idepro has established new programs, and some clients have switched to these. These are the "PCD" program, which gives larger loans ($1000-$5000) to individuals; the "PCA" program, which encourages the forming of producers' associations and gives solidarity-group loans ($100-$1000) to association members, and the "PCIC" program, which offers one-time loans for association members who want to carry out some "common project" such as joint machinery purchase (where machines are bought in quantity, but each member pays for his or her own machine).

**Table 6: Former and Current Idepro Credit Clients (1996)**

| | Sex | Age[1] | Product | Type of Activity | Business Age [1] | Business Location[2] | Current Loans Sept./Oct. 1996[3] |
|---|---|---|---|---|---|---|---|
| #1 | F | 38 | Coffee | Commerce | 3 | CM | Idepro PCP |
| #2 | F | 35 | Soy Milk | Production | 3.5 | H | None |
| #3 | F | 45 | Hamburgers | Service | 6 | AMB | None |
| #4 | F | 37 | Tomatoes | Commerce | 4.5 | CPM | Prodem |
| #5 | F | 58 | Sweaters | Production | 11.5 | H | None |
| #6 | F | 33 | Candy | Commerce | 9 | CM | Idepro PCP |
| #7 | M | 49 | Shoes | Production | 17 | RN | None |
| #8 | M | 27 | Shoes | Commerce | 8 | CM | Idepro PCP & San Roque |
| #9 | M | 35 | Clothing | Commerce | 10.5 | CPM | None |
| #10 | F | 29 | Clothing | Commerce | ? | CM | None |
| #11 | M | 32 | Furniture/Doors | Production | 9.5 | H | Idepro PCP |
| #12 | F | 43 | Clothing | Production | 5 | H | None |
| #13 | M | 33 | Sandals | Production | 14.5 | H | None |
| #14 | M | 63 | Jewelry | Production | 28 | H | Idepro PCP |
| #15 | F | 31 | Groceries | Commerce | 9 | RN | Los Andes |
| #16 | M | 42 | Clothing | Production | 7 | RN | None |
| #17 | F | 42 | Clothing | Commerce | 13 | CPM | Idepro PCP |
| #18 | F | 39 | Shoes | Commerce | 5 | CM | Idepro PCP |
| #19 | F | 65 | Groceries | Commerce | 5.5 | RN | None |
| #20 | F | 40 | Clothing | Production | 17.5 | H | Idepro PCD |
| #21 | M | 55 | Clothing | Production | 23 | RN | Idepro PCIC & San Roque |
| #22 | F | 39 | Eggs & Cheese | Commerce | 27 | CM | Idepro PCP, Prodem, Los Andes (?)[4] |
| #23 | M | 42 | Eggs | Production | 7 | OT | Idepro PCD |
| #24 | M | 51 | School Supplies | Commerce | 15 | CM | Idepro PCP, Cosal, Prodem, Los Andes[5] |
| #25 | F | 32 | Fruit | Commerce | 17.5 | CM | None |
| #26 | F | 30 | Clothing | Commerce | 9 | CM | Prodem |
| #27 | F | 65 | Soy Milk | Production | 5.5 | H | None |
| #28 | M | 41 | Eggs | Production | 12 | OT | San Roque[6] |
| #29 | M | 50 | Jewelry | Production | 33 | DT | Idepro PCD |
| #30 | F | 34 | Various | Commerce | 6 | AMB | None |
| #31 | F | 35 | Shoes | Commerce | 4.5 | OM | Idepro PCP |
| #32 | F | 61 | Groceries | Commerce | 8.5 | CM | Prodem, Los Andes |
| #33 | F | 31 | Sweaters | Production | ? | H | None |
| #34 | F | 48 | School Supplies | Commerce | 9 | CM | Idepro PCP, Prodem |
| #35 | F | 50 | Clothing | Commerce | 29 | CM | Idepro PCP |
| #36 | F | 41 | Hairdressing | Service | 12.5 | DT | Idepro PCD |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| #37 | F | 49 | Lunch | Service | 8 | CPM | Idepro PCP |
| #38 | F | 34 | Shoes | Commerce | 12 | OM | Prodem |
| #39 | F | 40 | Food | Service | 18 | AMB | Los Andes |
| #40 | F | 33 | Groceries | Commerce | 8.5 | RN | Idepro PCP |
| #41 | M | 34 | Ice Cream | Production | 8 | H | Idepro PCD |
| #42 | M | 41 | Metalwork | Production | 6 | DT | Idepro PCP |

1. In years. Calculated by adding two years to the number given in 1993-1994
2. CM=Central Market (for clothing and shoe sellers, this refers to the Night Market), CPM=Campesino Market, OM=Other Market, H=In the home or a closed shop (not open to the street), RN=Shop in a residential neighborhood, DT=Shop downtown or on a busy street, AMB=Ambulant vendor, OT=out of town (rural)
3. From organizations or banks.
4. Uncertain if her Los Andes loan was current.
5. He used to work with banks, but due to paperwork now takes out multiple small loans.
6. He also has an outstanding debt with Idepro.

The satisfaction of many clients with credit services is suggested by the fact that half were continuing to take out credit with Idepro after two or three years (some joined in 1993, others in 1994). *Repeat clients* are a large chunk of Idepro's clientele: in 1996, repeat credit users took out 62 out of the 98 total credits given in May (63%), 65 out of the 90 credits given in June (72%) and 79 out of the 98 credits given in July (81%). This seems to suggest that micro-credit clients feel credits are useful to them; if not, they would stop borrowing. Repeat clients generally expressed satisfaction; however, a few were considering discontinuing their relationship with the credit organization, generally due to economic difficulties. Ex-clients, on the other hand, were not necessarily dissatisfied; many spoke positively of their experience.

Even clients who are not continuing with Idepro may take out loans with similar institutions; 16% of the sample (7 cases) fit this category. Business people who left Idepro to join another institution generally did so for reasons of convenience (often, they preferred the solidarity group they had formed in another institution, or they wanted to take out individual loans).[12] These credit-using ex-clients can be combined with the long-term Idepro clients for the purposes of this analysis: A cumulative two-thirds (n=28) of the sample are long-term credit users. What sorts of businesses are these?

I expected that long-term credit use may be tied to the unavailability of other household income and thus a tendency to rely on credit in order to keep businesses afloat. This is not, however, the case. Of the twenty-eight long-term credit users, nineteen (68%) have other household income of some sort. We can compare this with the 67% of all the sampled businesses which have other household income. This suggests that long-term credit users are no different from their ex-credit-using counterparts in this respect. Other household income does not appear to be a relevant factor in the decision to use credit over the long term.

There is no strong tendency for men or for women to be long-term credit users; 64% (eighteen) of the long-term credit users were women, compared with 67% (twenty-eight) of the original sample. Among *producers*, however, nearly all of the long-term credit users -- 8 out of 9 -- are men. This is likely because manufacturing businesses run by women are few (only 35% of producers sample were women) with low earnings (averaging around 300 bs./month). Migrants as well as native Sucrenses were well represented in the ranks of long-term credit users, as were relatively new businesses (a year old at the time of the first credit) and well established businesses (up to 26 years old).

Long-term credit clients tend to be better-off than their counterparts who no longer take out credit. Long-term credit clients comprise nearly all of the better-off businesses in the sample; of the nine businesses with monthly earnings over 2000 bs., eight are long-term credit users.[13] However, there are also five long-term credit clients with low monthly business incomes -- under 500 bs./month. Despite their low incomes, however, these are all high-traffic businesses (vendors in the central market or on main streets, neighborhood shops in good locations, or mobile businesses that seek high-traffic areas); these business people benefit from a high turnover of their goods, and so make good use of credit.[14] Their location is one of their important assets.

Only fifty-three percent (n=9) of producers in the sample became long-term credit clients, compared with seventy-six percent (n=19) of merchants and service workers.[15] The tendency among producers was for low-profit businesses to discontinue credit use early on. Merchants, on the other hand, have faster turnover of their goods and so have more opportunity to make their loan money "circulate" in a business. Business people generally understand that the *circulation* of loan money within the business is what makes credit profitable; as one hamburger-seller put it, "This money is so that you can make it circulate." Business people know they are paying interest, and low-profit businesses will abandon loan programs once they realize that the loan is not generating enough income to pay the cost of interest. From this, an argument can be made for keeping initial loan amounts small -- to avoid excessive indebtedness when people don't examine their economic situation ahead of time.

**Table 7: Producers Who Are Long-Term Micro-Credit Clients -- 1996**

| | Activity | Business Age at First Credit[1] | Approx. Net Income/Month[2] | Location[3] |
|---|---|---|---|---|
| #11 | Carpenter | 7.5 | 2,000 | H |
| #14 | Goldsmith | 26 | 1,000 | H |
| #20 | Seamstress | 15.5 | 800 | H |
| #21 | Tailor | 21 | 750 | RN |
| #23 | Egg Farm | 5 | 6,000 | OT |
| #28 | Egg Farm | 10 | 750 | OT |
| #29 | Goldsmith | 31 | 550 | DT |
| #41 | Ice-cream maker | 6 | 2,700 | H |
| #42 | Metal-mechanic | 4 | 2,650 | DT |

1. In years
2. Of the business. In bolivianos.
3. **H**=In the home or a closed shop (not open to the street), **RN**=Shop in a residential neighborhood, **DT**=Shop downtown or on a busy street, **OT**=out of town (rural)

Of the eight other producers who no longer took out credit in 1996, five were earning 250 bs. or less per month in their businesses. Of the remaining three, one had to support five children on his business' income,[16] one had problems with his loan group, and the other only earned about 500 bs. per month. Producers who were not continuing with credit generally did not have shops to sell in, or sold in out-of-the-way shops. Producers who *were* continuing with credit, on the other hand, were more likely to have shops in good locations, and they earned an average of about 1900 bs. per month net business income in 1996.[17] This information does not help us identify in advance which producers will opt out of credit (low-income businesses were not always low-income businesses -- some, at the time they first applied for a loan, were doing much better); however, it does indicate that the profitability of the business plays an important role in the decision whether or not to continue using micro-credit. Producers with low-profit businesses tend not to be long-term credit users; low-profit merchants may be, but only if they possess a good business location and thus high product turnover.

Other factors also enter in the decision to continue with credit. Solidarity-group dynamics are particularly important. Business people who had a bad experience with group members who didn't pay on time often opted out of credit from then on; 43% of the fourteen business people who stopped using credit told of negative experiences with their groups. Credit organizations promote solidarity groups to lower monitoring and enforcement costs and provide a source of loan guarantees for poor borrowers. However, groups are sometimes not formed as carefully as they ought to be -- "in the fever of getting a loan," as one San Roque credit assessor put it. Thus, there always exists the possibility that certain group members will prove unreliable or default on the loan altogether. Because other group members are responsible for those who default, this can become a strongly negative experience which eliminates any future desire to work with loan organizations.

Overall, micro-credit is useful for a certain kind of business: established, high-turnover businesses which can afford to cover the cost of credit. Merchants, who have the fastest turnover, find credit most helpful. Merchants can do a lot with a small loan for a short time period; producers can not. Producers may use credit for raw materials, but few make long-run investments in new machinery and improved workspace. For many business people, micro-credit provides a valuable service; yet it is not paving the way to rapid growth. Over the two-year period of this study, market-vendors remained market-vendors -- they did not become wholesalers or shop owners, and they did not expand noticeably above their neighbors who were not micro-credit clients. Looking at data from 1994 and 1996, it seems that some long-term credit users experienced growth in inventories and capital during this period -- but others had lower inventories and less capital in 1996. Data on incomes, similarly, showed no strong growth patterns; some businesses seemed to be earning more, but others less, than originally reported in 1994.[18] The point is, business growth depends on other factors besides just access to credit -- good administration, consumer demand, access to new markets, and so forth.

Also, because micro-credit is expensive, it cannot be expected to perform like funds *de fomento* -- subsidized, low-interest loans intended to spur business growth. Rather, what micro-credit does provide is a source of affordable capital for business people who need access to a lump sum so they can buy merchandise or raw materials in bulk. Merchants often mentioned that loans allowed them "to travel" to other Bolivian cities to obtain goods in greater variety. The ability to travel and "*surtir*" (offer a wider variety of goods) gives these merchants a competitive edge over neighbors who buy (often on credit) from traveling intermediaries. Even after paying interests and travel costs, the micro-credit clients come out ahead -- not far ahead, it seems, but far enough that many return to take out credit again and again.

Micro-credit's advantage is that it is much less expensive than that offered by marketplace loan sharks, and gives more flexibility than loans from suppliers. However, micro-credit is still more expensive than what wealthier individuals and businesses pay for bank loans. While the higher risk of loaning to very-small businesses may be thought to justify higher micro-credit rates, those who have worked extensively with the micro-credit sector are quick to point out that these loans tend to have better repayment rates than most bank loans.[19] Yet, even with good repayment rates, micro-credit is still expensive to administer; considerably higher transaction costs are involved in processing many small loan applications than a few big ones. Because of the low earnings on each loan relative to the costs involved, banks are not usually interested in entering the micro-credit market. The role of micro-credit organizations is, therefore, to help to fill this institutional gap. Micro-credit in Sucre is not "aid" but a calculated business expense; it is useful to businesses which are in a position to make the money "circulate" and yield good returns, but is likely to harm clients who mistake micro-loans for aid that will indiscriminately "help" all poor businesses.

**6. Filling Credit Gaps**

One issue which emerged from conversations with business people about microcredit were the gaps in the current credit system Many producers spoke of micro-credit's limitations for them: too-small amounts and too-short payment periods. Micro-credit organizations were designed with very-small loans (most often $100-$500) in mind; they do not seem to be equipped to meet the needs of small producers who need larger loans, often with longer payment periods. These producers, with healthy businesses and capital around $10,000 and up, fall into a credit gap. They are not big enough to borrow from banks, but they are too big for micro-credit. Most micro-credit loans for producers are meant only for raw-material purchase, not for investments in machinery, improved work space, and so forth. As micro-credit programs have grown out of organizations with a strong focus on merchants, it is not surprising that they do not always do as well at accommodating the needs of producers.

Many business people, especially artisans who work with machinery, expressed a need for larger loans than those usually offered by micro-credit organizations:

"(The loan organizations) give us very little... Even $500 isn't much for carpentry...

They said, how much do you need, and I said, I'd need about $2000 dollars to expand my shop (adapt a big courtyard for additional workspace)...but to give it to me in a payment plan I can manage, say two years...They said they'll consider it.... I haven't heard back yet." (Don J., carpenter)

"The problem is, Idepro loans in very small amounts... It would be good to have an organization that would loan $5-10,000...to buy machinery." (Don D., burnt-wood-plaque maker)

San Roque (with its PRISMA program) and Idepro (with its new individual-loans "PCD" program targeted primarily to producers) have attempted to accommodate producers and have given some of them the ability to purchase machinery. This has been a help for a few; however, many producers still do not have access to such loans. Idepro has been giving only a limited number of them, and the limit is $5000. Also, many producers lack the guarantees these organizations require. Small-scale, artisanal producers generally have little to offer for guarantees -- much of their investment has gone into their machines, which are unacceptable or insufficient guarantees. Many do not have houses in their own names. Finally, producers often cite interest rates as a main reason why they don't take out credit from these organizations. Producers know what banks charge (18% annual interest) and perceive the credit organizations' rates as very high.

Many artisans expressed a need for loans in the $5-10,000 dollar range, with long terms (so that the monthly installments are in feasible amounts) and interests around 18% annually. Goldsmiths, for instance, needed loans for gold; sometimes they have to turn orders away because they lack it. Carpenters wanted to buy bulk wood directly, or purchase machines such as *groseadoras* or *sin-fins* to make their work easier and more efficient. Other producers needed smaller loans for a particular purpose -- but did not want to go through the long process of micro-credit organization "steps" at three to six months per step:

"They give you a little, say $300 dollars, and when you pay it off they'll give you $100 more, but you pay off the loan in six months, so by the time I can take out, say, $600 dollars, a year is gone." (Don L.A., carpenter #241)

Producers are also concerned about the term of loans -- loan terms must be long enough that the regular (usually monthly) installments are not too big for them to handle, and payment plans should accommodate their production cycles and seasonal fluctuations in demand.

There are other gaps in the current credit system. Despite micro-credit's orientation toward "poor" business people, many businesses are too small to benefit from microcredit -- they cannot make the money "circulate" fast enough to make up the cost of interest rates. Such very-small business owners often express their avoidance of credit organizations in terms of fear:

"They (credit organizations) make me afraid... And if you can't pay, then what?" (Doña B., meat retailer)

"In the outlying neighborhoods...people are afraid of credit." (Don F., city business-development functionary)

While such fear can be interpreted as an aversion to risk and/or a hesitancy in working with formal organizations, it also often means that the entrepreneur realizes he or she would not be able to successfully take out and pay back a loan.[20]

"(Credit is) very risky... Sometimes I can't sell." (Doña V., cereal merchant)

"I'd like to take out, but... I'm not sure I would be able to pay." (Doña F., who makes *pollera* skirts)

"I'm afraid to (take out loans)... I know someone who took out (from a bank) and nearly lost her house..." (Doña I., merchant)

People with market stalls or small workshops may choose whether or not to take out loans depending on the level of business they have, their evaluation of their ability to pay, and their tolerance for risk; however, some businesses are always too small to take out micro-credit. Handicraft makers who produce only occasionally, drinking-chocolate makers, merchants with posts in quiet neighborhoods, and merchants who sell on the sidewalks are groups which generally do not take out loans. Turnover is too slow, and quantities (or profit margins) too low, for loans to pay their way in these businesses. Businesses with monthly real income of less than 4-500 bs. tended not to be loan clients; if they did take out loans once or twice, they soon stopped doing so. Thus those who work with the "micro-enterprise" sector will quickly admit that micro-credit programs do not help the poorest.

If the goal is really to help poor businesses grow, it would be necessary to subsidize credit for very-small businesses which cannot currently afford micro-credit. Even then, it is uncertain whether the loan would stimulate business growth; this would depend upon the potential of the business itself.[21] It would also depend on the entrepreneur's ability to keep the loan money from being "re-routed" (*desviado*) to other household uses -- from a child's upcoming wedding, to tomorrow's marketing. A program of subsidized credit could have positive social benefits; however, to be implemented, it would have to be specifically targeted to very-needy groups (so as not to undercut the micro-credit-institution-building process by luring away clients from other loan programs). Ideally, such a program would provide a temporary, transitional period of "easy credit" for businesses not yet ready to pay full price for loans.

**7. Organization of Credit Relations**

Loan organizations are not producer-run; they are administered by professionals, who often must follow directives from their head offices in La Paz, or their funders overseas. People who take out loans are referred to as *usuarios*, literally service-users; the choice of this term over *clientes* (clients) suggests they have less power in the transaction, though the term is preferable to the more paternalistic "beneficiaries" (*beneficiarios*). The term "*usuarios*" stands in the midst of this contradiction: people who take out loans *are* clients (they pay well for the service they receive); they are *treated* neutrally, as credit users (credit assessors treat them cordially, but not with as much respect as they would an upper-class "client"), but may *see themselves* as beneficiaries (receiving "help" from an institution). Though borrowers will sometimes voice desires for improved service, this is essentially no different from the kinds of complaints and suggestions that might be heard in any NGO.

Every borrower works with one specific loan assessor; the relationship begins at a very formal level but may become more familiar over the long term. Long-term clients tend to know their credit assessor by his or her first name, for instance. Nevertheless, the relationship is always businesslike, and it is the credit assessor, affiliated with the large organization and charged with ensuring that loan quotas are paid on time -- with no excuses -- who holds the power. Lateness is recorded on a per-day basis, and can negatively affect future loan possibilities. Being denied a larger loan on the following application is then seen, by the borrower, as "punishment" for lateness (*castigo*); credit assessors simply state this as policy.

The "step" loan system, in which groups of borrowers begin with small loans and receive progressively larger ones, ostensibly lowers risk by allowing borrowers to demonstrate responsibility. However the "step" loan system also helps create and maintain customer loyalties. Once a borrower is at a "good level" in one credit institution, there is considerable cost involved in switching to another. Although lenders have created an institutional structure of cooperative "blacklisting" to monitor client creditworthiness, a good credit record with organization A does not earn you a large loan with organization B. Thus, the "step" mechanism encourages customer loyalty in a situation where micro-credit institutions actively compete with one another.[22] However, it may overlook business needs; when businesses need a loan of a certain size, a smaller loan may be a waste of time.

Forming long-term credit relations is efficient in that clients are able to demonstrate their credit-worthiness with a track record. The client-organization relationship echoes the loyalty and mutual, personalized accountability of the "*casero*" system. Statements such as "I'm their best client", "We always pay on time" and "We're one of the very first groups", indicated loyalty to the loan organization, and a sense that borrowers were acting in a certain way in order to maintain good relations with their loan "*casero*". "I don't want to fail to pay... I don't want to lose the confidence of the institution," commented Doña V. (#36). The institution, in turn, is expected to reciprocate; when it does not reward loyalty and reliability, borrowers perceive this as unfair. One merchant stressed her group's long-standing relationship with the credit organization Idepro in order to make the point that they were good and loyal clients, and that this implied obligations on the part of the organization: "They should give us more, they only give us $600... We're among their first clients, it isn't fair" (Doña M.M. #17).

The loan solidarity group is of particular interest in the organization of credit relations. Small-businesspeople in Sucre seldom cooperate among themselves in any kind of group venture, yet they are willing to form loan groups when this is the prescribed method of gaining access to credit. In loan groups, each individual maintains full control over his or her own business; however, he or she is responsible for every loan payment in the group (group members guarantee each other's loans). If one group member does not pay, the other members are responsible for the payment, and can ultimately be taken to court if they refuse to pay. The seriousness of this loan-group commitment is one of the most dangerous misunderstandings for new clients; ill-considered loan-group formation has thrown many small-business owners into debt.

Credit organizations which use loan groups caution prospective borrowers to choose fellow group members with care. Yet even good friends may not be good borrowers; as one loan organization client put it, "we end up losing our friendship." It is difficult for potential borrowers to evaluate the trustworthiness of prospective group members. Lacking complete information about the others' motives, they often make poor choices. "You can't know somebody in depth. They speak nicely, but..." they may not mean it, according to hamburger-seller Doña R., who no longer takes out loans. When some group members can't pay, other group members suffer -- they leave their credit experience worse off that when they began it.

Risk in a loan-group situation is absorbed principally by the borrowers themselves; they do not have legal recourse to force one another to pay, while the credit organization does have the power to force group members to pay. There are no formal contracts *among* the group members, to enforce payment, only *between* the group and the loan organization. The presence of this risk acts as a strong disincentive to take out micro-credit; as Doña L. (business #1) put it, "I'm afraid to borrow, because the others might not pay." Doña C., who sells fruit, no longer works with loan organizations: "Two people didn't want to pay -- I had to pay for them."

Yet while some loan-groups worked poorly, others worked extremely well. Such groups had taken out multiple loans together, with little or no delinquency, and expressed satisfaction with their experience working in a group. Doña M. (#22) offers advice for those who would form groups:

"It's good to work with people you know, otherwise, working with just anyone, they can decide not to pay."

Doña M. works with other merchants in the Central Market whom she knows well. Similarly, Doña F. (#6) stresses the trust that exists between the members of her group, who have known each other for quite a while:

"We know each other well, we trust each other, we've been selling for awhile. When one of us needs money, the other loans it."

Frequent contact is one way to build and reinforce such trust; it also provides initial information about trustworthiness (*cf.* Putnam 1993:171-176). Established market women may have greater success establishing loan groups with fellow-market women, rather than with relatives or friends whom they see less frequently.

They are likely to have more information about a fellow market vendor's economic activities and ability to pay off loans.

Market vendors aren't the only borrowers who reported successful experiences in groups, but they possess a distinct advantage. These borrowers are a situation where information about fellow group members is less incomplete and monitoring easier. A market vendor who sells across from her group member every day of the week is going to find it much harder to default on a loan than someone who can easily disappear for weeks on end. Similar situations in which members are in frequent contact with one another should breed successful loan group experiences; as one person who works with the sector commented:

"The pressure in a group is moral.... Groups work when people know each other."

In the absence of formal contract mechanisms, social and moral pressures can enforce the loan-group contract. When group members can trust each other, and when they are in a situation where they can effectively exert pressure on one another if necessary, loan groups have a much stronger likelihood of working.

In conclusion, microcredit as it currently exists in Sucre is limited in its ability to combat poverty, and it addresses only a part of small and very-small business owners' credit needs. Yet, for the population it serves best -- the small business with high turnover of goods -- microcredit provides a valuable service. As we continually question the role of microcredit, criticize its shortfalls, and seek ways to improve it, it is important to realize that microcredit organizations *have succeeded in creating reliable, formal institutions of credit for a population that did not previously have access to any such institutions.* Many positive comments from present and former micro-credit clients testify that micro-credit organizations have formed an important relationship with small and very-small producers and merchants, particularly the latter. Meanwhile, the experiences of solidarity groups demonstrate that it is possible for Sucre's business people to organize themselves to work together (in a limited sense) and jointly enforce contracts -- although only under certain conditions.

[1]CGAP #2, 1995 p.2

[2]2-4% monthly; much of this variation depends on whether loans are given in national currency or US dollars.

[3]Women use clothing to indicate whether they identify themselves as urban Spanish-speakers (western dress, *de traje*) or Quechua Indians (who, in the city, wear braids and flared *pollera* skirts). I have seen both in the same group.

[4]Formerly, the Chuquisaca Development Corporation, now defunct.

[5]In COSAL, for instance, membership involves paying a fee of 15 bolivianos and having a savings balance equal to 10% of money borrowed. While micro-savings and micro-lending are both important services, it is debatable whether it is constructive to insist that borrowers be simultaneously savers; their needs, as one person in a recent World Bank seminar pointed out, are different.

[6]Calculated as loans made minus money recovered.

[7]Although this seems nearly as big as Los Andes, it is important to realize that not all of Promujer's clients are taking out loans at once, and their loan portfolio is only US$50,000, compared to over $2.5 million for Los Andes.

[8]Omitting two cases which were unable, for different reasons, to provide credible earnings estimates

[9]Two sweater-knitters are among credit-organization clients in the sample, but both had bad experiences with credit.

[10] Some producers mix strategies, taking out credit with suppliers for some things and using loan-organization credits for other things. Business #23, for instance, took out a loan to buy chicks, but still buys chicken food on credit from the supplier.

[11]Pre-credit evaluations attempt to avoid this whenever possible, but they are not infallible.

[12]An information network among Sucre microcredit organizations makes it impossible for clients to leave one institution with an outstanding balance and receive credit from another.

[13]One merchant could not give me an estimate of income from her business because she reinvested all her profits in materials, but her inventory valued at over 90,000 bs. means she is probably in the over-2000 bs./month income bracket as well (and she is also a long-term credit user). Recall that the monthly business earnings are real net earnings, but that the owner's salary (not calculated separately) is included in this figure.

[14]Being in a high-traffic location is not in itself enough to guarantee that a business will continue to take out credit, however; three high-traffic market sellers also discontinued credit use, two due to problems with their group and one because she preferred buying on credit from suppliers.

[15]$z=1.56$.

[16]The entire family of 7 lived in a single room.

[17]The lowest income was for a goldsmith who earns only around 550 bs/month -- but he has a shopfront on a busy street and his volume of business is high; before paying salaries to his three employees, the business actually earns

around 1750 bs. profit per month.

[18]Data from 1994 was from Idepro's files; 1996 data was from my own interviews. Unfortunately, there were too many uncertainties to analyse the 1994 and 1996 income and capital numbers in detail. Some of the problems included: the 1994 numbers were collected by credit assessors, which may have biased them, and assessors' calculations were sometimes done slightly differently than mine; also, cash, inventory and income amounts fluctuate month-to-month in businesses, but the original data were only for a one-month period.

[19]Repayment rates for micro-credit are often around 98%; see for instance CGAP 1997 #3 p.12, CGAP 1996 #2 p.13.

[20]Sometimes, however, businesses need loans for survival. If these are not available from kin or friends, poor business owners (particularly, women merchants from outlying neighborhoods) would more likely go to a marketplace loan shark whom they know, rather than dealing with a large organization (and accepting the risk involved in forming a loan group). Thus, credit organizations have not put the marketplace loan sharks out of business.

[21]For instance: What markets exist? What sort of return could be expected from a small increase in production? and, Are there opportunities to lower costs (for example by buying in bulk or traveling to another city to buy inputs)?

[22]The cooperative blacklist is the only institution they have managed to establish among themselves; they will not even share basic data (such as number of clients served, interest rates, loan default rates) with one another.

# Chapter 9: Organization from the Grassroots

While a variety of grassroots organizations for producers exist in Sucre, few producers belong to them. The general perception is that the organizations are highly politicized and only certain people, particularly the directors, receive the benefits (such as credit) which are intended for the entire membership. People also feel that the organizations in general do very little to benefit producers. Yet despite the low participation in producers' organizations, there is a strong interest in the kinds of benefits which cooperative organization could provide -- particularly among small-scale producers. Why organizations do not serve these needs, and what conditions are needed for them to do so, are the subjects of this chapter.

## 1. Reasons for Organization

The creation of organizations can lower transaction costs by allowing people to pool their resources to achieve common goals. "Resources" do not refer only to monetary resources, but to a wide variety of resources such as information, knowledge, ideas, time, contacts, and political influence. Organizations are typically formed in order to address problems or to improve a given situation; by cooperating, members with similar needs and interests can combine resources to seek solutions and improvements more efficiently that each could do by acting alone. Even when group members compete with one another in the market, there are certain interests they have in common, and certain goals which they can best pursue by joining forces. The formation of guilds, industry associations, and so forth testifies to the fact that even competitors have common needs and interests which can be addressed through organization.

Producers who create grassroots organizations often have goals such as: improving their access to raw materials, reaching new and bigger markets, reaching markets more efficiently, improving production (perhaps through the acquisition of machinery, or reorganization of the production process), receiving support from governments and other organizations (such as aid organizations), gaining greater access to credit, obtaining tax preferences, and pursuing opportunities for training and professional development.

In Sucre, grassroots producers' organizations have particularly chosen to focus their energies on *markets, credit access, support from outside organizations* (closely tied to the credit goal), and *tax preferences*. Improving raw-material supply is an important concern of producers, but few organizations are addressing it. Improving production is also a concern; producers have a sense of common identity as undercapitalized producers in a poor economy, who want to become more efficient. They seek credit so they can capitalize, and markets to absorb the increased production they hope to achieve. Nevertheless, producers do not pool resources into joint production;[1] each business remains independent. Finally, professional development in the form of courses has been offered by at least one organization, but courses are generally of low priority to producers:

"Here, there's not a lot of interest in technical help. If it's economic help that's being offered, a lot of people will come, but otherwise they won't." (Don J.A., carpenter, #234)

**2. Kinds of Organizations**

Sucre has an Artisan Guild Federation; this is a second-tier organization which brings together all the various guilds (literally *sindicatos*, or "unions") of artisan producers in Sucre: the carpenter's guild, the shoemaker's guild, the jewelry-maker's guild, and so forth. The Federation is linked to a national-level Confederation in La Paz. Its members are all independent producers (who may or may not have employees). Members join through the payment of annual dues. The guilds do not enforce quality standards or limit entry; they function basically as associations.

The Federation's role is to pursue the interests of small, independent "artisan" producers in a political direction; as they say, to "defend" artisans. Thus, the Federation and Confederation express opposition to certain government policies (such as neoliberal reforms removing protectionism for national production), while lobbying for artisans' interests (such as government help with credit and marketing, social security for artisans, and lower tax rates). Locally, there has also been talk about organizing joint wood purchases for carpenters, applying for loans, and so forth. In practice, however, the Federation and its member Guilds have accomplished little in recent years except the negotiation and signing of a agreement with City Hall providing reduced tax rates for members.

Small-scale ("artisan") producers in Sucre also have two well-known associations, *Adepi* and *Cadepia*. These two groups share a common background; they split due to political and financial difficulties in the mid-1990s. Both have sizable memberships (85 for Adepi and about 140 for Cadepia) and similar goals: principally, opening up markets for members and obtaining credit. The memberships of these two associations include many different kinds of artisans: carpenters, clothing makers, handicrafts makers and so forth.

*Cadepia*[2] is a sort of chamber of commerce (*cámara*) for small industry and artisan producers. It was founded in October of 1995 by ex-Adepi-directors, after Adepi closed in 1993 due to internal division and debt.[3] Cadepia's work has been primarily in the areas of marketing and training. Cadepia has founded an open-air artisan market (which required finding a space, signing agreements with city hall for the use of the space, and working with the micro-credit organization Idepro, which provided credit for stall construction). Cadepia also organizes *ferias* (producers' fairs), and in early 1997 it was in the process of producing a catalogue of members' products. In late 1995-1996 Cadepia offered courses in serigraphy, bonbon making,[4] and sausage production. The organization also has signed an agreement with a large local NGO, to provide medical services to members in its clinics for a yearly fee. Cadepia's directors' board is comprised of ten individuals, including a president, a vice president, and others.[5]

*Adepi* re-opened in December 1995. It is an association of artisans and owners of small industries, and focuses it efforts primarily on marketing. One of Adepi's most recent marketing efforts was a catalog/directory of members; these included 11 metalworkers, 17 carpenters, 8 businesses providing construction materials, 9 clothing and textile businesses, 11 artisanal-clothing and handicrafts makers, 12 food producers (noodles, baked goods, cold meats, powdered drinks, chocolates), and 12 other assorted businesses. Adepi also organizes producers' *ferias* and sends members to other ferias (a large feria-exposition held in Sucre in December included a section of Adepi exhibits). In addition, in 1997 Adepi was also involved in negotiations with the Dutch embassy, attempting to obtain donations of used machinery for working wood and metal. Adepi cultivates international contacts through the national-level artisan's federation FEBOPIA (to which both Cadepia and Adepi are affiliated).

A range of smaller artisan's organizations also exist in Sucre. These include the *Departmental Artisan's Association*, a small association of 37 members under the leadership of a local grassroots organizer (who is himself a master carver); the *Asociación Pachamama*, a six-member textile-production cooperative which also conducts courses; and the *Asociación 8 de Junio* (8th of June Association), an association of 88 members, principally carpenters. The latter was organized in 1986 by a local metal-furniture maker to help furniture producers without retail shops to find a place to sell.

The *Departmental Artisan's Association*, like the 8th of June Association, is an organization which has worked to open up marketing opportunities for members. The process of organization-formation began at a national feria exposition in 1979: as their leader says, "I saw that there were many artisans there...I talked to them, I told them that we ought to organize ourselves." At that time there was little interest, but the leader went on to found the organization in 1980, and it grew to 85 members. Members are woodworkers, weavers, ceramics makers and other artisans. Lately, membership has decreased to thirty-seven; some former members have taken up other, non-artisan activities. Strong political and ideological motives underlay the founder's desire to form an association; he feels that the needs of artisans are generally overlooked in state policy, and artisans need an organization to defend their interests. He claims: "If artisans were organized, they could elect the president...they are a third of the country." Marketing, for this association, is centered around producer's fairs and exhibitions; the Association has arranged for members to exhibit their work (though without great success) and when I visited in 1997 they were in the process of planning to organize an exhibition during a presidential summit in Sucre.

The *8th of June Association* was founded on a concrete premise: establish a *feria* for furniture-makers to sell their goods to the public. This association has thus far had two *ferias*, one in 1994 and one in 1996 (I was at the *feria* opening in 1994, which involved a lot of celebrating and profuse thanking of local political figures who had supported the effort). However, the association hopes to establish a permanent feria to provide members with a year-round marketing outlet. Activities at the time I visited were very sporadic, limited to the president's occasionally writing a letter to City Hall or visiting a city official in an attempt to obtain support for this project.

The founder of the *Asociación Pachamama* also referred to his association as an "Artisan's Association"; actually, however, this is a producer's cooperative which takes on some of the popular-education functions often performed by NGOs. This case is an unusual hybrid of cooperative enterprise and private community-service organization, founded by a grassroots organizer from the Oruro area. It is also one of the very few exceptions to the rule of business ownership not crossing household boundaries in Sucre. There are six partners in this venture; one has a herbal remedy shop which provides financial support to the project, and all have an ideological commitment to popular education. The project provides occasional weaving and literacy courses for rural women and sometimes exhibits textiles in *ferias*.

The *San José Association* is an example of an artisan's association organized by an NGO. The micro-credit organization Idepro (see Chapter 8) delivered written invitations to carpentry shops inviting their owners to attend an organizational meeting for an association to address carpenters' needs (including possible credit access and bulk wood purchase). The San José Association was still in its organizational phases in early 1997 (occupied with writing its bylaws); it is to be independently governed, with the NGO in an advisory capacity. Thus far, a few members have taken out loans with Idepro for machinery purchase. Early on, however, the organization ran into serious problems of non-attendance at meetings and has made little progress in its first months.

Not just small industry and artisans, but also larger producers, have organizations. The *Chamber of Industry and Commerce* includes a wide range of businesses, from the large Fancesa Cement Factory and Sucre's Electric Cooperative to small industries and even restaurants. Total membership is about 200 businesses, and membership dues are graduated depending upon the size of the business. The Chamber of Industry and Commerce offers an information library, occasional training courses, technical support, and help with getting tax preferences from the city government.[6] They also publish a weekly industry and commerce section in the local newspaper. Another producers' organization, ASIMATEC, comprises the eight largest producers in Sucre's carpentry sector. ASIMATEC organizes an annual *feria*-exposition for members' products and also explores export possibilities (without much result). It has organized courses and attempted to negotiate better rates on loans for association members. ASIMATEC is a separate organization from the carpenter's guild, which is comprised of much smaller enterprises.

Although various organizations purport to promote the collective interests of artisans and other small-scale producers, there is practically no communication among them. Most do not know what other organizations exist. While a couple of the leaders of the small artisan's associations spoke of having formerly been members of the Artisan's Guild Federation or Adepi, they are no longer; one was not even sure if Adepi still existed. Organizing joint projects, sharing information, or collaborating toward common goals are unheard of. Esman and Uphoff (1984:149-151) and others have identified horizontal linkages with other organizations as a factor leading to the success of local organizations. In Sucre, however, criticism or ignorance takes the place of inter-organizational cooperation.

Organizations in Sucre are weak, for this and other reasons.

**3. Participation in Organizations**

Grassroots producers' organizations in Sucre demonstrate low member participation, high member dissatisfaction, and leave behind them long trails of failed projects and financial disasters. Most of the small-scale producers (two-thirds of the carpenter's sample, for instance) belong to none of them. Occasionally, an organization's project will succeed, but even then, sustaining the success is difficult; Cadepia succeeded in opening its artisan market, but afterward, this market was often deserted; seldom more than two or three stands were open at any one time. The principal reason for the ineffectiveness of producers' organizations -- and of most other forms of collective organizing in Sucre -- lies within the organizations themselves. An examination of the internal structure of these organizations shows that they all demonstrate the same basic pattern: a board of directors which carries out the planning and implementation of activities, and a membership which is involved little or not at all in the process.

Members in all organizations pay their *cuota*, or dues; other than perhaps an occasional appearance at a meeting, most do not contribute to the organization in any other way. "They come to meetings when there's an issue that interests them, but then they don't come," said a member of the carpenter's guild. The guild's president commented on this situation:

"People come when it's time to pay taxes to City Hall, to the *Renta*. Because we're an association we get a lower rate.... After that, they disappear again.... If there's a possibility of credits, people come, we'll have maybe thirty-some.... People will come if it's something that interests them, but the rest of the time, they don't.... They don't have a concept of how we should be working together.... Sometimes just five or six come (to a meeting) and we can't do anything.... They are only interested in what we can give them; they treat the union as if it were a bank, or some sort of aid institution.

"For the party we had last week, we asked people to sell tickets...but only three came.... I had to run around selling tickets to all my friends, to everyone, just to make up the cost."

The president of Adepi says that he has had more success getting members to do small tasks for the association: "If we need someone to go collect dues or something, someone does it." Yet attendance at meetings is irregular; Adepi members characterised attendance as "a problem." Also, people who attend do not contribute constructively to group decision-making. Rather, they come to inform themselves about association activities, to ask questions and, sometimes, to criticize.

Yet there are reasons why members make the decision not to attend meetings. Sometimes, meetings are disorganized: the one I attended was "called for seven so people would come by eight," but the meeting didn't start until 8:40 and dragged on until past midnight, still discussing Point #1. Only seventeen people attended out of a membership of over 85, and most did not participate in the discussion. For those who did come, the meeting was a waste of time. No concrete decisions were made. A new meeting was called for the following Saturday, with the promise of dinner to tempt people to come. "With *platitos* (plates of food), people will come," commented one member. But she was wrong. No one came.

In such cases, directors fail to take into account the value of members' time (a carpenter could have earned at least 7 bs. for those four hours, had he been in his shop working). Yet directors, in turn, find it difficult to run meetings when the membership does not participate or actively contribute to problem solving. "People don't participate...but they're very good at criticising," commented the carpenter's guild president. Members expect directors to plan and execute the organization's activities with little or no input, but then complain when the end result is not to their liking. A Bolivian friend who has worked a lot with organizations commented: "People vote for their leaders, but then they (the people) turn around and don't support them. It's very odd." She went on to comment about her own experience in a workshop with NGO representatives: "This was our bad experience this morning -- people we had never seen before coming to us to complain about how we were doing things." Similarly, a member of Adepi recognized that uninformed criticism had played a part in that organization's failed meeting:

"Some of us, and I include myself, haven't come to meetings when all of this was being decided -- for a variety of reasons...but we shouldn't be criticising now."

Non-attendance is often a result of time constraints -- Sucrenses, particularly those with businesses, have many demands on their time -- and the desire not to waste time on a badly organized meeting. But non-attendance also indicates that people feel little commitment toward the organizations to which they belong. There are no sanctions for non-participation to encourage commitment; when I asked the coordinator of Idepro's San José Association why the association did not try using sanctions for non-attendance (fines, loss of membership privileges, etc.), she commented that if faced with sanctions, the carpenters would simply leave the organization altogether. This is what happened when this strategy had been tried with a nascent metal-workers' association. The implication is clear: the organization has not yet convinced members that it is valuable to them. So long as the costs of participation are low (occasionally showing up at a meeting), members continue to belong, but should sanctions be imposed, they would quickly exit.

When organization directors try to provide benefits to members, however, their efforts are often thwarted by these same members' lack of responsibility and participation. A lack of responsibility toward organizations goes deeper than just not showing up at meetings, and it can seriously jeopardize the organization's projects and activities. For example, a *feria* planned by Adepi failed because members did not take their commitment to it seriously:

"I went around knocking on people's doors, asking if they wanted to participate in the *feria*. That was about three months ahead of time. A lot of them said yes...but then when the *feria* came, there were only twenty. That's why the *feria* failed.... They said they had jobs to finish, that they didn't have time to leave their workshops." (K., administrator)

I asked K. why he didn't require would-be participants to pay a percentage of the feria-stall cost up front.

"I tried that. But what happened was, they would say, "I want to participate, but come back tomorrow,' and I'd go back, and they'd say, 'I don't have the money right now.' I went back four or five times, and they wouldn't have the money, but they would say, please put me on the list, I want to participate...."

In the end, many neither participated nor paid.

Directors, left with all the work for themselves (and usually unsalaried), may be tempted to appropriate benefits for themselves. Other members are usually not well organized enough to monitor or oppose this. Some directors do provide written reports of accounts, but these do not address basic issues of distribution (why certain people were chosen to receive loans or travel expenses to *feris*, and not others). People are usually aware of what is happening; as they cannot change the situation, they respond by withdrawing from the organization -- the "exit" option:

"I don't work with Cadepia. I used to, but I had a bad experience with them," commented Doña M., who was selling her artisanal burnt-wood plaques at a local feria. The organization received money to travel to ferias, however, she was not able to access these funds: "The people at the grassroots don't benefit from this money...it's just the directors who benefit."

Others cited similar experiences to explain why they were no longer members of Adepi:

"With Adepi they took out loans in the name of the grassroots, but when it was time to distribute the money, they distributed it among their friends. So I said 'enough' and now I work on my own." (Don X., artisan)

"I used to be with Adepi, I was one of the founding members...but when the money arrived, it was just for a certain few of them, not for the people who really needed it...." (Don B., carpenter #159).

Another carpenter described the problem in terms of a basic division between directors and membership:

"If I were to belong (to the carpenter's *sindicato*), I would have to be one of the directors. Those are the ones with the power. The rest, the ordinary members, they just go where they're pushed. There's a big difference between the masses and the directors. The plate of food is for the directors, they don't even let the others smell it.... It shouldn't be like that. Everyone should participate...everyone should be sharing from the same plate.... But that's why I don't go." (Don G., Carpenter #135)

Thus, the tension is from two directions. Members don't take responsibility or contribute, and directors monopolize the benefits of organization. It should be clear how the two negative tendencies reinforce one another: since directors monopolize the benefits, members are less willing to invest their own time and energy; since members don't participate, directors feel free to appropriate benefits.

Seeing that benefits accrue mainly to directors, I expected director's-board positions to be coveted among the membership. Yet this was not generally the case. In 8th of June Association, the same four people have been directors since the organization began in the mid-80s. The current president explains: "A lot of people don't want to be on the director's board, they say that *les perjudica* (it causes them difficulties)." Being a director requires a considerable time commitment; the president of Cadepia, for instance, has a leather shop, but he is working in the Cadepia office three to four hours a day -- in addition to time he spends outside the office on organization business. Producers who make their living from their shop, and cannot find or afford to hire labor to replace them, would not have the option of becoming directors. Members may also feel they are simply not qualified; certain skills are required for leadership. The founder of the Departmental Artisan's Association was continually elected president: "They always wanted me to stay on as president," he said, because of his "personality" (among other things, he is a passionate and articulate speaker). "They changed the other positions, but not me." Likely, no one felt able to follow in this magnetic leader's footsteps.

Being a director seems to require a certain kind of personality, particularly in contexts where people are suspicious and hostile to cooperation. Directors or former directors would frequently share stories of how they had invested huge amounts of time, energy and personal resources in organizations, only to fail because others would not provide them with the most basic support. In many organizations, there is a basic paradox: members rely on the directors (much, a friend pointed out, as people may rely on caudillos[7] or peons depend on their *patrón*), yet at the same time, members are suspicious of them. An undercurrent of distrust runs through the relationship. Distrust makes investing time and resources in an organization risky; *egoísmo* (self-centeredness) rather than cooperation becomes the safest route.

**4. The Problem of Cooperation**

Sucrenses like to accuse one another of *egoísmo* (self-centeredness, uncooperativeness). "The Chuquisaqueño[8] has two problems, as I see it: he's *egoísta*, and he likes to criticize," commented a Sucre native who had lived for many years in La Paz. Cooperation is difficult everywhere, but particularly so in Sucre, where institutions (formal and informal) for resolving conflicts and enforcing agreements are often missing, and distrust and self-defense become engrained in people's way of doing things. The *egoísmo* of looking out strictly for one's own interests becomes rational in a climate of distrust, and can act as a brick wall blocking off effective cooperation. At the level of organizations, this means that decision-making is often impossible, and small problems become large. Having two contenders for power may split an organization (as with Adepi and

Cadepia); something as simple as a dispute over a name change may cause a project to fail irretrievably.[9]

"One group says, it has to be this way, and another group says, no, that way, and they don't budge from their positions." J., a Bolivian friend who has worked with many different organizations, characterises conflict-resolution mechanisms in Sucre in this way. *Compromise* is missing here. When things go badly in Sucre, people go on strike -- the university was frequently on strike, and there were civic strikes, transporters' strikes, and Labor Union (COB) strikes. Strikes are not designed for negotiation: they require sitting tight until demands are met. This attitude is obvious in the most simple of meetings. J. observed one meeting where people took an hour and a half to arrive at a conclusion as to what kind of lock (chain or bolt) they would buy for a door. I sat nearly forty-five minutes in a choral-society rehearsal while debate raged about whether large or small music-folders should be carried in the concert. Another day, there was a long debate about which scarves the women would wear. The president of the carpenter's guild said, "Last week we went until 1:30 in the morning, just because people like to fight. Well, they were discussing." When I asked if it was not possible to keep the meeting under control, he answered, "But someone says something, and someone else says, 'I disagree'..."

"Latinos are good at criticizing, they're good at ideas -- but the problem is when it comes time to agree to do something," J. (herself a Latina) commented. "It's very hard for people to agree." Another Bolivian friend spoke with frustration about a woman's group she belonged to, in which members always blamed her (as one of the directors) for the falling attendance. "I'm about ready to break up the group," she said. This was also the response of the director of a local choral society when members were attending rehearsal irregularly: she threatened to abandon the membership and start up a new group with people who would be more reliable. When conflict arises, the response is often not to "fix" but to "undo" (*deshacer*) -- break up the group, exit the organization, go on strike.

Rather than an innate characteristic of Latinos, a lack of negotiation and conflict resolution seems a response to a more basic problem. In many group situations, members do not have a clear sense of common interests. Even when these common interests are clearly defined, there is little basis for trusting that other members will work toward them. Members are often not convinced that the group really serves their interests. And because they do not anticipate a long-run payoff, members are unlikely to put the group's interests ahead of their own in the short term. Individual interests thus come first: individual egos get in the way of group decisions, pettiness may take over, and compromise becomes very difficult. In addition, since group commitment is weak, membership and participation tend to be unstable. This contributes to the problem: as members come seldom, they do not know each other well, and there is little opportunity to develop trust or to evolve efficient mechanisms of conflict resolution.

It seems that when Sucrenses deal with neighbors, fellow-citizens, and governments, non-compromise is internalized as a way of doing things, part of the cultural groundwork of the society. It is a way of protecting one's own interests in contexts where the motives and trustworthiness of the other party is unknown. Non-compromise suggests that little or no sense of common interest stretches beyond the household -- or else common interest cannot be pursued because of the risk that someone may *"aprovechar"*, take advantage of you. *Within* the household, on the other hand, the sense of common interest is stronger, and long association allows the evolution of ways to deal with conflict. Inside the household, non-compromise is less acceptable and can be more harmful; it is more complicated to *deshacer* a household than a producer's association -- though households can and do break up.

Fueling distrust within organizations is irresponsibility -- being, as Bolivians put it, *incumplido* (not doing what you say you will do). This is one of the most serious problems facing organizations. The Adepi members were *incumplido* when they said they would exhibit in the *feria* and then withdrew at the last minute. Directors are *incumplido* when they say that they will help members get loans, and no loans come, or that they will arrange to buy wood for members, and no wood comes. The president of the San José Carpenter's Association was very *incumplido* indeed -- he would call a meeting of the membership, and then not show up himself.

"There's a tolerance here for people saying they'll do something and then not doing it," J. told me. Rather than the isolated case of irresponsibility, it is this tolerance that is dangerous: being "*incumplido*" becomes institutionalized, an accepted pattern in social relations. It is not only accepted, but expected. Carpenter Don J.C. (#208), for instance, has no interest in joining associations: he already anticipates failure. "When we want to get together to do something, there are some who are responsible (*cumplido*), and some who aren't, and that's as far as anything goes." NGOs, with long histories of failed projects and broken promises, often fall into the *incumplido* category:

"We were also working with an organization called Sayariy ...they were going to bring second-hand machinery from other countries, from Germany and other places, but it didn't go anywhere...they (organizations) aren't always very *cumplidos*." (Don T., carpenter's *sindicato* president)

Some people protest irresponsibility vocally, but protest does not seem to help. Action counts here: irresponsibility breeds more irresponsibility. As Putnam (1993:179) writes, "History is not always efficient, in the sense of weeding out social practices that impede progress and encourage collective irrationality. ...Individuals responding rationally to the social context bequeathed to them by history reinforce the social pathologies." When people cannot trust other people to keep their word, fulfill their promises, or even show up on time, they are unlikely to risk or give up anything substantial for the sake of those people's ideas. Thus, if something more important comes up, they will in turn be *incumplido*.

**5. Can Organizations Work?**

Organizations of small-scale producers in Sucre are failing. Producers generally expressed disappointment with the small amounts of benefits received in exchange for dues paid and meeting time invested. Is it possible to identify strategies for solving these problems and improving the effectiveness of Sucre's grassroots producers' organizations?

At the beginning of this chapter we saw that organizations are formed to make use of the many, varied *resources* of members in order to achieve common *goals*. For small-scale producers, goals may include organizing successful *ferias*, contacting organizations which offer subsidized credit, bulk-buying raw materials so that members may purchase them more cheaply, making contact with prospective clients abroad (who may order in quantity, providing work to many organization members), and so forth. Resources include money, contacts (often provided via the nation-level artisan's federation FEBOPIA), and especially, time and skills (for planning, finding additional contacts, writing letters, arranging and attending meetings, negotiating with those outside the organization, and so forth).

One of the principal problems with organizations in Sucre is that members *do not* contribute their resources -- they do not invest their time in the organization, and they do not contribute their skills or demonstrate a willingness to compromise in the common interest of the organization. The great majority of resources are expected to come from the directors; members expect to contribute only their dues. Part of this attitude may stem from previous experience with NGOs, where projects have often been designed, and even implemented, without input from the population. Another reason is that people tend to treat organizations as extensions of the market economy; by paying their dues, they see that they are buying a service. The directors are expected to deliver this service; members are merely consumers of it. This is not free-riding, because members make a contribution; rather, it is as if the members of the organization had all bought bus tickets, but later refused to get off and help push when the bus became stuck in the mud.

Members essentially act as clients: they expect to pay for, and receive, certain benefits through organization membership:

"Sometimes it's not worth it (to belong to artisan's organizations). They ask for fees and then they say they're going to do things, but you don't know if anything will come of it.... They say, 'we're going to buy wood' but it all ends up in nothing" (A., carpenter #140).

"I used to belong to the *sindicato*. But for the last 2 or 3 (director's) terms I haven't gone.... They didn't seem to be moving forward, it was always the same thing.... I've heard there's another group forming, that's better.... They said they would coordinate the buying of machinery. And also that they might be bringing raw materials" (Don Q., carpenter #40).

"It's not like before. They (the carpenter's *sindicato*) don't collaborate with the carpenters.... Before, they brought truckloads of wood, twenty or more years ago, and they distributed it to all the carpenters, who paid for it little by little as they had the money.... Now the people (directors) who come into the *sindicato* do it to see what...they can get out of it, they come with a political idea to try out, and they use (the *sindicato*) as a stepping-stone to go on to other *sindicatos*, to the Federation.... People don't come to work for the interests of the *sindicato* itself anymore" (Don J.A., carpenter #234).

The solution to the problems of grassroots organization must lie in motivating organization members to change their attitudes, from that of clients who pay for and consume the organization's services, to that of organization *owners*. People who own the bus will get off and push; they anticipate a future in which they will enjoy the bus's services. Members must feel invested in the organization, they must feel they have a stake of ownership in it and that current investments of resources will pay off in future benefits. Directors need to explain projects to members in cost-benefit terms: an investment of X hours of meeting time and committee work will pay off in Y benefits. Members must feel that there is a good chance of obtaining these benefits, and that their investment is necessary in order for this to happen. Then, when members do make this investment, directors need to deliver a concrete result.

If members do not feel a sense of ownership in an organization, they will not contribute their ideas, input, abilities, and time. Thus, the organization loses access to the resources its members have to offer, and it becomes an "organization" only in name. For an organization to work, members must feel that they can trust each other to contribute to the joint effort, and that their own participation would be accepted, valued, and is in fact necessary. This is difficult; where decisions have so often been in the hands of others, it is hard to imagine ownership. A Peace Corps worker from the States commented: "The hard thing here is to get people to feel like something is theirs." Nevertheless, it is possible. For organizations, breaking down rigid boundaries between directors and membership is an important first step; opening weekly directors' meetings to the general membership, as Adepi now does, is a good way to begin.

Making members feel that the organization cannot function without their dedication and input is often a difficult task because producers, who are busy people, would prefer simply to pay their dues and receive services in return. Yet if organizations are to function well and respond to members' needs, it is necessary to cultivate this sense of members' "ownership" and active participation. As the president of a local choral society told members who were being lax in their dedication to the group, "A member must hold the organization in his or her heart. If not, there's no responsibility." That is, each member must feel dedicated to the organization and to the common goals that members share, and be willing to contribute resources toward achieving these goals. Members must be willing to sometimes put group interests ahead of individual interest in the short run, in the expectation that long-run benefits will be greater. However, for them to do so, they must be able to trust their directors to use resources efficiently and distribute benefits fairly.

Organization members cannot be expected to feel a stake of ownership in organizations, or be willing to invest their resources of time and energy in them, so long as distrust exists between members, and between members and directors. Distrust is the basic problem underlying organization in Sucre; it not only leads to the unwillingness of members to invest in the organization, but also to a range of other problems. Distrust becomes institutionalized: directors begin to assume that the other members will not support them (and so overlook and take advantage of them); members in turn assume that directors will take advantage of their position (and so do not support them). Meanwhile, members expect other members to show up late, avoid commitments, and so forth. With no predictability or grounds for trust, organizations begin to unravel at the seams.

Most artisans would like to have strong organizations which help them to reach new markets, obtain cheaper raw material and machinery, and access the subsidized credit available from international agencies. Yet when artisans join an organization, they are not convinced that the organization will follow through on these common goals. Members come to meetings with the intent of verifying whether anything (to benefit them) is being done, or if money is simply being mismanaged and misappropriated. Thus, the fabric of common interest is tenuous at best. However, the fact that artisans still occasionally invest time to show up at meetings suggests that people may be willing to make the necessary investment to create viable organizations -- if they could ensure that other members and directors also have a serious commitment to the organization's goals, and that benefits will be distributed fairly.

In order to build trust, organization members need to know each other better. In the Adepi meeting I attended, there was little interaction among those who came to the meeting; it was a formal affair where few dared speak. Similarly, a young carpenter who used to attend carpenter's *sindicato* meetings could only describe these as "boring" -- these were merely formal meetings, without much opportunity for members to get to know one another. Often, people feel that by attending meetings, they are simply wasting their time. Thus, a man who had sat very quietly in the front row all evening during the Adepi meeting stood up and announced:

"I have come to the meeting and I have listened to talk and talk and talk, but it's very late and I'd like to ask permission for us to leave"

followed shortly thereafter by another man who reminded the directors:

"We have to work, we get up and work in the morning."

Such comments indicate that individual members feel that the organization is neither aware of, nor responsive to, their needs -- rather, directors seem quite willing to waste members' time. For members, formal meetings are for tolerating, not participating.

One solution might be to encourage informal activities where members can get to know one another and create what Putnam (1993:163-185) calls "social capital." Bolivians love volleyball leagues, barbecues and other social events; I would follow Putnam in suggesting that giving people an opportunity to interact regularly with one another could provide a good opportunity for trust building. The microcredit organization Idepro, for instance, had an excellent rapport among employees; they played volleyball together in a league, wandered into each other's offices for coffee, and three of them participated in the same community organization. With artisans, of course, the main obstacle to organizing regular recreational activities is that they are often very busy with their shops; yet appealing activities could draw out at least some of them.

Social events would give members and directors a chance to interact informally and get to know one another. In this way communication could be improved, trust cultivated, common interests defined, directors made better aware of members' needs, and contributions solicited through social pressure among friends. When directors become more aware of the needs and concerns of the membership, they can serve more effectively. When directors and members interact, directors' decisions (such as who receives loans or traveling expenses) become more subject to discussion and monitoring. And when members begin to see a reason to "hold the organization in their hearts," they are more likely to put group interests above individual interests, and work together more smoothly to accomplish their common goals.

**Conclusion to Section 3**

In this section, we have considered the different kinds of organizations of and for producers found in Sucre. Organizations *for* producers (NGOs, cooperatives, and private financial institutions) have successfully institutionalized reliable sources of micro-credit. These services benefit some, though not all, business people. Credit is not charitable "aid" but services offered and paid for in a market context. Business turnover and business earnings, along with the entrepreneur's tolerance for risk, are the main factors which inform the entrepreneur's decision to "invest" in micro-credit; some people, however, take out credit simply assuming that it is "aid". For such people, credit experiences can sometimes be very negative. In loan groups, trust and frequent contact among members are important in creating successful cooperation and avoiding negative credit experiences.

For grassroots artisans' organizations, we have reviewed their goals and the services which they attempt to offer. These organizations perform poorly; a sense of common interest is often missing among organization members, and trust and contact between members are lacking. Members view organizations as a service to be consumed rather than as an arena for collective action; yet directors, working with little member input, have been unable to provide the services members want. It is important to point out that while NGOs offer credit, grassroots organizations do not; grassroots organizations attempt to solicit credits from outside sources, but they do not directly administer rotating credit funds or loan programs. The difficulty of monitoring and the absence of payment-enforcement mechanisms make it unwise for these organizations to attempt to administer credit programs themselves.

In conclusion, we have considered the services available to small-scale producers in Sucre through both grassroots and outside organizations and found that their effectiveness is limited. NGOs and other organizations provide important credit services, but these benefit only better-off and high-turnover small businesses and serve merchants better than producers. Meanwhile, grassroots organizations are failing to meet the needs and goals of small-scale producers (such as seeking out new markets and gaining access to cheaper raw-materials, subsidized credit, and machinery). In the same way that businesses almost never bridge households, because households dare not risk investment in joint venture, grassroots organizations seldom manage to convince members to make joint investments of time, energy and commitment. Individuals prefer to invest in an isolated service (such as credit) and express frustration with grassroots organizations which do not provide the services they feel they have paid for.

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[1]In one case, the organization FADES gave a loan to an association to buy a small herd of cows. I thought this would be a typical example of cooperative production, but as it turned out, the cows were divided up among the various households of association members.

[2]"Cadepia" as a local-level artisan's association already existed in various Bolivian cities at the time the Sucre branch was founded; these associations share representation in the national-level artisan's federation FEBOPIA.

[3]A local support organization withdrew funding from Adepi's newly elected directorate.

[4]The basics -- no secret recipes. The course must have been rather theoretical and oriented toward very-mechanized production; according to the instructor (a former chocolate factory owner), her students were unlikely to actually produce chocolate, because of the cost of the machinery.

[5]Not salaried positions; the president may receive some compensation, but this is minimal considering the work involved (3-4 hours/day office time, plus outside meetings). Cadepia was considering hiring an administrator when I visited; Adepi had a student administering part-time for the minimal salary of 200 bs./month.

[6]Different organizations lobby for tax preferences for their members (in the name of "encouraging industry" or "supporting artisans"); members who get tax discounts are more likely to remain loyal to the organization, while the public officials who grant these expect political support from the organizations in return.

[7]Personalistic leaders. Many major political figures come out of a background of *caudillo*ism; they form political parties which do not have an identity apart from their *caudillo*.

[8]Native of the department of Chuquisaca. Sucre is the capital of Chuquisaca.

[9]Adepi again; this was an attempt to establish a savings-and-loan cooperative. When it was proposed that the name of the co-op be changed, the membership split into two factions and the project failed.

## Conclusions: Why Sucre Businesses are Small (And Will They Stay that Way?)

**1. Patterns in Business Development**

In Sucre, we have seen that the economy is comprised of many small (often very small), competing businesses. These businesses produce principally for the local market, though some sell in small quantities outside the region. "Microbusiness" is not only a recourse for the very poor, but an economic strategy for people in a wide variety of circumstances. Business owners may be indigenous migrants from the countryside or urban professionals; businesses may be a short-term solution to joblessness or, more often, a long-term strategy involving significant investments of skills and capital. With few exceptions, businesses in Sucre are structured very informally. Small-scale businesses are run as household "activities", under the ownership of one or more household members, to generate income for household maintenance, investment, and accumulation. It is very rare to find business partners from different households, because cash-flows between businesses and households are fluid.

Businesses are usually household-centered; however, businesses which grow significantly may become defined as formally "separate" from the household (in which case accounting is formalized, household members receive salaries, etc.). Following the history of business in much of Europe and North America, we might expect that certain businesses in Sucre are bound to grow large eventually, while less successful ones disappear; following a simplistic evolutionary assumption, it is possible to state: "Why, they are where we were fifty years ago!"

There is a certain amount of truth in this statement: many small businesses may compete, grow, and disappear and this may result, eventually, in the kind of corporate-dominated economies we find in the "North" today. But economies do not follow a unilinear model. This "progress" is not inexorable; it has not happened yet in Sucre, and it may never happen. Certain conditions are necessary in order for some businesses to be able to "win" over others and grow large. Markets must be available, and credit must be accessible. Government policies and the macro-economic climate must not present stumbling-blocks to businesses. And businesses must be administered well, with growth as their goal.

As demand increases in a sector, it could be expected that one or more existing businesses would take advantage of this market and grow large. But in Sucre, entry barriers are often low, and there is considerable in-migration as well.

Thus, when demand increases, more businesses enter. Construction, for instance, is a growing sector, providing a good market for doors, windows and other carpentry products. The president of Sucre's carpentry *sindicato* estimates that there are perhaps three times as many carpenters in Sucre now as ten years ago; carpenters have migrated from mining areas to this area of greater job opportunity. Plenty of carpentry businesses were already established in Sucre which could have taken advantage of the growing construction market, but these did not grow significantly; rather, the market was divided up among an increasing number of competitors, each of whom absorbed only a very small percentage of the demand.

But why didn't the original businesses grow? Part of the problem could be that new competitors were willing to accept lower compensation and so were able to undercut the others' prices. Another problem was macroeconomic: hyperinflation in the 1980s, military dictatorships, and other sources of instability and unpredictability made it difficult for businesses to function. Finally, in the case of the carpentry sector, there was the lack of skilled labor willing to become employees.

In the chocolate sector, we see that five factories dominate the market. Are they driving small producers out of business? Some of the very-small chocolate businesses have closed down, but this is often for unrelated reasons such as the loss of a member of the household labor force, or the ill health of the business owner. More interesting is that new chocolate makers are still entering this competitive market, and at least one small-scale business (#9) has been growing. Even very small producers who complain about low sales indicate that in the past, they successfully competed in a market with factories much larger than themselves:

"It's quiet, you don't sell.... Everybody makes chocolate now, before, it wasn't like that, before there was just (Chocolate Factories #s 1, 3, 5)." (Doña D., #11).

This small producer used to make good profits; she was in business when demand was high, yet her business never grew.

Perhaps if she had made investments early on in a cocoa grinder and other machinery, she would have been better able to compete later on. This was the lament of Carpenter Don H. (#240), who had to shut down his carpentry business:

"That was my big mistake -- I should have been equipping the shop. With three machines, I could work well.... I was so used to working by hand, I didn't think how much faster I could produce with machines.... Other carpenters, they're more organized, they have their shops and they are doing fine."

This carpenter had formerly had plenty of business:

"I had to turn work away. People would come to me and ask me to make this piece of furniture, or repair that piece of furniture... There wasn't enough time."

A lack of foresight, or poor administration in general, may be the problem in some cases. Yet many business owners have been reinvesting in their businesses, purchasing new machinery, tools, or materials in spite of other, competing household demands. Even so, these businesses are often faced with competitors willing to sell at a lower price and accept lower compensation for their labor. To remain competitive, businesses must become more efficient -- yet at every turn they are confronted by obstacles which limit their efficiency. In this concluding section, we will draw together some of the points already touched upon, in order to explain why Sucre is full of very-small businesses, and why they stay small.

Businesses in Sucre stay small because:

1. They work in a small market (population 165,000) with a large low-income class (nearly 70% of the population), where competition tends to be price-based and opportunities for capital generation are limited. While opportunities exist to expand into other markets, this is difficult because of problems of raw-material supply and the lack of reliable distributors.
2. Protectionism in the 1970s and early 1980s created a false sense of security, and producers were unprepared for the influx of competition from cheap imports upon its removal. (This has affected some sectors more than others.)
3. Sucre businesses lag behind competitors elsewhere in terms of mechanization (and thus efficiency), but the government does not provide assistance (in the form of subsidized credits, tax cuts, etc.) to sectors with good growth potential.
4. Ingrained patterns of irresponsibility create problems for labor management, for partnerships, and for cooperative action.
5. Most transactions take place on an interpersonal level, yet contracts among individuals are difficult to enforce.
6. Household consumption and investment needs may compete with business needs, and business people's priorities follow *wiphala* logic: people work hard in

their businesses, but their goals go beyond the purely economic, and businesses must share time with other high-priority activities.

7. People tend to spread their investments. This is an economically sound decision in the larger context described, but it contributes to businesses being small and low-capital.

**2. Marketing, In Sucre and Beyond**

Sucre is a growing market, but it is small. If Sucre's businesses are to become more efficient, they must improve their production strategies; this includes investing in more efficient machinery. Yet if businesses add machinery, they must ensure that they have a market which can absorb the additional production. This is the contradiction Sucre business people face -- the problem of being too small to grow. Still, if businesses do not pursue efficiency and increased mechanization, they risk losing more of their market as new competitors enter the region.

The competition from cheap Sta. Cruz furniture is a forewarning of what Sucre's carpentry sector may face in the future if it does not improve efficiency and move beyond strictly to-order production. As new competitors enter the market from elsewhere, customers will likely be attracted by the convenience of ready-made products. If door and window sizes become standardized, competition will also enter for these items. A strong market does exist for carpentry products, not only in Sucre but in many parts of Bolivia, and hand-carved furniture may even be able to find an export market. Yet carpenters must identify these markets and, often, lower their production costs in order to compete in them. In attempting to do so, carpenters run up against some of the difficulties described above.

Chocolate is one of the industries which has suffered from the influx of cheap imports after years of protectionism. Yet chocolate-makers in Sucre have survived and even grown by identifying particular market-niches where they can compete. A unique product (the Sucre bonbon) has been a mainstay. Drinking chocolate, as well, does not face competition from imports; while there is some limited competition from the cities of Oruro and La Paz, the quality of the Sucre product has ensured it a market. Finally, there are the low-priced products -- *palitos* and puffed-cereal *grajeas* -- which cater to Sucre's large low-income market and price-conscious middle-class. These products are less visually attractive than the imports, but their lower price, acceptable quality and abundance has meant that they are competing successfully. If these products could reach a larger market (such as the city of El Alto, with its very large low-income population), Sucre's chocolate businesses might be able to expand. Unlike in the carpentry sector, new machines and more efficient production are unlikely to help these businesses grow; many factories already have more capacity than they can use. Rather, for chocolate makers, the solution lies in identifying (or creating) new markets and continuing to innovate new products.

Sucre is a very difficult market for a business to start out in. The majority of consumers are low-income and, with the tight job market, producers are willing to work for very low returns. As producers compete among themselves to attract low-income clients, earnings margins are often driven very low. Unlike in larger urban areas, the volumes of product sold in Sucre are not large; thus, volume sold does not compensate for low earnings margins. As a result, it becomes very hard for a small business to accumulate capital. Price competition can go to extremes, and is a source of frustration for Sucre producers. One carpenter described his situation like this:

"To charge what the product is worth. That's what we would like to be able to do.... But say a client comes and asks me to make a chair. That will cost 200 bs.. So he comes and asks questions and makes us lose time, and then he goes somewhere else to ask prices and comes back..... And finally it ends up he goes to another shop. Well, a lot of us are friends -- so I'll go visit (the other carpenter) to find out what happened. I'll see him making a chair and I'll ask him how much he's charging for it, and he'll say 100 bs. But -- does he have any earnings? How can any shop get ahead, working like that?" (Don B., Carpenter #159)

One carpenter spoke about a customer who had brought in a door to be repaired:

"People don't want to pay, they want everything very cheap. I say 20 bs., and they want cheaper.... It would be about 4 hours' work...for materials I charge them 13 bs, so that leaves 7 (for me)...but they don't want to pay. It's because there's no money (*no hay plata*). I could tell them 40 or 50 bs., but then they'd just take their door and go somewhere else." (Don J.A., carpenter #234)

Carpenter Don B. contrasted Sucre with the city of Santa Cruz:

"I know people in Sta. Cruz, they have their industries. They started humbly like me, but they have their industries (now), and they say to me, why do you stay in Sucre? ...People come here from Santa Cruz and their vehicle breaks down, say they need a shaft. Here we charge 20 bs, and materials cost 15 bs, so we earn 5 bs., which doesn't pay for our work, but they come from Santa Cruz and we say 50 bs, and they're happy to pay it. They will pay what you ask as long as the work is on time. This man came and he said to me, you're very *cumplido* (responsible), why do you go on working here?

"In Santa Cruz, they don't bargain over cents, and that's why they have grown. Twenty years ago, Santa Cruz was nothing..."

Sta. Cruz's rapid economic growth, based principally on cash-cropping, has meant that consumers have money to spend and will pay more to get the product and service they want. Sucre producers have a clear concept of "what their work is worth" and express frustration with the Sucre market. A carpenter from Sucre who used to work in La Paz contrasted the two cities:

"In La Paz, people have money. They say, make me a piece of furniture, I don't care how much it costs, but I want it to be of good quality." (Don J.M., #209)

"People can pay in Cochabamba... Here, is Sucre, they don't have much money." (Doña Y., artisan, Femexpo feria)

"People here don't pay what the work is worth, they want to buy it cheap." (Don Q, carpenter #40)

In a price-sensitive economy, producers who do quality work will likely be frustrated -- and undersold -- by competitors who economize by cutting quality. While some customers know and appreciate quality differences, a small, low-income market may not provide enough quality-conscious consumers to keep these producers in business.

"Some people don't add vanilla (to their drinking chocolate), and they sell for 4 or 5 (bolivianos, instead of 6.50, per pack)...they don't care about quality...and people buy it." (Doña M., chocolate producer #12).

Meanwhile, bargaining with clients over prices can be time-consuming:

"*Regatear* (bargaining) is a custom in Sucre, that's why we don't have supermarkets.... People love to bargain, they'll argue over 20 centavos -- and if you calculate what the time is worth that they've used...!" (Don L., administrator, Carpentry Enterprise #1)

Sectors with low entry barriers generate very low profits, because there is a lot of underemployed labor willing to work for very low compensation. Women who bake for tea shops, for instance, earn very little -- around five bolivianos for a cake.

One woman used to make tea-cakes when she lived in La Paz, but she has stopped since coming to Sucre:

"Here things don't sell like in La Paz...they want me to sell to them at (a low price), and why should I do all the work so that someone who does nothing can earn all the money...and ingredients are expensive." (Doña T., goldsmith's wife)

The level at which the returns offered by a business become unacceptable varies with the circumstances of each person. Doña M.L., who trained as an architect but did baking to make ends meet, could turn down work at a dollar a cake because she had other, better-paying clients, and because she anticipated that she would soon get a new job in her professional field. Other people, however, are willing to keep their small shops open all day for the equivalent of a dollar, because this is the only income-earning option they have. Doña V., for instance, has a cereal stall in the central market; she makes sales of around 20 bs. a day. Of this, 4 or 5 bs. (less than a dollar) is income after expenses.

Poverty can quickly become a vicious circle, as more and more people are willing to work for less and less, and everyone must keep prices low to compete. Ultimately, it may be that no one is making enough profit to invest in business growth. In Sucre the situation is not so dire, however: conditions are difficult, but even very-small businesses do reinvest, and little by little, they may grow. Some have found markets outside the region (through friends or relatives), or less-expensive sources of raw materials (through micro-credit that lets them travel and buy in bulk). Some have innovated new products or actively sought out sectors where demand is growing. And even businesses which never expand have managed to provide incomes for households, keeping them going until better opportunities become available.

Although Sucre is a difficult market, it also presents unique opportunities, and Sucre's producers do not seem to have thoroughly explored its possibilities. I found it interesting, for instance, that producers were not making products to cater to the university student population. While the notebook-and-school-supply merchants were doing a brisk business, no one was *producing* notebooks, binders, and so forth. Sports-jacket manufacturers were doing well, but no one was making backpacks. No one seemed to be innovating products specifically to appeal to the student market. Also, few businesses cater to tourists, another sector with good growth potential.

### 3. Helping Sucre's Producers?

As we have seen in Chapter 8, micro-credit organizations serve only certain kinds of businesses. Because product turnover must be brisk enough to cover the regular payment of quotas plus interest, some businesses are too small to benefit from micro-credit. Other businesses are too large for micro-credit, where initial loans are often as small as $100. These businesses need access to larger lines of credit. Sometimes micro-credit organizations' "individual" loans (up to $5000) may meet these needs, but such loans are not plentiful and require paying at least 24% annual interest. Sometimes, producers need larger loans, above $5000; for all but the largest businesses, these are practically impossible to get.

Banks do not offer a solution; most do not want to deal with small-scale producers. A newspaper report commented that in 1995 "access to bank credits benefits only 0.1% of the country's economically active population" (*La Razón*, La Paz, 26 Feb. 1997). Some of the small factories, however, had taken out bank loans at one point or another to buy machinery (their owners usually had money from other sources; thus, they were both experienced at dealing with banks and able to provide guarantees). Banks offer loans in large quantities with large guarantees (usually mortgages); artisans and most other small businesses find their guarantees too demanding and very seldom deal with banks. Not all of the larger businesses, however, felt comfortable with banks, either:

"With banks, if you don't pay, they can take your house... I took out $7000 dollars once and almost couldn't pay it, I almost lost the house." (Don S.M., Carpentry Enterprise #3)

Problems of access to credit do not affect only the very-small business-owner who lacks guarantees, but better-off businesses as well. The son of the owner of Chocolate Factory #3 commented:

"The financial resources to do any kind of business are limited here...they don't give us advantages, it's not like in other places...you have to pay taxes before you're really on your feet.... In Cochabamba, to build a hotel, they finance credits with the hotel itself as a guarantee, and you don't have to pay taxes for a year."

Doña J., administrator of the city's largest carpentry enterprise (#1), explained that credit difficulties stand in the way of business growth:

"We could grow... We would need to take out credit, though, and the truth is, with the banking institutions, that despite their advertising it really isn't easy to take out a loan for a major expansion."

She also mentioned the inconvenience of working with the local banks:

"The banks we work with...sometimes we just need a loan for 2 or 3 days...but they make us fill out all this paperwork... It's a lot of bureaucracy."

The larger chocolate factories had access to bank loans, but the smaller *casero* producers generally had not taken out any loans at all, except for Doña I., who is a client of micro-credit organizations. Some carpenters take out micro-credit loans -- though they complain that interest rates are high. Carpenter Don B. summed up the credit problem from his own experience:

"I've always wanted to expand. This shop...(is) only partially mechanized. There's still a lot we do by hand. I'd say, 30% mechanized. For us to be a mechanized shop, we'd have to have (other machinery), but it isn't possible. The government doesn't help us. Money arrives -- all sorts of money arrives from other countries, but we don't get it.... The cake gets divided up among their cronies.... You can't get capital. You go to a bank and they tell you all these lovely things, they tell you this and that and of course, but at the moment of truth, they fool you (*te engañan*). They say they can't give you anything.... I used to work with banks, but then inflation came...the banks became very demanding...we stopped working with them.... The cooperatives, what do they give you? A hundred dollars?... What I want most is a sanding machine...that's what is most time consuming.... It costs $3000 dollars. In Prodem they give me 2000 bs., that's...not even 500 dollars...with that, I can't do anything." (Don B, carpenter #159)

Artisans realize that money sometimes arrives from outside the country, intended to stimulate the growth of small-scale producers in Bolivia. Yet these funds must be distributed through existing institutions: NGOs or banks:

"Money doesn't arrive for us...if it arrives, they want you to have a house to guarantee the loan with, who has that?... And the interest are high, higher than the banks." (a carpenter, member of Adepi).

Many carpenters do not have houses in their names to use as guarantees, but they may have a substantial investment in machinery -- usually not enough to guarantee a loan.

"Everybody wants a lot of guarantees... I thought I could use my machines as guarantees, but no." (a carpenter).

Money arrives to support artisans, but artisans say it gets detoured into the hands of the wealthy or politically powerful:

"There's a lot of talk about loans for artisans -- long payment periods with easy terms -- that would be wonderful. But any time a loan arrives for artisans, the first people to take out loans are the politicians. They say they are artisans and they take out the loans... A lot of loans arrive here, other countries help, but very little ever reaches artisans." (Don J.M., carpenter #209)

An artisan association leader pointed out:

"In 1986 they proposed a law...it would have created a *Banco de Protección al Artesano* (a bank for artisans, that would have made resources available for loans for machinery and inputs)...but it all ended up in nothing."

He pointed out an example of how money intended to be accessible to small producers is detoured:

"CORDECH (the former Chuquisaca Development Corporation, an arm of the national government) had a finance fund (six million dollars, partly from international sources); it was for artisans and agriculturalists.... They gave loans to only 9 artisans...little amounts, $2000, 3000, 4000 dollars.... Money arrived, and it circulated among the politicians....We gave up on it (this fund), because they agreed to give the administration of it over to the banks...in the interest of the banks. With little loans, banks don't make much profit, (so they decided)... to require a building or land as a guarantee.... So we abandoned that...few of us had guarantees.

"The state doesn't offer this sort of service anymore."

The result of all this is that the small producer has access to capital only in very small quantities. A typical Sucre carpentry shop, for instance, may have net earnings of about 1000 bs. a month for the owner; of this, some 500 bs. may be spent on household expenses, leaving 500 available for savings. Even assuming this were carefully saved, how many months would it be necessary to save in order to make an investment in a *groseadora* (costing about $2000 US -- over 10,000 bs.) or a truckload of wood direct from Sta. Cruz (around $4000-5000 US), or a piece of land to build a larger shop? In most carpentry shops, there is no space to accommodate a truckload of wood (they would have to rent storage space). Sometimes there is not even enough room to accommodate an extra machine.

Moreover, in real-life scenarios, few business people manage to carefully save their earnings. The timing of orders and payments means that investment often must be short-term (wood for the next project) rather than long-term. In the meantime the household makes demands on the budget, and there are always household emergencies which require cash. Long-term saving discipline is usually impossible; money that sits around available gets "*desviado*" (detoured). At the same time, loans from suppliers for machinery are seldom available; local suppliers are usually too small to afford to offer credit, and imports most typically must be purchased by traveling elsewhere (e.g. to Brazil), where credit would be almost impossible to arrange. To be able to purchase machinery and expand in the long term, producers propose a solution: subsidized loans, at perhaps 18% annual interest (the bank rate), with long terms (two or three years), paid in small, regular installments. Formerly, a loan program through the National Bank offered even lower-interest loans, and many Sucre carpenters were able to purchase basic machinery.

Producers who came to neighborhood entrepreneurs' meetings in late 1996 requested that the European community's PROMMI micro-enterprise support program offer loans of $1000-$10,000 at around 16-18% annual interest. PROMMI's Sucre branch is receiving $3 million dollars from the European Community to "help" small enterprise in Sucre; credit is one of their main tools. However, none of these producers, who prepared business plans as part of their request, is likely to get they loans they want. Rather, since PROMMI has no alternate distribution structure for loans, and because it wants to strengthen existing local microcredit organizations, it is filtering money through local credit NGOs. Thus, this money will be subject to the same sorts of limitations currently affecting micro-credit-organization services. Loans at under 25% annual interest will almost certainly be unavailable, and many of the producers who could afford to pay 18% are wary of taking out credit at 25%.

The need for loans was a recurring theme among the small-business people of Sucre, who see the lack of these as a major obstacle to their growth. "We don't have enough capital" was a frequent complaint. Carpenters always seemed to be in search of loans: the Adepi administrator K. commented, after a meeting in which no one came: "If we were offering loans, that place would be full." While tax cuts would also help artisans, loans provide money, in a chunk, for immediate investment, along with a repayment structure which allows the artisan to pay "little by little", within his or her means. Subsidized credit is a legitimate response to a situation where producers are undercapitalized and "behind" their neighbors in other regions; it can give them a "leg up" to improve efficiency so that they can compete in markets with good growth potential.

### 4. *No Cumplen*: Stumbling Blocks to Efficiency

We have discussed how most business transactions in Sucre take place on an interpersonal level. Friends and relatives do long-distance marketing, and clients often order direct from neighborhood-based producers. The contracts involved in such informal, interpersonal relationships are, however, very difficult to enforce. Moreover, irresponsibility is often tolerated, and it is very difficult to sanction others for irresponsible behavior. Sucrenses often complain: *No cumplen* -- they (other people) don't do what they say, they aren't responsible.

No one likes this situation, but as with many inefficient institutions, irresponsibility perpetuates itself over time. People expect irresponsibility: they respond with irresponsibility in turn (*cf.* Putnam 1993:179). Legal contracts are expensive to enforce (and often not made); informal enforcement of agreements through social pressure is also difficult, because supra-household community-level organization tends to be weak (what Putnam 1993:163-185 would call "a lack of social capital").[1] In Sucre, the combination of irresponsibility and poor contract enforcement creates considerable inefficiencies for producers who must work in this climate. We see the consequences in inter-household partnerships (practically non-existent), labor (very unreliable), relationships with clients (unpredictable), cooperative efforts (generally a failure), and the role of the distributor (limited to relatives and friends).

Irresponsibility breeds a lack of trust, and pooling business assets across households becomes an especially risky affair. While partnerships put greater amounts of capital and more diverse skills and experience at the disposal of businesses, they require trust and some form of contract to guarantee that the rights of both parties will be respected. In the absence of trust and contract, businesses do not cross household boundaries. While this is understandable, it limits the resources available to businesses. Businesses thus tend to remain small; the result is an atomized economy with many small, duplicate shops possessing duplicate equipment.

Irresponsibility also causes serious labor problems for producers. In the carpentry sector, particularly, producers can't rely on workers to finish jobs on time. This both reduces productivity and damages relationships with clients:

"They (master-carpenters) don't come much. They come maybe Monday, Tuesday, that's all." (Don S.Z., carpenter #200)

"I could do more, but... there aren't workers. They don't want to work. Sometimes I have to turn away work, because it's just me..." (Don G., carpenter #135).

In industries where much of the productive work is still done by hand, a lack of workers means that businesses are unable to increase production significantly even when demand is up; thus, they cannot take advantage of market peaks to propel them into greater capital accumulation and expansion.

One reason worker irresponsibility must be tolerated is that there are few skilled workers available. In some cases, when manual jobs (like carpentry) do not pay enough to attract employees, mechanization may be the only solution to the problem of unreliable labor. In other cases, however, the solution may lie in creating institutions (such as a job service) which provide information about available jobs, so that employers and employees do not have to rely on interpersonal contacts to find one another. One chocolate-maker whose small factory sat idle, said:

"I lack time, and workers. You have to have trained people. There are trained people, but the problem is, finding them.... Here, you have to advertise, on the radio...there's not a job service in Sucre, where you can go."

Irresponsibility on the part of clients also hurts producers, particularly those who make goods to order. These producers often have capital sitting idle, tied up in items that customers have not picked up, or have not yet paid for. Carpenters have pieces of furniture sitting in their shops: "The client traveled," they tell me, or "the client hasn't picked that up yet"; late payment obviously causes cash-flow problems for these businesses. Individual clients are not the only ones who delay payment; large organizations and government offices are also guilty of this:

"They say they have to issue the check, and what can I say, I can't insist...I have to wait 2, 3 weeks. And that money is sleeping." (Don S.Z. #200)

"(Public institutions) don't *cumple* (keep their side of the bargain), they say there are no funds, they take a long time to pay you... When you have a worker, you have to pay that worker, it doesn't matter to him if they owe you or not." (a carpenter)

Irresponsibility has also created major obstacles for cooperative producer's organizations trying to start up, such as the San José carpenter's association begun by the NGO Idepro. A member described one of their typical meetings:

"(People) come late, or they don't come.... Friday, supposedly, we were going to have a meeting, but there we were standing at the door, there wasn't anything.... They (the NGO) were even talking about us buying machines,[2] but for that, we need to have a good meeting, with everyone... But the problem is, they arrive late, or they don't come..." (Don J.M., #209)

"Sometimes I sit and wait and wait and no one comes, or one person comes and waits awhile, and leaves, then another person comes and waits awhile..." (Doña J., NGO representative/ organizer)

Non-attendance tends to snowball as each member calculates the likelihood that others will not show up. In cooperative organizations, irresponsibility means that potential benefits of organizations, such as access to cheaper resources (raw materials, credit, machinery), cannot be realized.

Also, in Sucre, no trustworthy party exists to take charge of marketing in distant cities. The role of distributor is missing. Trusted relatives and friends may play this role on a small scale, but not people who are unknown to the producer. Individuals wishing to start out as distributors on a small scale would be unlikely to find producers willing to trust them; contracts could be written, but would be difficult to enforce. The result is that inter-city marketing remains at a small scale, often entrusted to people who are not particularly knowledgeable about marketing.

Lateness is one aspect of irresponsibility which is very common in Sucre. Pervasive lateness is interesting from the point of view of games-theory analysis. Because people suspect that others will be late, it makes sense for them to show up late themselves. If a person arrives on time, he or she risks wasting fifteen minutes, a half hour, or perhaps longer if the other party is late. If the other party happen to be on time, however, the first person loses nothing by being late. While he or she may risk annoying the second, punctual person, such annoyance is unlikely to have serious consequences in an environment where lateness is endemic. Also, annoyance can be countered with excuses -- excuses which generally emphasize the busyness of the first person -- and may subtly imply that of course the second person was on time, because he or she had nothing better to do!

Thus, in a situation of incomplete information, where a person does not know if the other will be punctual or late, and there are no sanctions for lateness, it is always to people's advantage to show up late. In this way, he or she saves time, which can then be dedicated to other activities. Lateness can snowball, however; a person who plans on being a half-hour late can be unexpectedly delayed by other activities and show up an hour late; he or she may then find the other person gone, and both have wasted their time. Obviously, the institution of lateness presents obstacles for business people who must meet with clients, suppliers, and colleagues; the time wasted in delayed and failed meetings decreases business efficiency. One interchange heard between a carpenter and a client at 5:30 in the afternoon is typical:

Carpenter: "I told you to come at 2"
Client: "Oh people say come at 2, and then you go, and they say come back at 6."

This was a good-natured exchange. In the following one, however, the client was frustrated. He had come to pick up his chair, which was not ready.

Carpenter: "It just needs glue"
Client: "Glue it now"
Carpenter: "It has to dry.... Come tomorrow."
Client: "First thing."
Carpenter: "No, at noon."
Client: "If you glue it now, it will be dry by tomorrow morning."
Carpenter: "I have to go back to my school[3], I just came to leave this (saw)."

The client finally, grudgingly, agreed to come back the following day at noon. Sometimes the carpenter is the one who is late, sometimes it is the client, but in either case, inefficiency is the result.

The institutionalization of irresponsibility and mistrust in Sucre does not mean that Sucre's economic problems can all be traced to – and blamed on – local people and their culture. People do not simply decide to adopt counter-productive attitudes; they do so in response to the contexts in which they must work – their past experiences, which color their expectations toward the future. Sucrenses, like all Bolivians, have grown up in an environment of pervasive economic and political instability. Numerous coups, a major revolution and land reform (in the 1950s), severe hyperinflation (in the early 1980s), abrupt policy changes (such as the sudden end of trade protectionism in the 1980s) and so forth have meant that people expect uncertainty, distrust promises, and are understandably wary of committing themselves to projects which depend upon the reliability of others. While Bolivia's political and economic situation has stabilized in the last ten years, the past still influences the way people think, anticipate, and plan. In Sucre, the problem is aggravated by a sense of having been deprived of wealth and status as a region; Sucre's history may reinforce a tendency for its people to assume that "we" are vulnerable and must guard against those who would take advantage.

Past experiences and conditions affect the way people view present and future opportunities; similarly, present conditions may constrain the choices people are able to make. Yet local-level actors are not mere puppets, responding to external pressures in predictable ways. It is important to consider the point of intersection between "macro" theories of development and underdevelopment, which emphasize the role of larger systems and structures (arguing that these give local actors no room to maneuver), and "micro" theories, which sometimes suggest that reasons for underdevelopment can be found within the culture of local communities. Neither of these poles succeeds in describing the whole reality; we need to consider both how local actors respond to external opportunities and limitations, and how external conditions (government policies, instability, larger economic trends, etc.) alter the courses of action available to local actors. Sucre's culture of mistrust did not develop in isolation; larger forces of political and economic instability almost certainly had a role.

We are left with the question: if negative traits such as mistrust and irresponsibility are institutionalized in Sucre, does path dependency dictate that there is no escape? Will Sucre's households always resist cooperation; will people continue to anticipate – and perpetuate – unreliability? We need not assume that the situation is hopeless. While there may be strong incentives encouraging path-dependent behavior, local-level actors still have room to maneuver and affect their environment. Local culture is not a static thing; there is always a gradual process of change, because a culture is molded by the people who live it – people with choices, people with ideas. Sucre's culture of mistrust raises businesses' transactions costs and increases at least the perceived costs of forming organizations or firms to overcome those costs. Yet business people want to lower costs, and so they have a strong incentive to try to find a way out of the current situation. They may succeed, they may not.

### *5. Wiphala* Logic and Creative Diversification

I once heard a North American entrepreneur addressing a group of young people who wanted to start their own businesses. "You have to eat, sleep, and breathe the business," he told them. "It takes a huge amount of energy." In Sucre, however, few people have the luxury of dedicating themselves so intensively to a business. Sucrenses, in general, impressed me as very busy people, splitting their energies among responsibilities to the household, to the extended family, and to friends, while trying to juggle activities to earn a living in a tough economic setting. Businesses are important, but so are children, spouses, social obligations and jobs, all of which compete with businesses for an entrepreneur's time. Recall the metaphor of the *wiphala* flag: many different squares, and no one thing more important than the other thing. A business is only one square on the household's metaphorical wiphala. While businesses can benefit from household resources (unpaid labor, space, etc.), they also must often share resources with the household.

The most entrepreneurial among the people I spoke with -- those who had successful businesses and demonstrated the ability to innovate -- seemed to be the busiest. The owner of Chocolate Factory #5, for instance, is also co-owner of a travel agency and the manager of a local beer factory; the owner of a powdered-corn-drink factory also has a full-time job (head of construction projects for the university) and is president of an artisan's organization; a carpenter and his wife bring furniture from La Paz to sell in the Campesino Market, and he also has a gypsum mine; and Don N. (chocolate producer #7), has a full-time salaried job as well as a successful business transporting sand and gravel in his two dump trucks. He puts the situation this way:

"I go around with my head in a whirl, thinking, "I have to go there"...I have to go see about the sand.... I have a lot of orders for chocolate.... People have said, 'Why don't you open a shop,' but I don't have time...this morning I got out of Yacimientos (the petroleum company, where he is a shift supervisor) at 4 am, I slept, and at 6:30 I was on my feet.... People come and they say, 'You never have any chocolate' and they get tired of coming.... I like to work, I like this activity...(but) I know this isn't good for my health, I'm making myself sick from all this work.... For this reason I have gray hair, I'm not at the age where I ought to have gray hair."

While Don N. may be an extreme example, many Sucre business people are also very busy. "There's no time," is a frequent comment among business people and non-businesspeople alike (one elderly woman migrant from the countryside, for example, says she has "no time" to take her weavings and sell them in the street). "The problem is, finding the time" -- to produce more, to seek out new markets, and so forth. Businesses sometimes go abandoned for hours, days or even months as other activities take precedence; Don N., for instance, stated: "I've nearly stopped making chocolates now. I don't have time." Similarly, another chocolate maker (#6) with a full-time professional job uses his $25,000 dollars worth of chocolate machinery only to produce at Christmas time and sometimes, for a special *feria*. He realizes he is not using his production capacity to potential: "Sometimes I feel like I should really be making the factory work," he says, "but I don't have time.... We took chocolates to the *feria*.... There were orders, but we weren't able to accept them, because there wasn't time."

Family and household responsibilities often vie with businesses for time, especially for women. Women who run or co-run businesses must nearly always juggle business activities with other household demands. They usually choose production activities that can be run out of their home: sweater knitting, sewing, bread or pastry making, chocolate-making and jam-making, or making small artisan objects of various kinds. Businesses which are run out of the home seldom if ever have a woman's full attention, and few become more than supplementary activities.

Children compete frequently with businesses for a woman's time. While some Bolivian men help with child care, the largest part of child-care responsibilities still fall to women. Doña D., co-owner of Chocolate Factory #4, for instance, can have only limited participation in factory management because of the demands made on her by her children and house. Similarly, Doña M.N., a seamstress, only works 4-6 hours a week: "My friends tell me that I could earn a lot more, if I worked more regularly, but I don't want to sacrifice the time away from my children." Another woman had a successful wholesale trading business but had suspended all business activities for the past two months -- not because the business was going badly, but because family responsibilities were taking precedence:

"My children are in secondary school (*colegio*)...they're in exams now... Even though they're big now, I need to look after them... If no one's here, they don't do anything."

Chocolate producer Doña I. (#9) demonstrates the way that women must often juggle business and household demands:

"I went out this morning to take chocolate, and I came back to cook. I was just helping the children with their homework... I don't have a set schedule (to take chocolate to clients), I cook for a little while, then I leave off and go out."

Male artisans, on the other hand, usually have more time to devote to their businesses. Yet they may also be involved in helping with children, supervising construction on the family's house, assisting their spouses in other economic activities, and so forth. For both men and women, social activities also exercise considerable demands. Men, for instance, face pressure for social drinking; women may sometimes join in. For both men and women, there are relationships with *compadres* to be maintained, and obligations to attend baptisms, confirmations, marriages and memorial masses with friends and extended family members. Although the tendency is for women to "*sacrificarse*" (sacrifice themselves) for the benefit of family, while men are more likely to be involved in recreational social activities, the result is the same: less time available for businesses.

The consequence of multiple demands on people's time is that businesses seldom receive in-depth attention and analysis. Entrepreneurs feel pressed for time; one shoemaker (#7 in Table 6), for instance, had taken a course in accounting but explained his inability to put his new knowledge into practice:

"I haven't been able to do it -- they gave us courses. But I work alone, and time is short for me. I work until 1, 2 am, from 6 am..." One day, he says, he was trying to note something down, "But another man came with an order, and I lost track."

In his case, he is reluctant to hire help because he fears workers would steal from him. Carpenters, similarly, often find themselves pressed by deadlines; sometimes they must turn away work, and they often turn in work late, yet they do not appear concerned about this lost clientele or question whether it would be possible to organize production more efficiently. Even people who know how to improve their business may have time constraints which do not permit them to do so:

"Sometimes people come to buy (chocolate), but there isn't any, because the man hasn't come.... If I had a little machine to grind with, I could make the chocolate myself, but I don't.... I have to be here all day, there's no one else, so I can't go out to look in the shops, I can't travel." (Doña G, chocolate producer #14)

Even unproductive activities, such as drinking parties, may be very difficult to avoid. For example, the master carpenter I worked with made a business trip to Potosí to deliver orders to buyers; as his visit coincided with a festival, he was obliged to accompany his clients in a drinking party. Even an activity as ordinary as stopping to talk with friends and acquaintances in the street can be quite time-consuming. Yet business people, who rely heavily on personal contacts, cannot afford to avoid this social communication. In Sucre people use the label "*egoista*" (self-centered, stuck-up) for those who neglect their social responsibilities. Thus, even unrelated, seemingly unproductive activities may be vital to maintaining a good working relationship with one's neighbors.

"You have to become known by people...what you want is for people to know you...and recommend you to their friends, when someone says, 'I need a job done." (Don S.Z., Carpenter #200)

Households' demands for resources may slow the process of business growth. When business capital is readily accessible, it is hard to withhold it when the household is in need. Urgent and unexpected needs, such as the sickness of a household member, may destroy or severely cripple business. Accounts in very small businesses are almost never strictly kept, making it easy for goods and materials to filter out of the business for use by the house. While this can be a convenience for the household, it means that the business must carry an additional cargo of household consumption. Consider, for instance, Doña F. (#6 in Table 6), who sells candy on a corner near the main market:

"If I didn't have expenses, if I didn't have children, I could do well, but instead of earning, I give chocolates to my children."

Households tend to diversify into several activities to maximize household income and minimize risk. This means that not only is less capital potentially available for any single business, but also that time is often split in several directions. Construction of new homes, or improvement of existing ones, is a favored investment for households, and can be a drain on business capital. One carpenter commented: "I'm building onto my house...it takes a lot of money.... Before (in my carpentry shop) I had a lot of wood." (Don S.Z., #200). Doña G., who has a successful shoe-vending business along with her husband, mentions home improvements as an important destination for business income: "I want to sell more, to have my house worked on. It still lacks some things...for this reason I'm working to earn money."

Some businesses seem to exist primarily in order to provide a service to the household. One important service is providing training and an occupation to young household members:

"I started (the *gomería*, or tire shop) about 5 years ago.... But I never liked that work.... I reopened about three years ago...for my son, because he didn't have anywhere to work...and laziness can lead you on a bad path." (Don C., entrepreneur)

Businesses may serve as a safety net for the younger generation, ensuring that children will have a source of income. Recall the father in the Baldiviesa chocolate business (see Chapter 1), who tried to start a business for each of his daughters. He is not alone; other producers start businesses as an investment for their children:

"When I retire, I'm going to make this into a good factory, with good machinery, so that my children go on working.... I'm going to leave it for my children, to leave them something good.... Of course, they're studying other things, they're not interested right now, but I believe they'll want it later on." (Don N., Chocolate business #7)

Chocolate maker Don M. (#6), who has a full-time professional job, has put together a complement of chocolate making machines, "to have for my children." He is also assembling a set of carpentry equipment for the same reason. Businesses which are run primarily for the future benefit of the children are often not the owners' primary concern in the present. Their capacity is often severely underutilized. Such businesses exist as activities of the household, yet they are often not given the attention they need to grow and develop in their own right.

Most business owners in Sucre will never "eat, sleep, and breathe" their businesses. Yet there are many serious businesspeople who invest long hours in their businesses. These dedicated entrepreneurs juggle many demands on their time but still focus their energies on making businesses grow. Some are very poor; others are well off. Some have only one business, others diversify their activities. Some have machines, some do not; some have workers, and some work alone. What they share is their ability to survive and even prosper as businesspeople in a difficult economic and social climate -- and their dreams: of bigger markets, more production, of up-to-date machines and plentiful raw materials.

"It has always been my dream," carpenter Don B. told me, "to become an *industria*."

These are not idle dreams; but even the hardest-working of the Sucre producers have been unable to realize them. The problems are more basic than individuals' lack of entrepreneurial skills. They are woven into the texture of local social relations and the larger institutions allocating public investment and credit. "Informal" and very-small producers are not helpless victims of the larger national and international economy (as dependency theorists would have us believe), nor are they by nature isolated from active participation in and contribution to this economy (as the dualist peasant-capitalist view suggests). Rather, these producers are rational economic and social actors who are working to create and sustain businesses in a difficult local economic environment.

These entrepreneurs possess the ability and desire to make businesses grow, but they must deal with high transaction costs, limited resources, and small markets. Some of their problems (raw material access, market development, etc.) could be addressed from within their own community, through effective local organizations; in Sucre, however, ingrained patterns of suspicion and distrust inhibit such joint problem-solving and will require considerable effort and organizational ability to overcome. Yet even if Sucre's business people never create "*industrias*," they have shown that they will find ways to survive, overcome difficulties, and continue to identify viable production niches to carry them into the next millennium.

[1]Even though people in Sucre may know each other individually, it is very difficult for them to pool information and practically impossible to withhold resources or benefits to sanction those who violate agreements.

[2]The purchase would be made as a group, but each carpenter would pay for his own machine.

[3]He is a teacher.

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