

community links

Self-employed and micro- entrepreneurs

Informal trading and the
journey towards formalisation

By Dr Marlen Llanes and Aaron Barbour



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informal trading and the
journey towards formalisation

Dr Marlen Llanes and Aaron Barbour

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Summary

Academics and policymakers increasingly recognise the importance of informal economic activities to the development of UK local and regional economies. The publication of Lord Grabiner's report in 2000, which examined the informal economy and the impact on tax revenues, can be understood as the starting point in 'officially' acknowledging that informal paid activities needs to be harnessed and integrated into our local, regional and national economies.

The informal economy involves an array of activities that include non-paid work, informal paid employment and illegal activities; a multiplicity of activities which does not contribute to a clear definition. In this report, informal paid work is defined as those business operations in which individuals fail to notify government authorities and thus avoid paying taxes, but are legal in most other ways. The businesses that we spoke to for this report are so small that they do not qualify for VAT registration.

The diversity of definitions of the informal economy does not help in calculating its economic contribution to the overall UK economy. However, it is increasingly accepted that undeclared income is important to the UK economy. National Account figures estimate that about 1.5% of GDP is generated in the informal economy (ONS 2001). The EU estimates around 7-16% of GDP, and others argue that undeclared income represents around 12.3% of the UK's GDP, approximately £120 billion (Schneider, 2000, Schneider, 2006).

Community Links, with the cooperation of the 'Supporting Inclusion in Enterprise Development (SIED) partnership and the Association of Community-Based Business Advice (ACBBA), sought to strengthen its understanding of the informal economy by examining self-employed traders. This built on a previous report by Community Links and Street(UK), in 2004, titled '*Self-employed people in the informal economy: Cheats or Contributors?*'.

In conducting this report the team interviewed individuals from black, Asian and minority ethnic (BAME) communities in some of the most deprived areas in north and east London: Islington, Tower Hamlets, Hackney, and Newham. The interviews centred on understanding informal traders' rationale towards formalisation and working informally.

Respondents accepted they needed to register, however they said they were not ready. For traders the size of their business operations, in terms of income generated, made registration very costly because of the administrative costs of self-assessment tax and other associated paperwork.

As small trading operations were conducted on a part-time basis, and did not generate a regular income, the majority of the traders interviewed chose not to jeopardise their steady income from state benefits.

Informal traders, including those who eventually registered, considered the unregistered period as their learning and test trading time. This period was significantly longer than the three

months of unregistered trading allowed by Her Majesty's Revenue and Customs (HMRC) before businesses are legally compelled to register. Informal small traders generally operated unregistered for at least two years.

Registration often marked an increase in income and the start of a new phase in business development, generally as part of a traders expansion plan. Registration helped gain increased credibility for their business, and paved the way towards reaching new markets. Registration also meant marketing their products more widely, beyond word of mouth, without worrying about getting caught by the authorities. Once registered they appreciated the support offered by the authorities regarding access to training courses, quick answer to queries and networking opportunities.

Two-thirds of the sample were not ready to register and were not ready to make the transition from 'getting by' to 'getting ahead'. The 'getting by' phase refers to individuals who concentrate on working to generate income for their day-to-day survival. On the other hand, the 'getting ahead' period of a business development entails the expansion of operations and traders are centred on making their activity the main source of income and generating profits. Informal traders in the 'getting ahead' phase appeared to be ready to register.

For informal traders there seems to be a strong relationship between business expansion, registration and trading formally. Those traders who were not ready to expand did not feel compelled to trade formally.

The informal traders interviewed operated at a very small scale, in localised geographical areas, promoting their business mainly through word-of-mouth. When asked about the limitations of working informally, they responded that operating informally did not hinder their business operations.

Informal traders were able to operate, in part, due to their communities' attitudes towards informal paid work. Local residents accepted the informality of the services and goods offered because they were filling a need.

Respondents relied on their skills to operate their business. Trading concentrated on the provision of so-called personal services (hairdressing, tutoring, childcare and tailoring). Thus, capital investment was limited or nonexistent. The registration process was perceived by these traders as a 'cost' that would not provide them with any benefit. Costs of registration were difficult to measure; traders related the time they would need to complete a self-assessment tax return, the careful attention paid to filing and safeguarding documents related to their trading, and the time and skills required to do bookkeeping. Small traders were not willing to take on these activities.

Our recommendations include:

1. Harness the informal economy by embedding it in local and regional development strategies (i.e. explicitly support it in strategic plans and adopt a cross-agency approach to formalising informal trading).
2. Provide more specific business advice and support by acknowledging the different needs and circumstances of male and female traders.
3. Recognise and fund business advice which explicitly centres on formalising informal trading.
4. Develop formalisation business support and advice programmes, delivered by local organisations.
5. Fund and use more widely, the community-based business advice model developed by ACBBA
6. Adjust tax and benefits rules to re-balance the 'carrots vs. sticks' approach by offering a 'nothing to lose' approach to starting and developing a business with a defined period of guaranteed living cost reimbursement.
7. Co-ordinate the tax and benefits thresholds more closely to make transition from benefit receiver to tax payer seamless.
8. Emphasise the positive and beneficial aspects of business formalisation in Marketing and advertising at a local, regional and national level.
9. Increase the coordination and joint working between local voluntary and community organisations, advice agencies and business support agencies in the design and delivery of 'formalisation' programmes.

Introduction

Informal economic activity is increasingly recognised as an important component of the UK local and regional economies by scholars and policy-makers (Evans and Syrett, 2006; Williams, 2001; Chen, 2005). In ‘developing’ countries the importance of the informal economy is positively embraced whereas in the UK informal economic activity has been viewed by government as an irritant that needs to be stamped out. However acceptance that informal economic activities are here to stay has been growing steadily in government circles since the publication of the Grabiner Report in 2000, which examined the informal economy and offered strategies to deal with this social and economic phenomenon.

Although there is growing acknowledgment of informal economic activities in developed countries in general and in the UK in particular, there is no agreed strategy addressing this phenomenon and promoting the integration of informal workers into the ‘formal’ economy. Currently, there is no agreed method to gauge the importance of informal activities in a given locality or national economy. In part, the difficulty stems from the multifaceted characteristics of the informal economy and the multiplicity of definitions of informal economic activity.

In this report the definition of the informal economy includes any activity in which the process of providing goods and services is ‘illegal’ because their operators do not comply with existing rules and regulations. Nevertheless, these goods and services are legal in every other sense.

Informal traders are those involved in the legal process of producing goods and services without being registered to do so (Williams, 2005; Evans and Syrett, 2006; Chen et al., 2004; Chen, 2005; Sassen, 1994). To operate in the formal economy a self-employed individual needs to notify HMRC or register as a limited company with Companies House.

Some scholars and policymakers (Grabiner, 2000; Evans and Syrett 2006) also point out that illegal processes and activities can be considered as part of the informal economy because they operate outside the realm of rules or regulations. We categorise these activities such as contraband and smuggling of illegal goods, drugs, and trafficking of people as part of the criminal economy. This report will not be addressing economic activity involving illegal goods or services.

The UK government response to people’s involvement in informal economic activities has been disjointed and contradictory (Evans and Syrett, 2006; Williams and Windebank, 2001). UK government programmes differ in strategy, even within the same department there are contradictory approaches

Some programmes appear to make the distinction between informality and illegality, such as the Department for Work and Pension’s (DWP) New Deal, which centres on the potential contribution of informal activities to the economy. Amongst other objectives this program seeks to harness the potential of informal economic activity and bring contributions to revenue as well as social and human capital, into the formal economy.

Nonetheless, this approach does not ignore the fact that people engaged in informal economic activities are breaking the law. Rather than punishment, some government agencies and programmes use ‘carrots’: creating incentives for formalisation of these activities, rather than taking a more punitive or ‘stick’ approach. These programmes seek to make the transition to the formal economy feasible and smooth (Evans, 2007; Evans and Syrett, 2006).

Other UK government departments do not make the distinction between illegal processes and illegal goods and services; instead focussing on the fact that people are not complying with existing regulations and, thus, engaged in fraudulent activities. Her Majesty’s Revenue & Customs (HMRC) and the three main agencies of Department of Work and Pension (DWP) have policies on informal economic activities which lean heavily towards the use of deterrents: taking people to court, imposing fines and closing down operations. The use of punitive measures may indicate that these agencies want to reduce or end informal economic activities.

Informal activities are not exclusive to deprived areas nor are they specific to particular groups. Previous studies on informality in the UK show that individuals living in affluent and deprived areas are engaged in the informal economy both as providers and consumers of goods and services produced and sold without paying the respective taxes (income tax or VAT).

The definition of informality is contested and, by the nature of the activity, it is difficult to identify those individuals engaged in this type of pursuit, therefore measuring informal economic activity is problematic. Without accurate measurement it is difficult to ascertain the contribution of informal activities to the UK economy. Nevertheless, regardless of the method used, there is a generalised acceptance that undeclared income is important to the UK economy. National Account figures estimate that about 1.5% of the GDP is generated in the informal economy (ONS, 2001). The EU estimates that the informal economy accounted for between 7% -16% of GDP in the European Economic Area in the 1990s (Williams and Windebank, 2003). Others argue that undeclared income represents around 12.3% of the GDP, approximately £120 billion (Schneider, 2000; Schneider, 2006).

The UK has one of the lowest levels of informal economic activity in the EU, yet, in the last decade there is evidence of an increasing trend across all OECD countries. It is estimated that for every one percent of growth in the informal economy, the official GDP grows by 0.8%. The parity relationship between the informal and formal economy illustrates a symbiotic connection between these two economic realms (Schneider and Klinglmair 2004).

Community Links, a community organisation based in east London (See Appendix One) has been studying informal economic activities in the area since 2000 as part of its work on poverty and social exclusion. Community Links has taken the lead in gathering evidence and campaigning on issues relevant to the UK informal economy, because jobs, household income, unemployment, the development of small-businesses and the availability of cash-in-

hand work have a significant impact on the lives of local people.

Informal economic activity is a complex and important social and economic phenomenon which has become part of many local economies. The team at Community Links understands that people engage in informal economic activities out of 'need not greed' (Katungi et al., 2006). Low income from paid employment and mean-tested benefits are complemented with undeclared income from the sale of goods and services.

Community Links, with the cooperation of the 'Supporting Inclusion in Enterprise Development' (SIED) partnership (See Appendix Two) and the Association of Community-Based Business Advice (ACBBA) gathered evidence on informal traders through semi-structured interviews. The study sought to understand better people's rationale for working informally, what stopped them from registering their activities and their views on the benefits of formalisation. The team gathered evidence on informal trading by talking to informal workers (self-employed) who operate in deprived areas and who sell their goods and services directly to the buyer.

The study was conducted in some of the most deprived areas in north and east London: Islington, Tower Hamlets, Hackney and Newham. In these areas, local community organisations were providing business advice tailored to the particular needs of black, Asian and minority ethnic communities (BAME).

This qualitative study was based on semi-structured interviews with self-employed individuals who either had or were currently operating their business without the required registration as self-employed or a limited company. Interviews were conducted by community-based advisors, members of ACBBA. In addition to learning about informal economic activity, the study also aimed to strengthen the institutional capacity of local organisations and broaden the skills of community-based advisors.

The report is presented in four sections. The first part describes the context of the research. Section two outlines the approach and methodology of the study. Section three discusses the research findings regarding informal trading and people's process of formalisation. Finally, the report presents conclusions and policy recommendations that would contribute to the transition from informal trading to the formal economy.

Context of Research

Deprived areas experience multiple 'problems', unemployment at rates higher than the national average (Census, ONS, 2001) is one of them. In deprived areas, worklessness and unemployment is especially high among black, Asian and minority ethnic communities. These communities often exhibit significantly lower educational attainment which may limit work opportunities. In addition, specific cultural attitudes towards female employment and to the care of children, the elderly and the disabled may have an impact on the higher rates of unemployment and economic inactivity among female members of minority ethnic communities.

Paid employment is promoted by policy makers as the way for people to get out of poverty (Knijn et al., 2007; Millar et al., 1997). Self-employment and entrepreneurial promotion are two of the policies put in place by the UK government to increase levels of employment in deprived areas. Local business advice is intended to offer support and guidance for people to take up paid employment on a self-employed basis. Evaluation of these policies show that self-employment in deprived areas is less than half the average for England (Evans and Syrett, 2006).

Figures on self-employment in deprived areas may be underestimated (SEU, 2004) and a proportion of those 'officially' economically inactive or unemployed and receiving benefits might be engaged at the same time in independent informal activities. Thus, their employed status is not officially recorded.

It is contended that people's involvement in informal economic activities has both positive and negative impacts on local and regional economies, and possibly the wider national economy. One of the negative aspects of informal trade is the unfair competition of those working informally; they do not pay taxes, some do not apply for the required health and safety certificates and other necessary regulations needed to operate formally. Costs of production may therefore be less, resulting in lower prices for goods and services than businesses working formally.

For households and individuals, informal activities provide additional disposable income lowering poverty levels. Informal economic activities may also play a part in the economic dynamism of a depressed local economy and encourage entrepreneurial activity and skills development (Katungi et al., 2006; Travers, 2001; Weiss, 1987).

Scholars argue that the existence of informal economic activity is 'encouraged' by the communities' acceptance (Evans, 2007; Leonard, 2000). Despite the media's frequent depiction of the informal economy as 'fraudulent', 'greedy' and 'condemnable', studies on the public's attitude towards informal work show that people are less judgemental and more understanding. The general public, when asked, said that people engaged in informal activities as a result of need to complement low income (Katungi et al., 2006; Community Links, 2001; Jensen et al., 1995; Tickamyer and Wood, 1998).

Scholars assert that informal economic activities are here to stay (Chen, 2005; Leonard 2000). The notion that informal economic activities are only present in developing economies has been proved inaccurate. Globalisation, the need to lower costs of production in developed countries, flows of migration from the developing to the developed countries are all social and economic phenomena that contribute to the existence of the informal economy in industrialised societies (Sassen, 1994).

Some parts of government including HMRC and DWP, employ punitive measures towards informal activities in an attempt to reduce them this response is not likely to yield the desired results. However, results are difficult to measure because those trading informally are not operating in the open.

Formalisation or 'mainstreaming' of informal economic activity forms part of the policy of other government departments such as the Department for Business, Enterprise and Regulatory Reform (DBERR, formerly DTI).

However, some departments such as the DWP have a contradictory stance towards the informal economy. On one hand DWP stresses detection and prosecution of benefit fraud and on the other hand promotes programmes to encourage formalisation of work. This suggests that government departments have to develop a balance between deterring informal paid work and promotion of its formalisation. (Evans and Syrett, 2006, pp.30). It would be helpful to have one overarching national government strategy setting out an approach to harnessing the informal economy, rather than different departments having differing strategies (and even differing approaches within departments).

Within the government's social exclusion agenda, programmes including 'Back to Work Bonus', 'Test Trading' and 'Twin Track Schemes' are geared towards harnessing informal economic activities. Yet, it is not clear to what extent these policies provide sufficient incentive for people to register their activities and operate within the UK regulatory environment. At the same time, it is difficult to gauge the importance that government departments place on potential economic gains of formalising informal activities.

Approach of the Study

The study concentrated on people trading informally. According to the typology of informal economy activity developed by Evans and Syrett (2006), people providing goods and services on an individual basis, without any intermediaries, who have not informed the respective authorities can be categorised as people engaged in an independent informal economic activity. Professor Williams (2005) categorises these informal traders by looking at the rationale of their engagement. Williams states that informal traders might be classified as either 'getting by' or 'getting ahead'. These two categories can be considered part of a continuum; two phases in the development of a business. The former corresponds to those who are working to obtain income that allows them to ensure their survival and have no intention of formalising

their work. They may either be generating very little income or are not interested in making their informal activities into a business (Williams, 2005, pp.342).

Those in the 'getting ahead' phase are those doing informal paid work at a level which allows them some expansion of their business; they are interested in making their activity the main source of income. Informal paid workers in this group appear to be more likely to register than those who are just getting by.

The study sought to understand concerns expressed about trading informally and examine the steps taken towards formalisation. The process of formalisation is understood as obtaining the required certificates, licence and insurance to provide goods or services and to pay taxes (income or VAT). In formalising their trade, individuals may register as self-employed (sole trader) or establish a limited company.

The liabilities for one or the other differ. The differences are described in the box below.

Sole trader

- It is the simplest way to set up a business.
- Individual only needs to notify the HMRC of intention to work on a self-employed basis
- Individuals are taxed on their income
- Individuals are liable to pay National Insurance contributions (Class 2 NI contributions, which is £2.20 per week, for tax year 2007-08)
- Self-employed individuals submit an annual self-assessment
- Sole traders are liable for any debt they incur while being self-employed
- Self-employed individuals are not automatically VAT registered. A trader is compelled to register once their income reaches the VAT threshold (currently £64,000 for 2007/8 tax year) within a 12 month period.

Limited Company

- A limited company needs to notify Companies House
- Need to comply with annual report of trading accounts and these are enforced by strict rules by Companies House
- A limited company is taxed on trading profits, rather than income
- Corporation tax is assessed after salaries and dividends are deducted
- Limited companies limit the personal liability of their directors
- Costly accountancy to comply with report trading accounts
- Directors or owners are liable to pay income tax on their profits and any related NI contributions (Class 4).

Summarised from information access on November 21, 2007, www.bystart.co.uk

Research Objectives

The qualitative study sought to gather evidence on:

1. The nature of the involvement in informal economic activities as independent traders.
2. Importance of the activity towards family or individual income.
3. Registration of their business and reasons for doing it.
4. Understanding of the requirements to register and reasons to remain unregistered.
5. Estimated benefits of registration.

The study was based on 23 semi-structured interviews. Likely interviewees were approached by the community-based business advisors participating in the research. Those asked to answer our questionnaire were current or former clients of the business advisors. Each interviewee either had been in the past, or was currently trading informally.

The interviews were conducted by community-based business advisors. The rationale for this approach was based on four points.

1. Business advisors had developed a business relationship with the interviewees.
2. The nature of the questions, designed to tease out an 'illegal' activity, required that the interviewees trusted their interviewers.
3. The community-based business advisors would gain experience in research interviewing and thus, strengthen their own skills base and that of their organisation.
4. A significant proportion of the residents in these multi ethnic areas are using English as an additional language. Thus, some of the interviews needed to be conducted in the interviewees' first language. The business advisors are able to speak these community languages.

The interviewers had a range of professional experience; some with three years as community-based business advisors, whereas others had only been in post for a few months. Participants in the study were self-selected; their own interest was the only requirement. Initially seven business advisors were interested in interviewing the informal traders. Five were working for local organisations operating in Islington, north London. The other two interviewers were working in east London, in Newham and Tower Hamlets.

The business advisors were staff members of organisations working with black and Asian minority ethnic communities. A significant proportion of the client base of these organisations used English as an additional language. Eight of the 23 interviewees were conducted in the interviewees' first language: Bangla. The community-based advisors translated the interviews into English and transcribed them for analysis. The remaining interviews were conducted in English and transcribed by Community Links.

The business advisors and Community Links jointly established criteria for the selection of interviewees based on the objectives of the study. The community-based business advisors approached people meeting these criteria in the way they saw fit.

Research Findings

There is a continuum: from informal paid work at one end, to a fully registered business at the other. Formalisation is a process not an event. The journey along this path is not straightforward and there are no standardised routes. For any individual there may be much time spent in the 'getting by' phase and not every individual will be willing or ready to move the "get ahead" phase. Furthermore, the landmarks signalling the end of one phase and the beginning of the next are unclear. To illustrate and analyse the information provided by the respondents we used the characterisation of independent informal workers devised by Professor Williams (Williams 2005; Williams 2006). These informal traders might be either 'getting by' or 'getting ahead'. Identification of the informal traders within these categories is based on their responses to questions about the future and expansion of their business and their views on registration.

The category 'Get by' is defined as those people who are engaged in informal economic activities but do not, or cannot expand their activity beyond finding sufficient work (Williams, 2005:342). However, the definition does not clarify whether the person want to make any profits. Nor was there clear differentiation between income and profits.

The 'Get ahead' category are people who are engaged in informal economic activities and are doing it as a step towards the eventual formalisation of these activities.

There are blurred definitions where self-employment and micro-enterprise overlap. There may be numerous steps that a self-employment person needs to take to achieve regulation by government authorities. However, the end result might be compliance with tax, both income and VAT, compliance with of health and safety rules might signal the end of the formalisation process.

The importance of Income

We have categorised those participants who are 'getting by' as those respondents who identify their income from independent informal activity as partially or marginally important to their household income. In the same vein, those 'getting ahead' are those for whom the income generated via informal economic activities is considered to be important. There are a number of respondents who are well in the process of getting ahead as the income from their economic activity has been central to the household income.

Table 1: Importance of Income from Informal Trade for Household Income

	Marginal	Partial	Main Source	Total
Female	4	10	3	17
Male	1	0	5	6
Total	5	10	8	23

Female traders have a higher representation in each of the three categories; their informal income complements income from employment in the formal sector and from benefits such as Income Support, Carers Allowance and, where applicable, Working Tax Credit.

On the other hand, it appears that for males informal activity provides their main source of income. Of the five male respondents, three were heads of households and their income was providing financial support for their families. Two of the respondents lived on their own.

The one male respondent whose income from his informal economic activity was self-estimated as being marginal was living with his family; his main source of income came from benefits received from the government.

These findings resonate with findings from other studies in which income generated from informal economic activities are complementary to other sources of income.

Of the males interviewed, half have decided to register their economic activity. Of the female respondents, the great majority had not registered. Further research evidence is needed to assess any link between formalisation of informal economic activities and gender.

Business Registration

It is interesting to note from this study that, of those who had registered, all have been engaged in informal economic activities. Four of the registered traders started their operation informally before registering. They followed the path identified in other studies on the informal economy where a period of test trading is characterised by operating informally, (Williams 2005; Masurel et.al., 2002). The time spent trading informally is not uniform, respondents spent between one and four years before registering.

This is in contravention of the HMRC requirement to register after three months of test trading. However, all of the interviewees believed that to establish a successful business more time was needed than the period allowed by HMRC.

Although respondents understood the need to register their business, it was felt that the indicator of the end of test-trading should be the amount of business conducted measured by income and/or profits, rather than a period of time.

When asked about this point, one respondent said,

'I started my business (procurement) many years ago, but in reality the practical thing really started three years ago. I registered as a limited company. I think there must be a stage that's a grace period for small businesses, as soon as you reach three or four steps. Then, it's obvious that you have to register with them, but until you come to that point. They have to know that you are still between steps one and five and you are struggling. As soon as you reach five, you definitely get in touch with them.' (Interviewee S)

Types of informal businesses

Scholars have identified a number of occupations and areas of work where informal economic activities are prevalent. Evans and Syrett (2006) lists a number of activities which includes agriculture, social and personal services (i.e. cleaning and care work), construction, tourism hotel and catering trades and fashion/clothing manufacturing. In our sample, the economic activities in which respondents are involved in, resembles this list.

Table 2: Nature of Business

	Restaurant, Hotels	Catering	Clothing (Tailoring)	Selling Ethnic Products	Social and Personal services	Other
Female	0	5	6	3	3	0
Male	3	0	0	1	0	2
Total	3	5	6	4	3	2

Economic activities in which the respondents were engaged fell broadly in line with the findings of previous national studies. More than half of the sample was in occupations that could be categorised as personal and hospitality services. These include catering, hotels and restaurants which were concentrated in multi-ethnic neighbourhoods. Food and tailoring were also geared towards niche markets. Personal services are purchased from traders within their own community. The downside to this market is that minority ethnic communities tend to have less purchasing power than the rest of the UK population (Census, ONS, 2001).

Multicultural and multiethnic impact on business

The multicultural and multiethnic composition of deprived areas in the London area has provided conditions for entrepreneurial activities catering for these populations. Entrepreneurs respond to the specific socio-cultural habits of this segment of the population. (Masurel et al., 2002; Basu, 1998).

'People saw and like the stuff that I was using from Bangladesh. When I went to Bangladesh people would request for me to bring Bangladeshi products back for them. I came across your organisation and got motivated to take this further. I wanted to use this importing and selling business to let people know especially the British-Bangladeshi that Bangladeshi products are great.' (Interviewee F)

Entrepreneurs supplying these niche markets predominantly serve the needs of people from minority ethnic groups. The challenge for growth is to go beyond these markets and access a wider sector of the population including those with more spending power. Scholars argue (Masureal et al., 2002) that the next steps for entrepreneurs supplying minority ethnic niche markets are an increase in investment and development of marketing skills. Our respondents lacked these two central elements. However, they are not at the stage where they are turning sufficient profit to make their business successful.

Most of the respondents operating in these niche markets are not registered therefore unable to access conventional sources of financial investment and credit from established banks. These traders are wary of making their operations known to the authorities as they could be prosecuted for doing something illegal. Locations for marketing their wares are limited and advertising the business widely is both risky and expensive.

'I do door to door leaflets and by post. I avoid the local paper as it costs me too much money. I try to do most of the advertisements myself.' (Interviewee A)

'Most of the places we trade, we do look or check first to seek and talk to other people and try to find out whether or not they do get found out or anything like that.' (Interviewee J)

Understand when a business 'officially' starts trading

By looking at informal trading as a part of a journey towards formalisation, we can see that traders may spend considerable time, often years, operating without registering. The decision to register has, among other things, a bearing on the income they make from their trade and the regularity of their trading. After trading initially as a 'hobby' respondents seemed to go into two phases of defining themselves in relationship to their informal trading: from conducting business as self-employed individual, to being a business owner. Respondents appeared unclear about their own status: whether self-employed (getting by) or micro-entrepreneurs (getting ahead). The time people spent trading informally and the stage of development of their operations seem to have some bearing on their perception about their role as self-employed or entrepreneurs and their decision to register.

Table 3: Time Trading Informally

	Less than 6 months	Between 6 months and a year	1 year	Less than 2 years	More than 2 years
Female	0	3	2	4	8
Male	1	0	0	0	5
Total	1	3	2	4	13

Some respondents said that they had undertaken their informal economic activity as a 'hobby'. It would appear that their definition of hobby meant operating sporadically. Once they decided to try it as a business they were trading more regularly. Their initial inclination was to 'see' whether the few goods they offered were sold. They were not inclined to work towards make their operations a source of steady income and so make it profitable. First they were trading to test how their products were received.

We may argue that they did not initially perceive their actions as running a business. This period was not counted as working informally and they did not count it as part of the time that they had been trading informally.

'For the business, it's about eighteen months or so. Before that, we traded at craft fairs and things like that which was much smaller scale... it was just a hobby really, it wasn't such a serious thing.' (Interviewee J)

This finding strengthens other UK research findings in which 60% of those interviewed expressed that they were trading informally to earn a little money on the side (Williams, 2005:340).

Some people have been conducting unregistered economic activity for over two years (Table 3). There appears to be a strong connection between gender, informal work and the amount of time trading without registration.

One of the male respondents had been trading informally for about a month. All of the other male respondents had been trading informally for more than two years without being registered. They reached a point where they needed to have a steady income as they were providing the main source of income for their households. Registration, for them, was the logical next step. It was reported that, in order to make their business profitable, they saw the need to register. They could afford, in terms of money and time doing paper work, to register and stay registered; it was considered a form of investment to be able to reach other potential customers.

'By registering you can get a lot of benefit in terms of knowledge. The Inland Revenue itself, for example, offers a lot of courses to help you out.' (Interviewee R)

Time devoted to businesses

Registration of a business can be related to the time people dedicated to operating their business (Table 4). There seems to be an association between gender and time spent trading. All of the male respondents traded full-time; they said that when going into business they decided to do it full time.

For the female respondents the picture was more complex. A minority of female traders were working full-time in their trade, the rest were working part-time. For part-time workers their trade was one of several activities they were doing alongside taking care of small children and disabled children or partners. Three female traders had part-time formal work in the same activity in which they were operating informally.

Table 5: Time working on business

	Full time	Part-time
Female	5	12
Male	6	0
Total	11	12

The fact that half of the sample and about two-thirds of the female respondents were working only part-time in their trade may have some bearing on the amount of time needed to trade informally before businesses are in a position to register. Women's caring responsibilities reflect the reality in the larger society in which women are, in the main, primary carers for their families. Caring responsibilities, may have an impact on the length of time female traders would need to make their enterprises profitable (Chen et al., 2004). It would be helpful to investigate this issue further.

'I would like to do more but I don't have the time because two days a week I've got to look after him [the husband who has mental illness and gets Disability Living Allowance] and the three days I've got, one and a half days goes to volunteering. So basically [I work on my business] about one a half days.' (Interviewee H)

The role of benefits and informal paid work

Table 5: Informal Economic Activities and in receipt of Benefits

	Carers Allowance	Housing and Council Tax Benefits	Income Support	Jobseekers Allowance	Working Tax Credit
Female	3	3	4	0	1
Male	0	0	0	1	0
Total	3	3	4	1	1

Half of the female respondents said that they were receiving benefits. The loss of their entitlement to these benefits was a deterrent to registration. They said that they were not making any profit in their business. Providing information on their trading to the benefit authorities would complicate their business and may even jeopardize their family income. Entitlement to the carers allowance is lost once claimants start working. Some respondents felt that there was too much risk entailed in the registration of their business; they can't afford to lose benefits when their trade has uncertain levels of income.

'I want to say that the government should look at the problems faced by people who want to start their businesses and are on benefits. It really messes this up when you are not earning enough and they find out and start cutting benefits. There really is not much leeway.' (Interviewee E)

'Because I if I do that [register business], I'll probably lose my income and then I wouldn't have anything to live on or to pay rent and such...' (Interviewee J)

Ability to market and advertise the business

Table 6: Advertising Business and Registration Status

	Word of Mouth	Leaflets, business cards, etc.	Specialised Magazines	Selling Events	Other
Registered					
Female	2	1	0	1	1
Male	3	1	1	3	0
Unregistered					
Female	13	0	0	4	0
Male	1	0	0	0	1
Total	19	2	1	8	2

The preferred method of advertising businesses activities is word of mouth. The second most used system of business promotion was the participation in selling events such as local markets and craft fairs.

Irrespective of their registration status, respondents mostly relied on one marketing approach. There were six respondents who used more than one method. The most infrequent methods were establishing a website and listing the business in a specialised magazine.

Some respondents understood the importance of marketing and advertising to reach a large number of potential customers. However, unregistered traders limited their advertising both because they were not registered and did not want to attract attention and also the financial costs that they were not prepared or able to meet. In addition, some traders are home-based and safety issues are a concern when advertising their business to a larger population.

'...I think because it's from home basically, I'm scared of giving it [the leaflet] to everybody because you don't know who is coming to your house, so that's why I give it to people that mostly are people I can trust...' (Interviewee V)

'We do not advertise, but I suppose we could do bigger advertisements [if I registered]. We could put them in local papers and this sort of thing, whereas at the moment we don't do anything like that.' (Interviewee G)

Awareness of need to register and the costs involved in registering

Most traders working informally were aware of the need to register. The large majority of those trading informally expressed their willingness to register. Only one respondent clearly stated her decision not to register she said her part time job in the formal sector and the income taxes she paid were enough.

The remaining informal traders said that they would register once they were making enough money. It is not clear, from their responses how much money they would need to be making to register. It was their view that the income they are getting from informal economic activity does not make registration worthwhile or feasible. It is not clear whether there is any difference in taxable income and tax liability if traders were to register as self-employed or micro-entrepreneur.

'I am not making like a thousand pounds a day. If I was making a large amount of money it would bother me but at the present moment, no.' (Interviewee W)

'I mean trading informally makes life very easy for me because first of all I'm trying to build a customer relationship. I'm trying to promote my product so people get to know what I have.' (Interviewee U)

'No, I don't have enough income. Of course, if my business increases I will register with the Inland Revenue.' (Interviewee A)

The administration involved in registering and maintaining the registration appears to be a deterrent to start the process. Some respondents mentioned the amount of paperwork involved in the self-assessment tax declaration every year. Some do not feel confident to complete the task themselves and said that to pay for this service is an expense they are not quite prepared to meet.

'...in the next year I spoke to an accountant, he charged me £76 to do it. I didn't pay it the second time... I de-registered and I didn't decide to register the second time round.'
(Interviewee H)

'I am not earning enough from this business at the moment. Enough would be about £1000 profit. So on average I am earning £200-300 a month. That is too small of an amount to register for. Not worth the hassle and the stress of the paperwork.' (Interviewee D)

'I find book-keeping difficult and confusing. So it was more the practical part of it rather than just registering. Registering I've got no problems with.' (Interviewee T)

Those respondents who have not registered concentrated on the 'hassle' of the registration process. They did not perceive that the benefits obtained from registration, outweighed the cost. The most significant cost of the registration process is the loss or reduction of income from benefits. Respondents perceived the payment of taxes from income and the paperwork involved in the annual tax self-assessment as another cost they were unwilling or unable to meet.

To fully comply with regulatory requirements in the formalisation process, it may be necessary for an informal trader to commit time and money to undertake training, for example in bookkeeping and administration; these costs are not necessarily taken into account by regulatory authorities.

The impact of 'informality' on the business

Table 7: Working Informally Hinders Business?

	Yes	No	Makes No Difference
Female	6	7	2
Male	0	1	1
Total	6	7	4

When respondents were asked about their perceptions of the impact on their business, 40% of those trading informally said that being unregistered did not have a negative effect on their operations. It is worth noting that almost a quarter of those unregistered thought that informal paid work had no effect on the way they did business.

On the other hand, over one-third said that being unregistered did affect their trading. These respondents considered that working informally limited them in: a) the places they could sell their goods for fear of being caught by the authorities; b) the ability to expand their business; and c) access to conventional sources of capital for investment.

'I think it does limit your business. You have to watch where you advertise... it does limit you because some places, if you want to go and trade, you've got to be registered anyway. Like some of the bigger markets are council run.' (Interviewee J)

'You can't advertise, you can go and work, really. Like now you've got to work with somebody that's going to give you cash in hand. So it's not going to be possible if you pay me by cheque. If I'm going to put it into my account, there's going to be a credit on there.' (Interviewee H)

Any one, or a combination, of these factors may constrain the development of an enterprise and develop a vicious circle: traders do not advertise or sell in certain places because they are not registered, therefore their sales are not as good and it is difficult to make the jump to get ahead. In the meantime they are relegated to small, little-known market places. Their business does not take-off and they continue to work marginally in an informal unregulated manner. They could not register, because in their words, they 'are not making any money'.

'Modernise the business. This business needs investment and development. I am looking for grants and loans.' (Interviewee A)

The respondents who concluded that working informally was limiting their business were those who were inclined to expand their business; they were ready to move on from 'getting by' to the next phase 'getting ahead'. However, as they were functioning informally they felt trapped: and were not sure about the benefits of registration or the details of the process. There were questions about the amount of income that would be taxable and whether registration would increase the amount of tax to be paid to HMRC. Respondents were wary of the registration process because they were dependent on steady income from benefits and believed that by registering they would lose it.

'I was given to understand that my benefits I'm getting at the moment are taxable and I haven't got to the stage where I've got to notify them yet...' (Interviewee H)

Respondents who do not consider working informally to hinder their business, may be regarded as not ready to make the jump into the 'get ahead' stage of development. The fact that these individuals are drawing some income from trading may mean that the communities in which they operate are receptive to their informal activities. The multifaceted reasons for this reception may include convenience, price, and helping members of the same ethnic communities.

Those 'not bothered' about working informally appeared to be comfortable with generating some income from their activities. Their main income does not come from informal activities but is complementary to other sources of income including benefits.

'I do not have to pay taxes now and if I tell them I will have to pay tax. I will not inform [the benefit authorities]. The money they give me is not enough to live on so there is no point in informing them because they will start cutting my benefits.' (Interviewee E)

'I explain to people that I am an old lady and also have another job. Usually people understand and sympathise with me and also because I do such a great job with my tailoring skills.' (Interviewee C)

'I am not afraid because in the first place I don't know that I have to register, in a way. I think I'm just helping people.' (Interviewee N)

Benefits of Registration

For those who decided to register after spending some time operating informally, the idea of gaining advantage from the process was not the driving force. The prospect of trading in a new territory, trying to attract more customers appeared to be important. In addition, when traders were trying to operate outside their areas of residence they felt the need to have official back-up of registration to gain credibility.

Customers, especially those who trade with other small companies that were registered with HMRC, felt they were complying with government regulations and not breaking any laws. For the former informal traders registration gave them equality with other businesses and allowed them to compete to attract customers.

Registration removed stress and worry - traders knew they were doing all they could to operate correctly and could concentrate on expanding and improving their business. They found the decision worth it.

'You get all the facilities and you also sell confidently. You don't have the stress of having the knowledge that you are running a business without registering with the Inland Revenue.' (Interviewee K)

'...we can advertise our business without any fear of getting caught by the Inland Revenue and also accept big orders.' (Interviewee L)

'When I realised I was going to go on it I registered with the Inland Revenue as a self-employed. I know that I'm living in a society and there are rules regarding work, income and so on. So, I can say that it's a good decision as a good citizen to contribute in one way or another to the internals of the system.' (Interviewee O)

'I exactly thought about that, about just starting from day one something that will show customers credibility and as well to build up your own name as company. So definitely, I started with my idea of making my company legal and limited from day one. For the customers, that's to see that we are serious.' (Interviewee P)

Conclusion

Involvement in informal economic activities as an independent worker, either self-employed or as a business, is a reality in the UK economy and particularly in deprived areas London. People's involvement in the unregulated labour market and businesses had been ignored by government authorities until the publication of the Grabiner Report in 2000, which began to draw unregulated involvement in productive activities out of the shadows.

From that point government authorities have taken, fundamentally, two positions. Some agencies such as the DWP and HMRC are concerned about minimising illegal and fraudulent activities through measures intended to deter paid informal work. Other agencies, with a focus on social exclusion and regeneration policies, such as the New Deal have adopted strategies designed to incorporate the skills and entrepreneurship of those working informally into the formal economy to encourage operation within the existing government rules and regulations.

Community Links, ACBBA and the other partners in the SIED partnership conducted semi-structured interviews that documented people's road towards formalisation of their independent informal work. Respondents were aware of the need to register their economic activities. The majority understood this regulation but decided against it because they would jeopardise income from benefits. Another reason provided was the amount of administration involved in the annual tax self-assessment; some respondents found bookkeeping confusing and difficult.

All respondents, including those who eventually registered, had been working informally. A significant proportion had been operating for more than two years. In the sample, they considered this period as central to their entrepreneurial learning; working informally was considered as their test trading period.

Those working informally had been able to do so because of community acceptance. This finding resonates with other studies conducted by Community Links¹ where the general public thought that people are working informally out of need. In addition, the goods and services provided within the communities were in demand in the area such as childcare, hairdressing, child tutoring, and tailored clothing.

Traders who registered did so as part of their expansion process. Registration contributed to the credibility of their business and enabled them to market their goods and services. Also, traders did not need to worry about getting caught by the authorities. Once registered, they could access support offered by HMRC in terms of courses and networking.

¹ In 2006 Community Links conducted two surveys in Newham and Haringey. One of the questions included was about people's opinion on the reasons individuals worked cash-in-hand. An overwhelming majority (70%), in both London boroughs, thought that people did it because of economic reasons rather than greed.

Two-thirds of the sample was not ready to make the transition from the 'get by' phase to 'get ahead' and felt that working informally did not hinder their operations. At this point they were not prepared to expand; they were operating in a small area and made themselves known to prospective customers through word-of-mouth.

Informal paid-work, both as self-employed or company owner, is a reality in deprived areas of London. The deterrence approach, through the use of punitive measures, may contribute to placing these activities further into the shadows. The economic contribution to individuals, households and local economies cannot be ignored. The challenge for both government and community organisations is to develop strategies and programmes geared to harnessing the informal economy. One way to accomplish this is through the formalisation of unregistered trading, combining support and deterrence to help informal traders to make a seamless transfer to the formal economy.

Recommendations

The informal economy is part of the UK's economic and social landscape. The use of deterrents or 'sticks' has not succeeded in eradicating informal economic activities and can drive businesses further into the hidden or shadow economy. The implementation of small-scale formalisation processes has shown to be successful. When informal traders are offered opportunities to transfer their operations into the formal economy they are willing to do so. Harnessing informal economic activities and integrating them into the formal economy may offer social and economic potential to local economies, as well as the wider UK economy. Therefore efforts towards formalising informal economic activities should include:

Harness the informal economy by embedding it in local and regional development strategies

- Local and regional government strategies including economic development, employment, regeneration, and anti-poverty plans must explicitly recognise and aim to support people and micro and small-businesses to make the transition to the formal economy.
- A cross-agency approach should be taken to harness the informal economy. A senior director from the local authority or RDA should ensure all departments and agencies working with businesses have a joined-up strategy, with co-ordinated plans and shared budgets to support people and businesses to make the transition to the formal economy.

Provide more specific business advice and support

The type of business advice and support available to people seeking to transfer their businesses into the formal economy needs to be appropriately designed for those trading informally. The current approach caters solely for people willing and able to go through a formal business planning process, currently used by Business Links and other government delivery agencies, for start-up or growth businesses.

- Business support must develop processes for formalising businesses to make the transition into the formal economy. Processes then can be individualised according to circumstances. (see Copisarow & Barbour (2004), p.18 for a 12-step programme)
- Informal economy transition or 'formalisation' business advice and support needs to become a recognised activity for which public funding is made available.
- Business advice provided by local organisations should develop a sub-programme to support and guide informal traders to become formalised.
- Greater recognition, funding and implementation of the successful ACBBA model should be rolled out throughout the UK.
- Greater use of existing government agencies is needed at a local level, e.g. HMRC Small Business Support teams.

- A specialised offshoot of Business Links or an independent business support network needs to be created, to focus specifically on the micro-entrepreneur market.
- The current Business Support Simplification Programme (BSSP), being led by the Department for Business, Enterprise and Regulatory Reform (DBERR), may lead to less diverse support being available, particularly for micro-businesses. This should be taken into account and addressed in the '17 new business products' being developed DBERR through the BSSP, (particularly in the formal consultation period in spring 2008), otherwise it could lead to an increase in informal economic activities.

Increase targeted marketing and advertising by local authorities, RDA's and national government

- More targeted marketing and advertising of available support should take place at local, regional and national levels, encouraging people and businesses to make the transition to the formal economy. It should concentrate on the positive and beneficial reasons for formalising their business. This approach has proved to be successful in other countries.
- More 'carrots', less 'sticks':
 - The tone of marketing and communication messages must change to become more positive and show the support and help on offer by HMRC and other agencies, rather than their more punitive approaches. Highlighting local HMRC small business support teams and confidential phone help-lines would be useful.
 - Positive PR should be generated, using, for example, case studies of real people who have successfully made the transition to the formal economy, promoting what they have gained from doing so.

These approaches encourage formalisation, provide a greater financial return to HMRC in recovering previously unpaid taxes, and keep more people and businesses in the 'mainstream' economy, where they can grow, generate future taxes and create more employment opportunities.

Adjust tax and benefits rules

We recommend that the current tax and benefits policies be adjusted to:

- Re-balance the carrots vs. sticks approach, and offer a 'nothing to lose' approach to starting and developing a business including a defined period of guaranteed living cost reimbursement.
- Give as much control as possible to those making the transition from welfare benefits to self-employment, to determine when they switch from state support to business income. The process could focus on 'landmarks' rather than on 'time'.

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- Make additional changes to the existing government programmes, such as New Deal, which do not sufficiently support unemployed people into self-employment, including the extension of the test-trade period to 12 months.
 - Review the rules of non work-related benefits such as Housing Benefit and ‘passported’ benefits, in order to reduce the benefit trap and so the necessity for people to work informally.
 - Increase tapered debt repayments for micro-businesses.
 - Introduce tax relief for business loans to friends and family – extend the principles underpinning tax relief schemes such as Community Investment Tax Relief and the Enterprise Investment Scheme (EIS) by allowing those providing loans to new businesses to claim reductions on their tax returns. This ensures formalisation from the start of the process, rewards entrepreneurship and encourages investment.
 - Co-ordinate the tax and benefits thresholds more closely, so that transition is as seamless as possible for people receiving benefits to progress through a ‘no benefits, no tax’ point before becoming a tax-payer. This will involve an elimination of such ‘distortions’ as absolute caps on permitted earnings disregards, work hours or savings levels for benefits retention.

Increase use of local and regional voluntary and community, advice and business support organisations

Voluntary and community, advice and business support organisations work at a grass roots level directly with people ‘on the ground’. They not only experience and understand the problems but are already providing services to support people in their situations. They are trusted in their communities, and at times have a close connection with so-called ‘hard to reach’ communities. In our opinion, they are very well placed to develop policies and deliver work programmes to address the needs of local people, on their own or when appropriate, in conjunction with local public sector services.

We recommend much greater involvement of local voluntary and community organisations, advice agencies and business support agencies in the design and delivery of ‘formalisation’ programmes.

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Appendix One:

An introduction to Community Links

Community Links is an innovative charity running community-based projects in east London. Founded in 1977, we now help over 53,000 vulnerable children, young people and adults every year, with most of our work delivered in Newham, one of the poorest boroughs in Europe.

Our Vision is to be champions of social change.

Our Purpose is to tackle the causes and consequences of social exclusion by developing and running first rate practical activities in east London, and by sharing the local experience with practitioners and policy makers nationwide.

Our Work is based on the belief that we all have the potential to do great things. Community Links aims to encourage everyone to fulfil their own potential and knows that every adult can build their own ladder out of poverty or disadvantage. This is reflected by 80% of Community Links' services being provided by people who were themselves service users.

In east London we provide advice, training and practical support, including education programmes for non-school attenders, play and care schemes, family advice sessions, youth work with young people on the street, training schemes, counselling groups, emergency services and much more.

linksUK explained

Community Links shares the learning from our local work through **linksUK**, which provides practitioner-led consultancy and training, research and policy development and a programme of publications

Over the last seven years, linksUK has:

- conducted over 28 research projects
- published over 30 books and reports based on our research
- worked with over 5,000 local people using our innovative 'Everyday Innovators' approach
- succeeded in securing 12 national policy changes
- influenced government policy about the informal economy and deprived neighbourhoods
- hosted seven government secondments
- and has successfully tested 11 ideas for improving delivery of local services.

Further information

Visit: www.community-links.org

Email: uk@community-links.org

Appendix Two: Supporting Inclusion in Enterprise Development (SIED) explained

SIED aims to support enterprises in communities who have experienced social exclusion in the labour market by further developing the REFLEX model so it can be applied London-wide with potential as a national model.

The Association of Community Based Business Advice (ACBBA) was created to ensure the long term sustainability and development of the REFLEX model to complement existing mainstream enterprise support. An objective of SIED is to promote and encourage ACBBA as a sustainable membership organisation solely owned by community organisations who are delivering business support.

SIED is a partnership project lead by the London Borough of Islington.

The SIED Partnership is working together to:

- Build an association for community organisations engaged in business support; the Association of Community Based Business Advice (ACBBA)
- Enhance the capacity of community groups to enable them to deliver high quality enterprise and business support services
- Develop the business skills of existing and new business advisers employed by community organisations through a programme of training, mentoring and professional accreditation
- Develop new methods and tools to ensure the sustainability of business support by community organisations
- Develop appropriate multi-lingual business materials and accessible information
- Build networks amongst entrepreneurs from excluded communities so that they can effectively engage with mainstream business support agencies
- Explore new ways for ACBBA member organisations and the businesses they support to participate in regeneration activities
- Work with European partners to identify a range of good practice models in Europe to support the development of enterprises in deprived communities.

For further information about SIED visit: <http://sied.acbba.org.uk/>

Appendix Three: **Association of Community Based Business Advice (ACBBA) explained**

ACBBA is the body representing community based business advisers.

ACBBA strongly believes in the establishment of business support rooted at community level, with business advisors based within community organisations, as the most effective way of promoting enterprise development at grass root level.

ACBBA's mission is to develop a membership association that serves as a focal point for community organisations that are seeking to formalise their involvement in business advice and support.

ACBBA aims to sustain and mainstream the provision of enterprise support by Voluntary and Community Organisations. It sees enterprise support as a wealth creation strategy for communities who have experienced social exclusion in the labour market.

ACBBA was started by the Reflex partners in 2004 and is developing as a independent partner organisation in the SIED programme.

Their key priority is to develop workers based in community organisations as professional business advisers. Their two other priorities are to attract funding and contracts to sustain the business support function over the long term; and to promote the concept of community based business advice to central and local government and the community sector.

For further information about ACBBA visit: www.acbba.org.uk

Appendix Four: Community Links' experience and work on the informal economy (2000 - to date)

Community Links is an innovative inner city charity running community-based projects in east London. Over the last seven years we have taken a particular interest in the informal economic activity of small businesses, the self-employed, and employees because the informal economy has such a huge impact on the lives of the people we work with, and plays such an integral role in their experience of poverty.

Reports and articles about the informal economy (chronologically)

Our work has informed a number of academics, government departments, voluntary and community organisations and the media. Our most recent reports and articles include:

- Community Links and new economics foundation (2008) 'Trampled in the Goldrush? How the 2012 Games could (still) create public benefit and real community assets' (working title), to be published early in 2008.
- Community Links, Child Poverty Action Group and Low Incomes Tax Reform Group (2007) 'Interact: benefits, tax credits and moving into work', London, Community Links, cpag, litrg.
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Press coverage

We have secured extensive press coverage for our work on the informal economy, which has appeared in over 70 printed publications and on over 30 radio (including R4 Today programme, Radio 2 lunchtime show, LBC) and TV programmes (including BBC London News, BBC Politics Show).

Measurement of the informal economy

linksUK developed a methodology, and successfully conducted research, to measure the size of borough-wide informal economies in two London boroughs – the first time that this has happened in the UK. We are currently working with Geoeconomics, part of Birkbeck, University of London, to further develop a methodology, and analyse the contribution of informal paid employment to local economies.

Community Links qualitative research about the informal economy

Over the last seven years linksUK has been conducting evidenced based research to raise the level, and change the tenor, of debate about informal paid work, in relation to poverty and deprived neighbourhoods.

linksUK has secured (June 2007) funding from the City Parochial Foundation to research the role of the statutory sector and the informal economy.

linksUK is currently sitting on the National Audit Office's expert panel which is conducting a value for money study about 'HMRC and the hidden economy', which reports in Spring 2008.

In 2007 we also sat on Joseph Rowntree Foundation's Project Advisory Group for a research project being undertaken by the Institute of Fiscal Studies and the National Council of One Parent Families, about the role of mini-jobs and the benefit system.

In 2006-07, linksUK joined the SIED partnership to undertake this report; and another research report with Child Poverty Action Group (cpag) and Low Incomes Tax Reform Group (litrg) which examined the interactions people experience within the benefit, tax credit and tax systems.

In 2005/06, linksUK was funded by the Joseph Rowntree Foundation to undertake research, focusing on employees in informal paid work, to investigate aspirations, barriers and practical solutions to the issues arising. The findings were published by the Policy Press in *'People in low-paid informal work: Need not Greed'*.

Community Links and Street(UK) published *'Self employed people in the informal economy: Cheats or Contributors'* report in 2004, which examined the evidence, implications and policy recommendations for *small businesses* trading informally. It was widely distributed, got extensive press coverage and helped to influence government.

Community Links was invited to contribute to the Social Exclusion Unit's (ODPM) research into *'Stimulating Jobs and Enterprise in Deprived Neighbourhoods'* (2004), and to the Small Business Council's (DTI) review of the informal economy (2004). Many of our recommendations were incorporated.

Community Links conducted two Public Attitude Surveys in Stratford and Oxford Street, Central London, in 2000/01. Responses showed that the public in these areas were highly tolerant of people who work informally, despite government campaigns which appear to criminalise informal workers.

Dr Andrew Travers, Exeter University, joined Community Links in 2000, to understand local people's motivations and circumstances for working informally. The findings highlighted positive aspects of informality such as working for a living, the pride, self-esteem and self-worth that is derived from providing for one's family.

Policy campaign

Community Links is running an informal economy campaign calling for policy change; and convenes a national campaign coalition of 70+ members (including TUC, Oxfam, Refugee Council, End Child Poverty Campaign, and Enterprise for All Coalition).

Visit: www.informaleconomy.org.uk

Community Links and government secondments

In 2003/04, Community Links joined forces with Street(UK), a micro finance charity, to host an Inland Revenue Senior Inspector from the Cross-Cutting Policy Team, for six months, on secondment. Her task was to understand people's motivations, perceptions, attitudes and circumstances for working informally by interviewing our clients.

As a result HM Revenue & Customs central compliance team established a new informal economy unit. Pilots were set up in the regions to aid the transition of small businesses to formal trading, and an advertising campaign encouraged people to make the transition. In 2007, HMRC developed an informal economy strategy which describes an 'escalator'

approach, which moves away from using a 'stick' or punitive approach, towards more sophisticated approaches from raising awareness, educating, supporting, and rehabilitating, as well as (as a last resort) prosecuting people and companies.

In 2002/03, Community Links worked in partnership with Inland Revenue on a 'Tax Credit take-up' project with 'hard to reach' groups, confirmed Community Links earlier findings, that some of the failure to take up tax credits can be explained by people who are in informal paid work.

‘Government should look at the problems faced by people who want to start their businesses’ Interviewee

Community Links, together with the ‘Supporting Inclusion in Enterprise Development’ (SIED) partnership and the Association of Community-Based Business Advice (ACBBA) have produced this report. By examining the rationale of self-employed traders and their attitudes towards formalisation, this report strengthens our understanding of the informal economy.

This report provides insights into how ‘real’ people start up and run micro- and small-businesses in some of the most deprived areas in north and east London. The conclusions challenge the current formal registration processes, and recommend harnessing the informal economy by embedding it within local and regional development strategies and establishing formalisation business support and advice programmes, delivered by local organisations.

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