

FIELDforum

MICROENTERPRISES IN THE U.S. INFORMAL ECONOMY: SUMMARY RESEARCH FINDINGS

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Our gratitude goes to those individuals and institutions that introduced the research project to their contacts and constituents. We extend our sincerest appreciation to the individuals who participated in interviews and shared their experiences with us. We remain grateful for the collaboration we have had with the staff of the Institute for Social and Economic Development and, particularly, the exchange and support of Jan Losby.

Since the 1970s, researchers have identified the emergence and growth of the informal economy in the United States. Once thought to be associated only with developing country economies – where job creation can't keep pace with a burgeoning workforce – informal subeconomies can now be found across the United States, the result of a range of forces that include such new factors as corporate outsourcing, an increasing trend toward temporary employment in the workforce, the changing demographic face of major cities, and some traditional factors like the reciprocity that supports rural life. While not reaching the dramatic size of its counterparts in developing nations, the U.S. informal economy appears to be large and growing. It includes workers in “sweatshops” and home-based contract labor. It includes street vendors and informal child-care providers, as well as auto mechanics, home improvement contractors, house cleaners and a host of others who make their living in whole or in part in that segment of the economy where cash is king.

Microentrepreneurs are a strong and natural presence in this economy. Invisible to many because of their size, they are also invisible to the tax collector, municipal authorities and state regulatory bodies. Operating in this fashion, they are seen as a problem by many and as a positive economic force by others. Are they a drain on the public because of nonpayment of taxes? Are they a threat

because of their lack of compliance with health and safety regulations? Are they a positive force, creating income and jobs for many low-income individuals, and contributing goods and services to underserved communities? How might their positive contributions be supported, and the negative diminished? To what extent might the right types of services and policy support unleash greater economic opportunity for the many who work informally as a survival strategy? What role might microenterprise programs, in particular, play in supporting the aspirations of informal entrepreneurs for a better life?

Research Goals and Components

With funding from the Charles Stewart Mott Foundation, FIELD collaborated with the Institute for Social and Economic Development (ISED) to illuminate the characteristics, needs and circumstances of microentrepreneurs operating in the informal economy and to determine how they might be assisted to improve their livelihoods. In particular

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the research sought to answer the following questions:

- What is the nature and scale of the informal economy within the United States?
- How do microenterprises operate within the informal economy?
- What are the implications for practice? Could informal entrepreneurs be potential clients for microenterprise program services? And, if so, what would be required to help them grow their businesses?
- What are the implications for policy? Are there specific governmental policies and/or regulations that might be changed to facilitate informal entrepreneurs' growth and ultimate movement toward the formal economy?

The research components included a literature review and three studies (*Experiences of African Americans*, *Latino Enterprises at the Margins* and *Making it in Rural America*) drawing on qualitative interviews with informal entrepreneurs in urban centers in Baltimore, Chicago, New Jersey, and New York and in rural Nebraska. These studies included both findings and a set of initial recommendations for program practitioners and policymakers. Additionally, a national convening of 27

microenterprise program practitioners, researchers, policy advocates and funders provided feedback on the findings and recommendations for practice, policy and fundraising, and provided guidance for future work that might be built upon this research. The purpose of this Forum is to summarize the key research findings and present policy and practice implications.

What is the Informal Economy?

To place the findings in this report in context, it is helpful to have at least an initial understanding of the informal economy in the United States. And, the first thing that must be understood is that it is quite large. The estimates of the size of this economy vary from researcher to researcher, but the impression that all these estimates convey is that the informal component of the U.S. economy, while not matching that of developing nations, is surprisingly large and possibly growing. Economists have measured it as a percentage of GNP, and estimated it to represent between 4.4 percent and 27 percent of that sum, with most estimates centering on 10 percent. The current GNP figure equals \$10,678 billion. Using the 10 percent estimate, the value produced in the

FIGURE 1: SITES OF INFORMAL ECONOMY RESEARCH





informal economy was \$1,067 billion in 2003. In other words, for every \$10 produced in the U.S. economy, \$1 comes from the informal economy.¹ Other researchers have estimated it to include up to one-seventh of the economically active population of the country, using very-small enterprises (VSEs), those enterprises with fewer than eight or 10 employees, as a proxy. Still others have noted that it includes substantial numbers of workers in certain occupations (close to 84 percent of all child-care workers and 20 percent of all seamstresses, for example), and in certain localities. Twenty-nine percent of the Los Angeles County population, which includes large numbers of immigrants, has been estimated to work informally.²

But, what is the informal economy? For the purposes of this research, it is that portion of the economy identified by the following four characteristics:

- It involves *licit but unregulated work*: Enterprises, employers and self-employed individuals do not comply with standard business practices, taxation regulations and/or other business reporting requirements, but they are otherwise *not* engaged in overtly criminal activity. As presented here, the informal economy should not be confused with the underground economy, which may include trade in drugs, prostitution and other illicit commodities.
- It includes both *employed and self-employed workers* with some engaged in both kinds of work. Individuals may hire themselves out irregularly or may be steadily employed at factories operating “under the radar.” Or, they may be operating full or part-time businesses, which are either totally or partially generating revenues without a paper trail.
- *Cash is the most common medium of exchange*, although bartering also occurs.

This enables participants to hide income from taxation. Workers and microentrepreneurs don’t claim it on income tax forms and employers don’t file employment records.

- *Work conditions for those who labor are inferior* to those found in the formal economy. Earnings, security and environmental protections are less. Equipment may be out of code or unsafe, and there is no protection from exploitation.³ Women and men, the poor and non-poor, immigrants, the educated and the less educated all engage in the informal economy. The majority of informal economy participants are employees, working for others, in sweatshops or out of their homes in contract relationships to producers. But, many are also self-employed. The very nature of being a micro – or very small – enterprise lends itself to operating in the informal economy. These enterprises are largely invisible or operate at low levels of visibility. They may or may not have licenses, are often engaged in casual hiring, non-reporting of income and other informal labor practices. They can be easily moved, opened or closed at will, and thus, can hide from regulation.⁴

Finally, it is important to note that the formal and informal economies are connected in many ways. Participants may combine earnings from informal self-employment with wages from formal employment, or transfer payments, such as public benefits, or investment income or savings. Or, they may be employed both formally and informally at the same time such as a factory worker who also works for cash, part time, in a cleaning business. Informal work arrangements may also be imposed on workers as big firms restructure and outsource functions to subcontractors both to minimize costs and maximize flexibility. Under these arrangements, they push workers out of the

¹U.S. Department of Commerce Bureau of Economic Analysis, National Income and Product Account Tables (July 8, 2003); available from <http://www.bea.doc.gov/bea/dn/nipaweb/TableViewFixed.asp?SelectedTable=17&FirstYear=2002&LastYear=2003&Freq=Qtr>; Internet.

²Jan L. Losby and others, *Informal Economy Literature Review* (Washington, DC: The Aspen Institute, December 2002), 32-35; available from http://fieldus.org/li/lit_review.htm; Internet.

³Losby and others, 5-8

⁴Manuel Castells and Alejandro Portes, "World Underneath: The Origins, Dynamics, and Effects of the Informal Economy," in *The Informal Economy: Studies in Advanced and Less Developed Countries*, eds. Alejandro Portes, Manuel Castells and Lauren A. Benton (Baltimore: Johns Hopkins Press, 1989), 11-37.

formal economy into the informal economy where they suffer without the protections of the legal system. Workers are found who move fluidly back and forth between the two worlds, some by necessity, and others by choice.⁵

What do Informal Microenterprises Look Like?

Under the qualitative research component of this study, FIELD and ISED interviewed 122 participants in the informal economy. Of these, 106 had informal businesses and 39 were engaged in informal work only. The microentrepreneurs pursued businesses similar in type to those commonly found among all microentrepreneurs. They made and sold foods and crafts; engaged in construction, child and elder care; cleaned homes; and ran small retail operations. Interestingly, many of these sectors are regulated ones given health and safety issues associated with them. Businesses like these face greater hurdles than others in lightly regulated sectors in moving from informal to formal operations.

The most common businesses pursued differ somewhat by study group. While some of the difference may simply be due to the small number of interviews conducted at each site, the different businesses may also reflect real differences in contexts and markets. Child care, for example, may be more common among

undocumented Latinos because of the strong need for child care among others in the Latino community who do shift work in local factories. The focus on food businesses may also reflect market demand for culturally desired foods in ethnic communities where these might be scarce in formal supermarkets and other retail food businesses. African American respondents in both Chicago and Baltimore live in inner-city neighborhoods in which residents look to local entrepreneurs for services that they feel are not generally available. In rural Nebraska, the most common businesses are home-based, and can be easily integrated with ranching and other work responsibilities.

Most of the informal entrepreneurs focus on very local markets, not surprising for businesses that are cash based and operate on a word of mouth basis. There were a few, however, moving toward more mainstream markets. These were individuals with greater skills, education, or experience who saw greater economic reward among more affluent customers and felt confident marketing to them. They included Alicia, for example, a Latina with a degree in early childhood education from her home country, who offers high-quality day care and early education to professional, documented Latinos. They also included Jody, a rural resident who placed her high-end, leather home goods in an upscale golf-pro shop, and was planning to

TABLE 1: INFORMAL BUSINESS TYPES

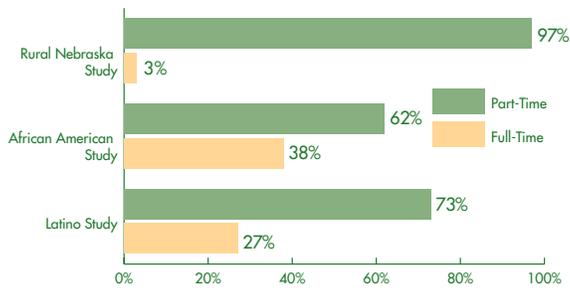
Top 5 Businesses by Study		
Latino Study	African American Study	Rural Nebraska Study
Specialty Foods/ Catering 24%	Construction/ Building Trades 14%	Specialty Foods 18%
Child Care 18%	Home Health Aide/ Elder Care 13%	Arts and Crafts 13%
Cleaning 10%	Food Services 11%	Animal Raising/ Trapping 10%
Construction/ Home Improvement 10%	Hair Braiding/ Stylist 11%	Cleaning 10%
Retail 8%	Retail 9%	Photography 8%

⁵Losby and others, 11-12.

target other wealthy customers through Web marketing.

Generally, informal entrepreneurs work at their business part time although there was some variation among the studies. Among African Americans, 38 percent of all businesses were being operated full time, while in the rural Nebraska study, only one business was full-time. The African American study included many entrepreneurs who reported that they were in business for the long haul and intended to make it a significant generator of income.

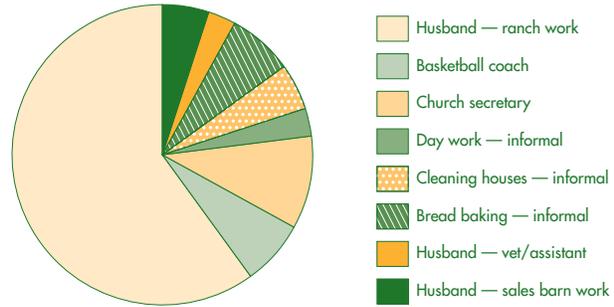
Figure 2: Informal Business Employment Levels



Patching as the Norm

Like other microentrepreneurs and informal economy workers, many of the respondents in this study are patchers.⁶ Informal entrepreneurs patch businesses with formal work, with informal work and with other businesses. Figure 3 offers one example from the Nebraska study, of what patching looks like. In this instance, the entrepreneur had informal bread baking and housecleaning businesses, and sold her labor to ranch operators during busy seasons. She also had two part-time jobs. Her husband had one principal job, managing a ranch for an absent landlord, and then engaged in part-time work seasonally.

Figure 3: Economic Activities of a Patcher

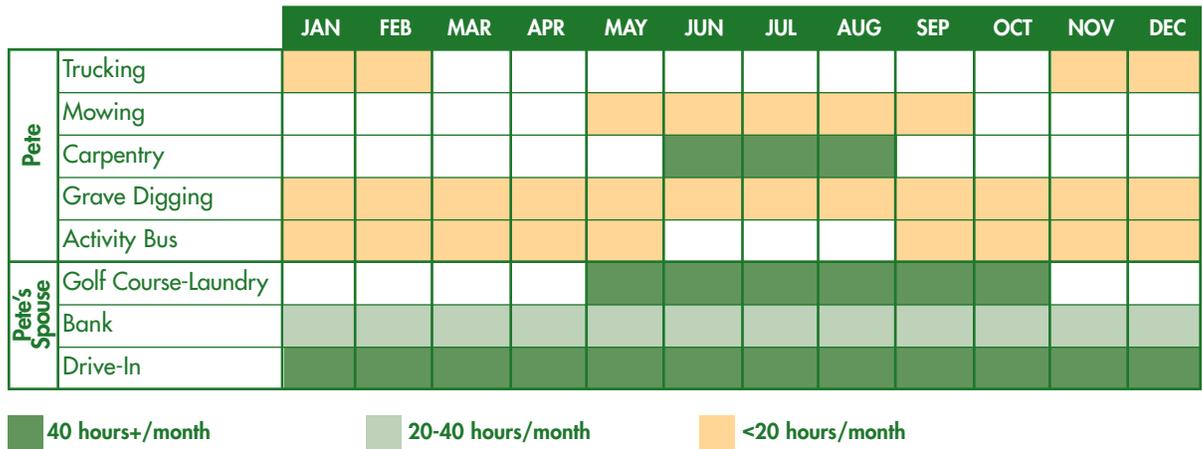


Layering of Activities

The patching these entrepreneurs do may involve a steady combination of income sources, with a primary wage job generating a regular return. For some however, both the job and enterprise are somewhat fluid with each rising and falling, based on the season, and the availability of work and customers. Again, a case from Nebraska illustrates this. Figure 4 lays out the work schedule for Pete, an entrepreneur, and his wife, who live in town and engage in eight different activities across the year to maintain their household of four. Eschewing a job that would leave him tied to one single-activity, Pete prefers to alternate between five different activities, several of which ebb and flow with the seasons. While a few of his activities are year-round they generally require a minimal amount of time every month. This frees him to spend more concerted time on seasonal activities, as well as be with his family in their family mowing business and participate in his children’s activities. His wife noted, *“Pete isn’t really a nine to five kind of guy. He likes the flexibility of being able to mow a lawn one day here, go to a funeral the next day, and just [have] the ability to make your own schedule.”* Whether he could find a single job that would generate the same amount of income as these is also questionable.

⁶Patching is a term used to describe the multiple economic activities that one individual engages in to generate an income. In addition, a household may have other income streams contributed by other household members.

Figure 4: Layering of Work Activities



Although this layering of activities happens frequently in rural Nebraska, the Latino and African American studies yielded their own examples. Latinos increased their informal enterprise activities during the “slow” winter months when there were fewer work opportunities available. One young man, for example, repaired electrical appliances when he couldn’t get factory work. In the African American study, people who were doing yard work, landscaping and home repairs also had fluctuations in their income. One said, “It all depends if I have a job. Some weeks I can work up to 70 hours and then a few weeks later I don’t have any hours.” Another said, “I pray for snow in the winter, or else I won’t have any work.”

Low Business Returns and Assets

In most cases, the informal economic activities were very small-scale, low revenue-generating operations. Although all three studies revealed microentrepreneurs struggling to make ends meet, the Nebraska business earnings were the smallest. This is likely due to the virtual lack of full-time businesses among that group compared to the others. The amount of assets owned by these entrepreneurs varied, but was also generally low. As could be expected, many entrepreneurs found it difficult to name and value their assets. The most frequently mentioned assets included vacuums, cooking equipment, construction and home improvement tools, auto mechanic tools, and cars.

Motivations for Engaging in the Informal Economy

When asked what motivated them to engage in these small, entrepreneurial activities, the informal entrepreneurs cited a set of reasons that are echoed by emerging entrepreneurs everywhere. They included:

- *Economic necessity:* Across all three studies, respondents cited this as their primary reason for operating informally.
- *Risk mitigation:* As one African American respondent indicated: “People get tired of working so many years and then getting laid off. You want to be your own boss because for my generation, it’s not likely you’re going to retire from one job. In fact, they’re going to fire you before you get to retirement age. So it’s probably best to have something on the side so that when that time comes you can just put your full energy into the side job. It’s a way to protect yourself from a scary economy.” In rural areas too, dependent as they are on ranching and agricultural income, where many factors are outside one’s control, there is a strong need to have other income sources flowing into the household.
- *Lack of, or dissatisfaction with, employment opportunities:* Formal employment limitations were often cited by respondents in all three studies. Respondents to the African American study expressed difficulty finding formal wage employment because of low education or minimal skills, a criminal record or drug problems. Some Latinos cited the difficulty in



TABLE 2: ANNUAL BUSINESS EARNINGS AND ASSETS

	Nebraskans	Latinos	African Americans
Annual Business Earnings			
Median	\$3,250	\$6,840	\$789
Average	\$4,048	\$9,504	\$12,156
Business Assets			
Median	\$900	\$1,000	NA ⁷
Average	\$3,364	\$3,872	NA

finding employment, made more difficult in some areas by the disappearance of traditional factory jobs. “There are many people doing this. It is due to unemployment ... even older people. With traditional jobs in factories disappearing, there are a lot of people in Washington Heights who do this type of work. They sell just about anything on the street ... out of need. And many of them are not old enough to retire yet. They lasted 15, 20 years working in a factory. Then the factory closed and said goodbye to them.” Even when factory work exists, it is strongly disliked because of the irregularity of available work, work assignments that are subject to favoritism, disrespect paid to non-English speakers, and a system designed to prevent workers from transitioning to permanent employment status. Women in particular, flee or avoid factory work because it’s incompatible with their need to care for small children.

- *Social capital:* Both rural Nebraskans and African American respondents believed their informal activities could strengthen town and neighborhood support networks. One African American respondent explained: “I feel it’s important to provide a needed service. If you’re doing a service and helping out in the neighborhood, everybody

benefits. For me that’s important. I’m not talking about hustling or taking people’s money. It’s a very valuable reward, because the work I do is important.”

- *Independence and control:* For some, the lure of independence and control is very strong. They wish to set their own work schedule, earn as much as they are willing to dedicate in work hours, and be free from governmental regulations. For others, their desire for creativity and joy in their craft is a strong motivation in and of itself. Informal businesses are a first stage for a very few respondents who were testing an idea and thinking about converting it into a larger or more formal operation. In these instances, the entrepreneur will increasingly move to following more of the rules of the game as the potential business becomes clearer.

All of these reasons are voiced by microentrepreneurs who approach microenterprise development programs for services. The more important question is why do these entrepreneurs remain informal? Informal entrepreneurs provided five basic answers to this question.

- *Lack of documentation:* It is particularly challenging for undocumented individuals to formalize their businesses. While the Latino study documents some ways in which undocumented residents have taken

⁷The African American study did not focus on the features of the informal businesses; the focus was on understanding the reasons people entered the informal economy. Therefore, respondents were not asked specifically about the dollar value of their business assets.

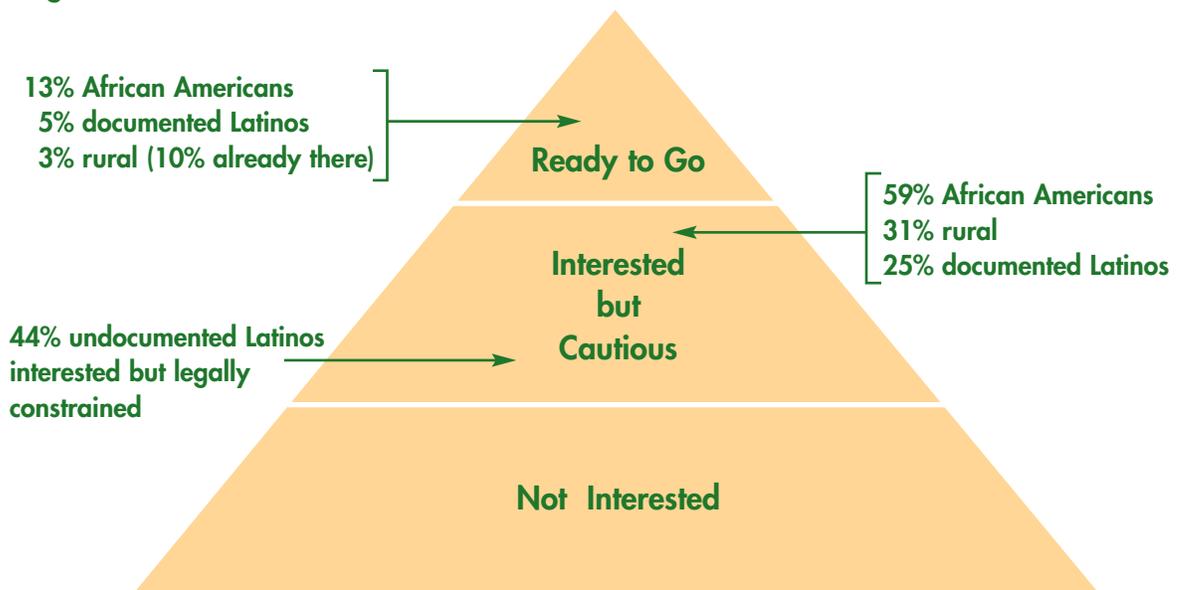
steps to incorporate their businesses or bring them into compliance in some ways, fundamentally, their status prevents them from fully conforming to a variety of regulations.

- *Desire for hidden income:* African Americans and undocumented Latinos cited the desire to create undocumented income. Undocumented Latinos were able to use their informal activities to generate income in ways that kept them invisible. Working for their own informal business eliminated the need to show documents to agencies or other prospective employers, or run the risk of being discovered with fraudulent documents. Similarly, those with certain means-tested benefits could not jeopardize them with documented income. As one African American respondent said, “I’ve been on disability since 1994 because of my health; but I needed extra cash since I’m taking care of my grandbaby. I can’t work a regular job because I’d lose my disability. The disability isn’t a lot of money, but I need the medical insurance. I need that the most.”
- *Competitive advantage:* Many believe their success depends on being able to price below the formal market. There is a concern that paying taxes would negatively affect the profitability of their business.

When Jorge, a disc jockey with a thriving business in a highly competitive market, was asked if he planned to incorporate, he said “it depends ... on how much I would pay in taxes. For instance, if I charge \$500 and the city charges me \$200 in taxes, then it’s not good business for me. That’s to say, I have to inquire how much it would cost me.”

- *Costs of compliance with regulations:* Others see the barriers to formality as very high. This was especially expressed by many of the rural respondents, like Becky, an entrepreneur who made bread, jellies, pies, sweets, noodles and other goods to sell at a local farmers’ market. She was very business savvy, knowing how to control costs, but when asked if she would consider formalizing, she indicated she would not because her income would have to go towards paying for a commercial kitchen, and she felt she needed to channel her earnings into the household rather than towards investing in the business.
- *Business size:* For some, the current size of the business, and their lack of interest in growth, made formalizing irrelevant. These entrepreneurs did not consider their informal activity a business, but rather a simple way to generate a little additional cash to support household expenses.

Figure 5: Attitudes Towards Formalization





It is not surprising that respondents expressed a range of attitudes about formalizing their businesses. Some were simply not interested in formalizing; others could be characterized as interested, but cautious, and finally, there were a small number who were both interested and ready.

As Figure 5 indicates, the percent in each category varied from study group to study group. The African American sample appeared to demonstrate the most interest in formalizing. Eleven percent of the microentrepreneurs in the study were ready to go, and another 52 percent were interested but cautious. The high percentage of African American respondents in both these categories is likely related to the fact that 38 percent of the sample were working informally full time. Their informal activities provided their sole source of income.

Among the rural population, only one person, a young woman interested in launching a full-fledged hair salon, was fully ready to formalize her business. But the rural study also contained some 28 percent who already followed some of the “rules of the game,” including: several women food producers who conform to the regulations that permit them to sell at farmers’ markets; a few dog breeders who follow the rules regarding home breeding; and a retail operation that pays some sales tax. While some of these individuals expressed interest in

formalization, others did not. The rural study also included a few entrepreneurs (10 percent) who operated businesses from which the owners declared at least part of their income. These entrepreneurs were operating above and below the line like many in the United States do.

Among the Latinos, responses varied between the documented and the undocumented. Only five percent of the documented Latinos expressed real interest in formalizing; another 25 percent expressed some interest; while 70 percent were totally uninterested, preferring to depend on their jobs as their sustaining income source. The undocumented, on the other hand, included many entrepreneurs (44 percent) who expressed real interest in the chance to become formal, but were unable due to their legal situation.

What do Informal Entrepreneurs Want?

In the three studies, respondents were asked what products and services would be helpful to their businesses. Table 3 summarizes their answers. It’s important to note that most respondents had no exposure to business development services or microfinance, and many couldn’t conceive of the types of character based lending and specially developed training curricula that are common in the microenterprise industry.

TABLE 3: HELPFUL BUSINESS SERVICES

	Latinos	African Americans	Rural
Credit	Some (37%)	Some	Some (28%)
Trades’ Licenses	Some	Some	No
Business Skills (pricing, marketing, accounts)	Mostly No	Yes	Some
Industry Based Training	Some	Some	Mostly No
Health Insurance	Yes	Yes	Yes
Legal Status	Yes	No	No

Somewhat less than a third of the sample expressed interest in financing. Among them were the Latinos who expressed explicit interest in obtaining credit for items such as floor strippers and polishers, carpet shampooers and vans for cleaning businesses, and a sophisticated sound system for a D.J.'s business, among others. The majority of these individuals are undocumented, and many of them articulated other credit needs such as mortgages for homes and educational loans, both of which are pressing issues for the undocumented.

In the rural study, only three expressed a definite interest in borrowing money: a beautician who planned to purchase a piece of land to start a beauty-shop; an occasional caterer who would be willing to take a loan to develop a commercial kitchen – when he was ready; and a cake baker who was interested in borrowing money to grow her business, but worried whether or not a bank would approve her.

Several African Americans remarked that they would like to secure loans to purchase tools or a vehicle for their businesses, but they didn't believe they would qualify for a loan. One person explained, "I have bad credit. ... You can have all the cash in the world, but if your credit's no good, they [banks] don't want your money." A few have criminal records that they believe prohibit them from approaching financial institutions.

Most respondents either saw no need for credit or were risk averse. Most were concerned about the stresses involved and preferred to build their business over time themselves. Jody, one of the rural respondents said, "That puts a lot of pressure – if you can do your business – you know, if you go pinchers up and you have a big bank loan, that's devastating. If you go pinchers up and you have a room full of stained glass or fabric, oh well, you know, that's just a lesson. But a bank loan is – that's a lot of stress."⁸

Both Latino and African American respondents mentioned their interest in securing trade licenses, denied to them for different reasons. The Latinos were skilled tradesmen in their home countries who were prevented from fully practicing their trades here because their undocumented status

prevented them from applying for the credentials they needed. A few of the African American respondents reported that criminal records blocked their access. One man said, "This is all it's going to be for the rest of my life – working for cash. I'm just as good as the guys with a license or a journeyman card, but I can't get hired by a firm or get into the unions because I've been in jail."

Interest in improving business skills varied. Most of the Latino respondents felt they already understood business basics. Among the rural residents, there were some who acknowledged a need to know more – the areas of greatest interest related to pricing, marketing and, sometimes, managing their accounts.

Some entrepreneurs expressed interest in learning more about their craft or industry. This was especially true among the Latino and African American respondents. Undocumented tradesmen reported an interest in learning U.S. construction standards, for example, and some documented women were expressly interested in improving their culinary skills. The rural respondents, on the other hand, expressed minimal interest. As one rural entrepreneur, Robert noted, "I have my Time-Life books." The lack of interest in the rural area seemed related to a sense that there was little market for these higher-end skills. Knowing landscaping, for example, would not be a benefit when clients simply wanted, and often could only afford, mowed lawns.

Finally, everyone indicated a strong need for health insurance, and the undocumented Latinos sought specific remedies for their legal status.

Implications for Policy

If one is interested in assisting informal entrepreneurs, it is important to recognize the set of policies (federal, state and local) that constrain entrepreneurs' growth and opportunities. Whether one agrees or disagrees with the general intent of these policies, the challenges they pose to emerging entrepreneurs must be recognized.

⁸When asked what pinchers up meant, Jody answered "Oh, when a crab dies, it falls on its back, and its little pinchers go up."



Different subgroups of informal entrepreneurs are constrained by different policies. Immigration policies prevent undocumented Latinos from formalizing their businesses, accessing credit and becoming too visible. Policies directed against ex-offenders prevent these individuals from securing licenses for a variety of businesses, accessing the skilled trades unions, and often obtaining credit. Furthermore, federal and state taxation policies, as well as state and local licensing and regulations, create a variety of hurdles for low-income, informal entrepreneurs who might consider formalizing.

Programs interested in assisting entrepreneurs with these policy challenges can work on two levels: first, helping entrepreneurs to understand and comply with relevant regulation, and second, working to ameliorate some of the more negative effects of these challenges through policy advocacy. There are examples of both these approaches.

Helping Entrepreneurs Comply with Regulations

The Pioneer Institute for Public Policy in Massachusetts has developed detailed guides called “Navigating through Regulations and Licensing Requirements” specific to Boston and other Massachusetts cities. The guides provide a step-by-step approach for registering and licensing a variety of business types including home-based child care, home improvement and street vending.

Conexión Américas, which works to integrate Hispanics socially, economically and civically into the communities of middle Tennessee, has offered *Negocio Próspero*, a training course to Hispanic entrepreneurs, since 1992. The course is designed to provide Hispanic business owners practical tools and useful guidelines on how to successfully start and run a small business. While the course was not initially designed to focus on informal businesses, they found that many of their clients were undocumented, and so, have evolved an approach that helps them make their business the strongest they can within their operating constraints. The course includes training on standards for licensed and regulated businesses and encourages owners to operate

their business within them. Trainers strongly suggest that if an opening occurs for them to apply for legal status, their efforts to comply with tax policies and other business regulations can only improve their chances for an approval of their applications.

Practitioners participating in FIELD’s meeting on this theme identified another opportunity with the potential to both attract informal entrepreneurs to microenterprise programs and help them take steps towards formalization. Acknowledging that some programs, like the Women’s Housing and Economic Development Corporation, assist their clients with tax preparation to help them secure the Earned Income Tax Credit, participants proposed marketing tax preparation services that would help entrepreneurs identify tax benefits for both their household and business. The service – and education about EITC and the use of Schedule C – could be economically valuable to these entrepreneurs and could introduce them to other microenterprise services that could advance their businesses. The tax service would serve multiple purposes: attracting informals into programs, showcasing the advantages of business formalization, and putting informals on the path to growth.

Influencing Policy on Behalf of Microentrepreneurs

The Texas Rural Legal Aid Society offers an example of an organization that works on influencing policy, engaged as it is in working closely with the Laredo City Council to find a constructive approach to the contentious issue of informal street vending. The Women’s Self Employment Project offers another example. The organization has been working on an awareness campaign to highlight the oftentimes high costs of regulations for the self-employed in the city of Chicago. While working on these policy issues can be challenging, regulatory policy changes have the potential to influence large numbers of entrepreneurs whether they directly receive services from a microenterprise program or not. Learning how to effectively address these issues could impact substantial numbers of entrepreneurs.

Implications for Microenterprise Practice

Do informal entrepreneurs represent a market for microenterprise development programs? The research seems to suggest yes, at least in part. Each of the studies identified varying proportions of the Latino, African American and rural respondents who would be interested in some form of program services. Participants at the FIELD informal economy meeting echoed these findings based on their experience, noting that this was particularly true in the case of Latinos, African Americans (especially men), and ex-offenders. Latino experts noted that there are emerging Latino communities in urban sectors with thriving “informal sub-economies” that could grow stronger with assistance. Participants also noted that there are a relative lack of program services directed to African Americans, and African American males in particular, who remain an underserved market in many major American cities. Rural practitioners and experts noted that informal entrepreneurs have always been a market for rural microenterprise programs; the challenge may be more how to reach deeper into those markets to serve those who don’t necessarily think of themselves as entrepreneurs or their activities as “businesses.”

If programs are interested in serving these markets, the research suggests that changes in program policies, practices and marketing/outreach will be needed.

Program Policies

Policy issues may be particularly vexing for programs. Funders may condition who can be served. For example, some funding sources prohibit loans to undocumented clients from their money; local government funding may restrict the use of their support to tax-paying businesses. Funders and programs themselves may have concerns regarding support to food businesses, child-care businesses and construction businesses that don’t comply with key health and safety regulations. At the same time, some programs have found it worthwhile to work around these issues and constraints. On the lending side, these policies include:

- Raising funds with fewer restrictions to serve more challenging populations.
 - Establishing loan limits under which unregistered businesses can access financing.
 - Developing alternative methods to verify identity, place and length of residence, and to assess the reliability of prospective borrowers.
 - Using risk-based pricing in lending to unregistered businesses or those owned by the undocumented, and offering financial incentives to encourage formalization.
- Additional policies that programs have instituted, whether providing lending or other technical assistance services, include:
- Extending entry level services to informal entrepreneurs, and basing continued assistance on progress toward formalization.
 - Creating policies based on sectors that allow one to work with informal businesses differently based on sector and setting expectations accordingly.

The point is that programs need to think through the implications of serving informal entrepreneurs and develop a set of guidelines for products and services that are clear to staff, that guide program marketing, and are made explicit to prospective clients.

Products and Services

As indicated above, the research summarized a set of needs articulated by informal entrepreneurs. While some of them would be interested in products and services currently available throughout the industry, there were many who expressed extreme reluctance or lack of interest, at least initially, in such common offerings as extended multipart business plan courses. The challenge seems to be both adapting current offerings, making them more attractive to long-term informals, and, in some cases, creating new products. A list of such possible products and services are included in the accompanying box (see page 13). Participants at FIELD’s Informal Economy meeting emphasized two key concepts implicit in this list:

- Develop “portal” products, that is, entry-level offerings designed particularly to attract informal entrepreneurs. WHEDCO

(Women's Housing and Economic Development Corporation, Bronx, NY) for some years had such a portal product – an informal care givers group to attract providers who had not yet met the requirements to be regulated. The intent was to offer them opportunities for some training and networking prior to making a commitment to enroll in formal training. Similarly, the income tax product described above could be another such portal product.

- Think sector. Focusing on specific sectors in which many informal entrepreneurs operate allows a program to design a specific service that makes sense to them

and can ultimately engage them in a longer term process focused on growth. The informal daycare providers' training is one such example. ACCION NY has found that, in its market, informals tended to be concentrated in food businesses, gypsy cabs, and independent grocers. ACCION NY has three loan products designed directly for taxi operators: two are to cover automotive repairs and/or insurance and the third is for the purchase of a taxi. These loan products do not require bank accounts or traditional credit histories and generally employ strategies such as cosigners and collateral to offset risks.

Adapting Old, Creating New: Possible Products and Services for Informal Microentrepreneurs

- Training that explicitly demonstrates the advantages of operating formally and disadvantages of operating informally
- Feasibility analysis to help informal entrepreneurs determine whether they should either “sustain the opportunity” (keep the business as it is) or “increase the opportunity” (move toward formalization or growth)
- “Risk mitigation” planning for transitioning a business to formal status
- Assistance with compliance with regulations
 - Step by step descriptions on how to incorporate, and how to obtain licenses and permits
 - “Expediter services” to help entrepreneurs work through the process
- Rapid, small “on the spot” loans for immediate needs to informal borrowers willing to commit to credit repair and other services
- Lending products for undocumented entrepreneurs
- Very short courses on pricing, marketing and how to decrease costs
- Industry-specific courses
- Industry-specific cooperative ventures (trades-based networking, cooperative buying ventures, social purpose crafts businesses, kitchen incubators, cooperative food ventures, etc.)
- Extension-style technical assistance in rural areas
- Distance learning for rural communities

Marketing and Outreach

The research suggests that the failure of some programs to reach informal entrepreneurs may be as much about marketing as it is about products and policies. Effective outreach to these individuals means paying attention to the message, to partners, and to the venues where marketing occurs. In this respect, participants at FIELD's meeting underscored:

- Messages may need to be tailored differently to overcome some informals' perceptions that they are not in business, or to demonstrate a willingness to work with undocumented individuals, for example. The importance of culturally appropriate language was also highlighted when working with diverse ethnic groups. For all communities, it appears that perceptions are an issue. Many informal entrepreneurs, even if they know of an existing agency, do not believe that the agency could actually serve them. This is likely due to gender, geographic location, lack of experience, etc. These perceptions need to be overcome.
- Effective outreach also involves identifying and cultivating those organizations – and individuals in those organizations – that are close to the target communities and appear most open to making referrals. These may include cultural organizations, ethnic associations, immigration rights institutions, social services agencies, ESL programs, churches, etc. It is important to test and assess which ones are most open to collaboration and then build a working relationship with them. It can't be assumed that every organization will welcome the potential services readily.
- Being present in local communities is also key. Visible staff and staff that reflect the community were also cited as important to building trust. In rural areas, where distances are great and where it would be costly to place staff, traveling enterprise agents may play a key role, conducting extensive outreach and providing referrals to a range of partner enterprise development programs depending upon a client's needs and interests.

Funding

Finally, the research suggests that funding is a key factor limiting services to many of these informal entrepreneurs – especially in certain markets. For example, in Nebraska, the seven organizations that provide direct services in 51 rural counties have only 13 staff members between them to cover a very large geographic area. Densely populated New Jersey, another site of this research, presents another case. While the *2002 Directory of U.S. Microenterprise Programs*⁸ lists 14 organizations engaged in microenterprise development in the state, very few have presence in the growing Latino communities where many informal entrepreneurs operate. In Chicago and Baltimore, microenterprise development organizations do not appear to have sufficient resources to reach out to many of the informal entrepreneurs identified in these studies, particularly those that are male and ex-offenders.

The challenge is to raise the funds that will enable programs to expand services to these markets. Doing so will require programs to creatively seek resources not only from traditional microenterprise development funders, but also from others whose interest in these populations may be based on other considerations – such as an interest in serving ex-offenders, or in the economic empowerment of local ethnic communities. It will be important to make the case that informal entrepreneurship is not a temporary phenomenon, but something that is a logical consequence of a range of social and economic forces in the U.S., and that people engaged in this sector stabilize communities and create income for those most in need. Helping them will immediately improve the well-being of their households and surrounding communities even in the absence of larger economic development solutions.

Conclusions and Next Steps

The studies summarized in this Forum suggest that informal microentrepreneurs are, indeed, a growing presence in the U.S. economy, who contribute to the economic security of their households and communities. At the same time, the studies illuminate that there are many types

⁸Britton A. Walker and Amy Kays Blair, 2002 Directory of U.S. Microenterprise Programs (Washington, DC: The Aspen Institute, 2002).



of informal entrepreneurs – from undocumented aliens to ex-felons to long-term residents of urban and rural communities intent on making a living and providing services to their neighbors. There are informal entrepreneurs very close to taking the steps to formalization, and many others who are cautiously interested in growing their businesses and would consider making them legal if they believed such a step would benefit them.

The studies further suggest that working with this market might mean addressing some policy and regulatory issues that constrain their efforts, as well as developing new products and services that can, first, serve them as they are, and then entice them to formalization as it makes sense in business terms. While there are some examples of how these efforts might work,

microenterprise programs are only beginning to understand the complexity of this market and to scratch the surface in learning how to assist informal microentrepreneurs. FIELD, with continued support from the Charles Stewart Mott Foundation, intends to further promote program experimentation that will expand services to them. Future activities may include efforts to promote reflection and action on these issues in specific markets, the formation of a practitioner learners' group to collect and exchange experiences, and possible work on developing new products and services explicitly for these markets.

Interested readers who would like to participate in a learners' group are encouraged to contact FIELD at fieldus@aspeninst.org.

For More on Microenterprise and the Informal Economy

Readers interested in learning more about this theme are invited to log onto FIELD's Web site, www.fieldus.org, to find additional resources developed by FIELD and ISED, and on which this Forum is based. They include:

A Literature Review of the Informal Economy. Widespread economic restructuring of the past 20 years – a shift from manufacturing to service sector jobs, an increase in marginal employment, an increase in small businesses, and a decline in male labor force participation – has changed the way people are connected to the labor market in the United States. Scholars have examined these changes, particularly how they have led to a growing informal economy, briefly defined as those activities that, by occurring outside the normal, regulated economy, escape official record-keeping.

This paper summarizes that research with respect to four major issues:

- The definition of the informal economy
- The theories or perspectives that attempt to explain the existence of the informal economy in the United States and other industrialized countries
- The characteristics of the people who engage in informal work and the industries that are most likely to have a high incidence of informal workers
- The size of the informal economy

(continued on next page)



For More on Microenterprise and the Informal Economy *(continued)*

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The Informal Economy: Making It In Rural America This FIELD publication, the third in a series, examines the experiences of 29 entrepreneurs living and working in several rural counties in Nebraska. The 81-page report shares the entrepreneurs' motivations, aspirations and struggles to operate viable businesses, and explores how policies and practices could be changed to encourage more growth among rural informal businesses.

The Informal Economy: Latino Enterprises at the Margins Based on research involving 38 informal, Latino businesspeople – both documented and undocumented – this 90-page report reflects on their experiences while also tackling such issues as: what are the barriers Latino entrepreneurs face as they operate their small businesses and how might they be helped to move from the informal to the “formal” economy.

The Informal Economy: Experiences of African Americans This publication, written by the Institute for Social and Economic Development (ISED) Solutions, explores the experiences of 55 African Americans who either operate their own informal businesses or are employed informally – working for companies that pay them in cash. The 71-page report looks at the pros and cons of participating in the informal economy and the implications for programs encouraging entrepreneurship.

FIELD forum Issue #14 – The Informal Economy and Microenterprise in the United States This publication details the intersection between microenterprise and the informal economy, documenting the experiences of – and key issues for – microenterprise practitioners. It also describes the diverse types of people who engage in informal work as well as their motivations and offers a succinct definition of the informal economy.

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