

the **informal economy**

Experiences of  
**African Americans**

JAN L. LOSBY

MARCIA E. KINGSLOW

JOHN F. ELSE

SEPTEMBER 2003



**ISED Solutions**  
*creating opportunity, building capacity*

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## Executive Summary

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Some people engage in legal but informal work in the United States in a system of cash-only exchanges. These individuals are operating unregistered businesses or engaging in under-the-table employment. This type of economic activity is often called “informal work” or “the informal economy.” There is a natural link between the informal economy and the services provided by microenterprise development programs. Could these informal entrepreneurs be potential new clients for microenterprise development programs? The Institute for Social and Economic Development (ISED) Solutions received funding from the Charles Stewart Mott Foundation to examine the informal economy and its intersection with the field of microenterprise development.<sup>1</sup>

The study examines the attitudes and behaviors of informal workers, and explores the aspects of working informally that are appealing and may discourage people from taking steps to formalize their enterprises. The study focuses specifically on the experiences of African Americans operating informal businesses or working informally in Chicago and Baltimore.<sup>2</sup> Though we interviewed African Americans exclusively, we did not analyze broader issues affecting the participation of poor African Americans in labor markets and how economic and structural conditions in poor neighborhoods affect economic decisionmaking. While the study population was African Americans, the experiences reflect those of people living in poor, urban communities that offer limited job opportunities (a situation which, of course, is exacerbated by racial issues).

This report summarizes the findings from 55 in-person interviews. The research questions for this study are:

- What is the nature of informal economic activities among African Americans living in low-income, urban neighborhoods?
- Why do people participate in the informal economy? What incentives exist for informal economic activities and what barriers hinder participation in the mainstream economy?
- How is informal economic activity patched together with more traditional income streams to support individuals and their families?
- What, if any, are the implications for microenterprise development programs?

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<sup>1</sup>In addition to this study, the Mott Foundation also funded the Aspen Institute to conduct a qualitative study of 38 Latino businesspeople — both documented and undocumented — who live and work in central New Jersey and New York. Aspen’s research is summarized in the report entitled: *The Informal Economy: Latino Enterprises at the Margins* (2003).

<sup>2</sup>Illegal, criminal activities, such as selling drugs, dealing in stolen goods, or prostitution — often called the underground economy — are not the focus of this study.

The findings for each of these research questions are summarized below. A word of caution is needed when interpreting these findings. This was not a comparative study, so we cannot compare what we learned with the findings from other studies of similar or different racial groups. Nor, did we conduct an analysis of what is happening in urban African American communities generally — for example, the sources of racial exclusion in particular labor markets. We believe the experiences we observed are common to poor urban communities. We do not believe that what we observed is uniquely peculiar to the African American culture. Based on what we learned conducting the interviews and from reviewing the literature, the patterns are indigenous to poor urban communities and are not a product of race exclusively.

### **Nature of the Informal Economy Among African Americans**

All of the interviews were conducted with African Americans. Nearly an equal number of women and men were interviewed. The average age was 33, with ages ranging from 21 to 60. The typical interviewee is unmarried, a high school graduate, and has a monthly household income less than \$999.

*Self-Employed.* Most, 71 percent, are involved in self-employment. They operate their own businesses, but in an informal way — being paid in cash or personal check, not filing taxes on their income, and being unregistered. They operate a range of businesses — home repair, lawn care, hairstyling, child care, home health aide and residential cleaning. They often rely on strong family and neighborhood networks or referrals from their customers to generate business.

*Informal Employment.* The remainder, 29 percent, are employed by companies and paid in cash. All of those employed informally work in the service sector — restaurants, cleaning, retail sales, office support and movers/haulers. They work for businesses that employ from one to 55 employees. Several respondents note that only lower-wage workers or those in positions that could be easily filled are paid informally. None receives traditional work-related benefits, such as health coverage, sick or vacation days, or a retirement plan.

*A Description of Informal Economic Activities.* Informal economic activities vary in many ways: the type of work, the amount of time devoted, the amount of income earned, the length of time engaged, and whether combined with formal employment.

- The top five occupational categories in which people are involved are construction and building trades (14 percent), home health aide and elder care (13 percent), food service (11 percent), hair styling (11 percent), and retail sales (9 percent).
- People devote considerable time to informal economic activities. The average is 38 hours per week with a range from a minimum of eight hours to as much as 70 hours. For 38 percent, their informal activities are full time (more than 35 hours per week), and for 62 percent, it is a part-time endeavor (34 hours or less per week). Many have alternating periods of intense work and little or no work.
- The average monthly income from informal economic activities is \$910. Informal income ranges from a low of \$200 per month for a woman who styles hair to augment her wage job to a high of \$2,400 per month for a man

whose sole support is derived from his 20-year-old moving business. On average, people who are informally operating businesses earn more per month (\$1,013) than do people who are employed informally (\$702).

- The length of time people have participated in the informal economy varies. Sample members have worked informally from as little as nine months to as long as 21 years; the average length of time is 7.5 years.
- A substantial number (18 percent) also have income from formal employment (W-2s are issued and state and federal taxes are withheld). They work in a range of occupations — data entry, counselor and nurse — and most work full time. For this subgroup, the average monthly income from wage employment is \$1,263. The average combined monthly income from formal wage income and informal sources is \$1,942. Most often people “patch” their incomes to earn additional money when a single income source is insufficient to meet their basic needs. One person said: *“I need to make a buck on the side, because sometimes just a regular job is not going to do it. I can’t get by living paycheck to paycheck.”*

### **Reasons People Participate in the Informal Economy**

People engage in informal economic activities for a variety of reasons. For some it is a necessity, their only resort, or their best option — a better alternative than low-wage formal employment. Others are involved in informal work as a choice — for personal fulfillment, social connection, or to supplement primary income.

For many interviewees, the most common response to the question of why they run their businesses informally or work informally is “I need the money,” or “I need to make a buck on the side because sometimes just a regular job is not going to do it,” or some variation on these themes. When probed more deeply, however, it appears that most, though not all, engage in some analytical process in deciding whether to operate in the informal economy. Besides the obvious financial considerations, interviewees cite such reasons as:

- *Desire for undocumented income:* Some wish to hide their income from a government institution; they want to avoid paying child support; or they do not wish to jeopardize their public assistance, disability or unemployment benefits.
- *Inability to secure formal employment:* Some people operate an informal business or engage in informal work when they are unable to find formal wage employment. This is often because they have a criminal record, low education or minimal skills, or drug problems.
- *Dissatisfaction with formal employment or no longer desired:* Some interviewees have had frustrating experiences in formal jobs — unreasonable bosses, difficulties with co-workers or undesirable work conditions. Others have had long-term formal jobs and decided they did not want to continue wage employment.
- *Desire for independence and control:* The lure of independence and control is very strong for some people. They wish to set their own work schedule, earn as much as they are willing to dedicate in work hours, and be free from outside forces.

- *First stage in pursuing as a formal business:* A few sample members are strategically thinking about making their businesses formal and registered. A few have sought additional training, taken entrepreneurship classes, completed certification required for licensing, and/or consulted with institutions that could provide technical assistance. However, none has formally registered his/her business. Others say, “It would be nice to have this as a real business,” but they have not moved beyond this wishful stage.
- *Desire to strengthen neighborhood social support networks and economic conditions:* Many see themselves as filling a niche left void by the lack of economic choices and social services. Their informal work is a way for them to contribute to their communities and help sustain a fragile social and economic infrastructure.

### **Advantages and Disadvantages of the Informal Economy**

A clear message is that operating in the informal economy is neither entirely positive nor entirely negative. We found that people are more likely to identify advantages rather than disadvantages of operating an informal business or working informally — 100 percent of the sample members identified at least one positive aspect, while only 73 percent noted negative ones. Most recognize that by being in the informal economy, they give up something, such as employment benefits or a regular paycheck, in order to obtain independence and immediate cash income.

*Advantages:* Being paid in cash without taxes being withheld, flexibility, controlling one’s income and work environment, exercising creativity and self-expression, a way to build occupational skills, and best solution to temporary situation.

*Disadvantages:* Not having employment benefits, lack of economic security, reduced opportunity to establish credit, dealing with unscrupulous employers, and risks/penalties of not reporting income.

### **Implications for Microenterprise Development Programs**

Interest in licensing or growing their enterprises into legitimate, profitable businesses varies among the sample members. We identified four distinct groups: the self-employed who are interested and ready to make their businesses legal (9 percent); the self-employed who are interested but cautious (42 percent); the self-employed who are not at all interested in formalizing their businesses (20 percent); and those who are involved in informal work and have not considered self-employment (29 percent).

The challenges emerge when microenterprise development (MED) programs attempt to serve people who are in the “interested but cautious” category. To serve this hesitant group, programs will need to: (1) consider what changes are needed in current program policies and procedures to allow agencies to serve this population and whether the program is open to those changes that will make services more feasible; and (2) help the entrepreneurs to recognize benefits of operating in the formal economy and how those exceed the disadvantages/constraints of operating in the informal economy — as well as the means of operating formally that will make it feasible for the entrepreneur.

*Policies and Procedures.* MED programs need to consider their policies and procedures related to offering small loans to people who have bad credit, serving people who have criminal records, and helping clients access new markets and address pricing issues.

*Demonstrate Benefits of Operating Formally.* It is not necessarily obvious to entrepreneurs how formalizing will benefit them. MED programs need to demonstrate that movement into the mainstream economy can stimulate growth by providing greater access to capital, advertising and potential linkages with other mainstream organizations. For those who are leery of paperwork, MED programs need to demonstrate how paperwork can be streamlined and minimized. For clients who are afraid of business growth, MED programs need to assure their availability to assist clients during that business growth.

### **Future Research Direction**

We believe the next step in the research process is a pilot project to test the potential of microenterprise development programs to serve informal economy participants. By identifying issues and documenting various approaches to addressing those issues and their relative success, the field would learn how to best serve informal business operators. This pilot would answer the following research questions: Which marketing strategies are most effective in reaching this population? Which program policies and procedures need to be modified to serve this population? What products and strategies need to be developed to serve this population? What are the anticipated and unanticipated challenges of serving this population?

## Background

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### INTRODUCTION

Some people engage in legal but informal work in the United States in a system of cash-only exchanges. These individuals are operating unregistered businesses or engaging in under-the-table employment. This type of economic activity is often called “informal work” or “the informal economy.” There is a natural link between the informal economy and the services provided by microenterprise development programs. Could these informal entrepreneurs be potential new clients for microenterprise development programs? What challenges would programs face in order to serve this population?

The Institute for Social and Economic Development (ISED) Solutions received funding from the Charles Stewart Mott Foundation to examine the informal economy and its intersection with the field of microenterprise development in the United States. The study examines the attitudes and behaviors of informal workers and explores the aspects of working informally that are appealing and may discourage people from taking steps to formalize their enterprises. The study focuses specifically on the experiences of African Americans operating informal businesses or working informally.<sup>3</sup> While the study population was African Americans, the experiences reflect those of people living in poor, urban communities that offer limited job opportunities (a situation which, of course, is exacerbated by racial issues).

This report summarizes the findings from interviews with 55 African Americans operating small businesses or working in the informal economy in Chicago and Baltimore.<sup>4</sup> This report contains six chapters, beginning with a summary of the existing informal economy research literature. Chapter II presents this study’s research methodology and describes the members of the study sample. Chapter III discusses entry into the informal economy and describes the interviewees’ informal businesses, informal employment, and formal work. The reasons people operate informal businesses or work for cash are discussed in Chapter IV. The advantages and disadvantages of operating in the informal economy are outlined in Chapter V. Finally, the implications for microenterprise development programs and future research steps are discussed in Chapter VI.

In this report, the terms *informal economy*, *informal work*, *informal sector* and *informal economic activity* are used interchangeably. Frequently the term “informal work” is used to refer to both operating a business informally and being paid in

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<sup>3</sup>Illegal, criminal activities such as selling drugs, dealing in stolen goods, or prostitution — often called the underground economy — are not the focus of this study.

<sup>4</sup>In addition to this study, the Mott Foundation also funded the Aspen Institute to conduct a qualitative study of 38 Latino businesspeople — both documented and undocumented — who live and work in central New Jersey and New York. Aspen’s research is summarized in the report entitled: *The Informal Economy: Latino Enterprises at the Margins* (2003).

cash by an employer. Illegal, criminal activities, such as selling drugs, dealing in stolen goods, or prostitution — often called the underground economy — are not the focus of this study.

## **S U M M A R Y   O F   L I T E R A T U R E   R E V I E W**

A first step in the Informal Economy Project was to review the existing research and identify key features of the informal economy. This section of this report is a brief summary of the full literature review prepared by ISED and the Aspen Institute.<sup>5</sup> A clear message from the review of literature is that informal work activities are substantial in the U.S. economy. While many features of the informal economy are discussed in our full literature review, this condensed summary highlights four: (1) the definition of the informal economy; (2) key features of the informal economy; (3) the connection between formal and informal sectors; and (4) 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.

### **Definition of the Informal Economy**

Widespread economic restructuring during the past 20 years — a shift from manufacturing to service sector jobs; the out-migration of jobs from central city neighborhoods to the suburbs; the proliferation of marginal, low-wage service sector jobs; and a decline in male labor force participation — has changed the way people are connected to the labor market. Scholars have examined how these changes affect personal employment decisions. There has been heightened interest in the extent to which informal economic activities exist.

The concept of the informal sector was first coined in an International Labour Organization (ILO) study of urban labor markets in Ghana (Hart, 1973). It was subsequently used by ILO in reports of labor market conditions in other African cities and by the World Bank in a series of studies of urbanization and poverty throughout the Third World (Sethuraman, 1981; Mazumdar, 1981). In its application to issues of equity, economic opportunity and social development, the term “informal economy” first came into widespread use as a means of describing a dualistic economic structure found in developing countries. Such an economy involves both the mainstream formal economy and an unofficial economy within which economic transactions occur outside traditional channels and deliver explicit economic and social benefits.

Scholars have used various labels to refer to the informal economy. It has been called the irregular economy (Ferman and Ferman, 1973), the subterranean economy (Gutmann, 1977), the underground economy (Simon and Witte, 1982; Houston, 1987a, 1987b), the black economy (Dilnot and Morris, 1981), the shadow economy (Frey, Weck, and Pommerehne, 1982; Cassel and Cichy, 1986), and the informal economy (McCrohan and Smith, 1986). The popular media uses terms

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<sup>5</sup>Jan Losby, J. Else, M. Kingslow, E. Edgcomb, E. Malm, and V. Kao. 2002. *Informal Economy Literature Review*. Coralville, Iowa: Institute for Social and Economic Development, and Washington, D.C.: The Aspen Institute. This document is available at our Web site: [www.ised.org](http://www.ised.org). Our review does not cover illegal activities, customers who purchase goods and services in the informal economy, or research conducted outside of the United States. There are entire bodies of research that address each of these issues separately and are beyond the scope of this paper.

such as invisible, hidden, submerged, shadow, irregular, non-official, unrecorded or clandestine (U.S. Department of Labor, 1992a).

As can be seen, there is disagreement about which terms to use and which definition best describes the informal economy. The concept of the informal economy has evolved from solely describing Third World economies to encompass various types of cash and non-cash transactions in both developing and industrialized economies — transactions that benefit both the poor and non-poor. One common thread among the various definitions is that informal economic activities are imperfectly reflected in official national accounting systems. Broadly defined, the informal economy refers to economic activities that, by occurring outside the arena of the conventional regulated economy, escape official record keeping and regulation (U.S. Department of Labor, 1992a).

### **Key Features of the Informal Economy**

Since informal work takes so many forms, defining informal work presents many challenges. Perhaps the only way to define it is to identify its characteristics. The following presentation discusses four key features that are widely accepted and includes multiple aspects of some of these characteristics.

**Legal vs. Illegal.** Within the category of informal work, activities may be legal or illegal. Economic activities can be distinguished by the manner in which goods or services are produced or exchanged. For example, food, clothing and child-care services are legal commodities, but may originate in both legally regulated and unregulated production arrangements (Raijman, 2001). These activities are not intrinsically unlawful, but violate some non-criminal rule or law, such as not filing taxes or not adhering to labor laws (Castells and Portes, 1989; Portes and Sassen-Koob, 1987; Sassen-Koob, 1989; Stepick, 1989).

Income generated by economic activities may be differentiated by the legality of the production or provision of goods and services and the legal status of the goods and services themselves. For example, a hot dog vendor on the street is selling a perfectly legal product — a hot dog that he or she has bought at the supermarket and is offering with value added (prepared, at a convenient location, etc.) to a consumer. It may be, however, that the vendor does not have the proper permits from the health department or evades paying sales tax. The hot dogs are still legal, however. If the police stop the vendor, they may seize the goods as evidence, and the vendor may be ultimately fined for violating health and tax codes. The situation of a street vendor selling stolen goods is different. Even if the street vendor has legal permits to sell on the street, the products themselves are still illegal. While technically both individuals have violated a law, their situations when stopped or arrested are distinctly different. The person selling stolen goods routinely violates the law by the very business he or she is transacting. For the hot dog vendor, the violation occurs only due to failure to follow formal regulations (Cross and Johnson, 2000).

**Cash and Bartering Transactions.** Another key aspect of the informal economy is that cash is most commonly exchanged between parties, rather than a check,

payroll statement or credit card. The purpose of using currency, rather than bank credit, is to avoid creating a record of the activities (McCrohan, Smith and Adams, 1991:22-23). The nature of this arrangement is captured in the popular terms of “off the-books” or “under-the-table,” which bring to mind the image of a person receiving payment in a way that is not traceable.

Other transactions in the informal economy are based on an exchange of services, which is often called bartering or swapping. For example, an auto mechanic may not charge a fee for services provided, but may expect a customer who is a dry-waller to complete the construction on a room addition. The essential element of this exchange is that there is no official record of the transaction.

**Unreported Income or Wages.** As noted above, the nature of the exchange is cash or bartering, so there is no record of the transaction; therefore, the income is not reported for taxation. Individuals who work informally and the companies who employ them both follow this arrangement. Informal workers are not claiming this income on their state and federal tax forms. Employers who “hire” informal workers are not filing employee records for state and federal taxes. In the United States, the informal economy is more likely to contain wage workers than entrepreneurs (Castells and Portes, 1989).

**Conditions of Labor.** A final characteristic of informal work is the poor conditions under which workers are employed, as determined by “labor laws, health conditions, safety hazards, or the location of activities that disregard zoning laws” (Castells and Portes, 1989:13). The informal sector is generally seen as being an inferior alternative to formal sector employment in terms of earnings, security and protection from exploitation regarding labor standards. For example, workers may be offered wages lower than the minimum wage. These wages are also without legally-required benefits, such as Social Security, Workers’ Compensation or Unemployment Insurance, since there is no official record of employment to file with state and federal authorities. In most informal arrangements, employment standards of age, wage and hours are typically disregarded. The physical structure in which employees work may also be environmentally harmful and the equipment may be out-of-code and unsafe.

### **Connection Between Formal and Informal Sectors**

The informal economy consists of both self-employment and wage employment. This section describes the characteristics of both kinds of informal work, how each relates to the formal sector, and the barriers of low-wage, low-skilled job seekers.

For most people in the informal economy, self-employment is usually part-time employment that provides supplemental income, but for others informal self-employment is the primary source of income (Alden, 1981). Most often income from informal self-employment is combined with regular wage or salary employment; transfer payments, such as public benefits; private investments; or savings (Raijman, 2001; Ferman and Berndt, 1981; Hoyman, 1987; Morales, 1997a, 1997b; Tienda and Raijman, 2000; Uzzell, 1980). This often involves switching between the formal and informal economic sectors during the same workday.

In underscoring the danger in defining the informal economy solely as a marginal activity of the poor and excluded, Williams and Windebank (1998) point to the considerable number of informal workers who also earn formal wages, as well as the high number of formal workers earning wages comparable to low-wage informal workers. Besides the direct cost savings to firms employing informal workers, additional benefits accrue to people working in the formal economy. For instance, costs saved by using informal workers may be applied to wage increases for higher-level workers employed formally (Marcelli, Pastor and Joassart, 1999). This is a particularly effective, albeit insidious, job retention strategy in times of tight labor markets.

Barriers confront low-wage, low-skilled workers in both the formal and informal economies. The barriers include:

- Many people lack basic education and language skills, as well as the “soft skills” (such as problem solving and cognitive skills, oral communications skills, personal qualities and work ethic, and interpersonal and teamwork skills) needed for job success.
- Access to occupational-skills training connected to explicit job opportunities is limited. One of the factors that limits low-skilled workers’ access is the lack of control over their time as a result of the erratic schedule of their employment in low-wage work in both formal and informal sectors. Unpredictable schedules often preclude people from pursuing skills training that may help them advance in the formal labor market.
- Jobs are often located outside of the neighborhoods in which low-wage workers live — neighborhoods that are often poorly served by public transportation.
- Access to affordable child-care services is limited.
- The hardest to employ of these jobseekers also confront a range of social barriers, including health and learning disabilities, past incarceration, or drug and alcohol problems.

Low-wage, low-skilled workers unable to navigate their way in formal labor markets often end up in substandard jobs at wage levels insufficient for supporting a family. For many households and families supported by low-wage workers in formal jobs, participation in the informal economy becomes a way of cobbling together income and social supports necessary to subsist. Others who are in marginal employment may opt to work only in the informal economy. While the argument can be made that informal employers may be more lenient in accepting the limitations these barriers create — particularly given the strong role social networks play in informal economic activity — the leniency can be carried only so far, since business decisionmaking tends to follow a certain logic whether the enterprise is formal or not.

As can be seen from the above discussion, participation in the informal economy comes from a variety of sources. People may respond to the lack of economic opportunities in the formal economy by creating new activities in the informal economy or by joining existing informal businesses (Raijman, 2001).

Informal economic activities serve as an economic buffer while a person is unemployed, or they may provide additional income in a low-wage labor market (Hart, 1970; Light and Roach, 1996; Morales, 1997b; Staudt, 1999; Stepick, 1989; Tienda and Raijman, 2000). Informal work arrangements may also be a strategy imposed by the process of economic restructuring of big firms, which, to minimize costs and maximize flexibility, shift their production to subcontractors (Raijman, 2001). Under this arrangement, they push workers out from the formal economy, thus motivating the rise of informal work. As Raijman (2001:48) notes: “In the context of economic restructuring, the informal sector not only provides employment opportunities, but also implies a new form of exploitation: individuals are forced to work without the minimal level of protection offered by the legal system, and political mobilization of workers through unions is restricted” (Aponte, 1997; Castells and Portes, 1989; Gowan, 1997).

### **Factors Affecting the Structure and Organization of Informal Activity**

Many factors affect the likelihood that a person will engage in the informal economy. Some of the principal factors are discussed below.

**Gender.** Although the literature on gender and economic restructuring is abundant (Amott, 1993; Reskin and Padavic, 1994), gender was neglected by those studying the informal economy for many years (Hoyman, 1987; Nelson, 1999). For example, in smaller research studies using non-probability samples, Jensen, Cornwell and Findeis (1995) did not indicate who in the household was reporting informal economic activities and did not use gender as a predictor variable. Tickamyer and Wood (1998) focused on the household as a whole rather than on individuals within the household. For these reasons, it is difficult to provide an exact picture of the participants. The only three national surveys of informal economic activity in the United States have been conducted to assess the magnitude of consumer use of informal suppliers and not the people who work in the informal economy (McCrohan, Smith and Adams, 1991; Smith, 1987).

The data needed to determine the relative proportion of men and women participating in informal economic activity are generally not available (Hoyman, 1987). One of the few national studies that considered gender suggests that men are more likely than women to be engaged in informal work activities. O’Neill (1983), using data from the U.S. Census Bureau’s Current Population Survey (CPS) — in combination with other statistics on employment, unemployment and labor force participation rates — found that 27.1 percent of adult men are engaged in the informal economy compared with only 13.5 percent of women.

While there is little other research to document the participation rates of men in the informal market, more research has been done to answer the question of women’s level of engagement in the labor market. Most scholars have focused on either women’s participation in the labor market in general or women’s unpaid work in the home. Only recently has research extended this inquiry to consider informal work outside of the home. This reasoning suggests that the presence of women in the informal sector may, in fact, be larger than that indicated in the 1983 O’Neill study.

Some research has linked many female-dominated occupations with informal work status. As Hoyman (1987) argues, many occupational categories are “so sex-segregated that we can assume that nearly all the workers in a specified occupation are female or male, depending on the occupation.” When Hoyman’s list of female-dominated occupations is compared with the list of occupations more likely not to file Social Security taxes, an interesting conjunction appears. All of the occupations that have a high percentage of nonpayment of Social Security are female sex-segregated — child care, nursing, hairdressing, cosmetology and sewing. Many female-dominated occupations are in the service industry. There is a natural link to informal work activity in these service occupations. In a U.S. survey of households examining which services were obtained from informal suppliers, “... babysitting, housecleaning, sewing, laundry and beauty care were the most often sought-after services by households ...” (Hoyman, 1987). Though the survey did not specifically ask if the vendors were women, these services are traditionally provided by women.

Gallaway and Bernasek (2002) found that the presence of infants and toddlers in the household have different affects on the employment choices of men and women. Specifically, they found that infants and toddlers in the home have no effect on men’s participation in either formal or informal sector employment, whereas the presence of infants in the household decreases the likelihood that a woman will participate in paid employment in the formal sector, and the presence of toddlers increases the odds that a woman will participate in informal sector employment.

**Race, Ethnicity, and Immigrant Issues.** Some research has been conducted examining both race and gender issues. Mattera (1985) notes that within the informal economy, the position of men and women is distinct, and to the disadvantage of women. He describes two different sectors in the informal economy in terms of working conditions and financial rewards. The first sector is composed of the “sweatshops, child labor, outwork and other supposedly anachronistic working arrangements” that have been “appearing with alarming frequency in many of the ‘advanced’ industrial countries” (1985:3). And, the workers that populate this sector “tend to be women, blacks and people of immigrant background” (1985:3). The second sector within the informal economy includes people who toil off-the-books and are often skilled workers earning additional, untaxed income. Mattera states that these workers “tend to be white and male,” and are “often in a position to abandon their regular job and establish an underground business” (1985:3). Mattera concludes, “in terms of class structure, the informal economy mirrors the conventional one. There are both capitalists and workers in the underground, and the labor force is segmented into a hierarchy based to a large extent on divisions of sex and race” (1985:3).

There has been considerable attention given to the presence of informal work in immigrant communities in the United States. Some aspects of immigrant communities naturally lend themselves to informal employment activities. In her article on informal work by Mexican immigrants in Chicago, Rajjman (2001:48) summarized the following points: “Immigrants are hypothesized to reproduce in the host society forms of economic activity that were common in their countries of

origin. People can be 'recruited' into informal self-employment through providing products and services to family, friends and neighbors in ethnic residential communities" (Ferman and Berndt, 1981).

Immigrants are often vulnerable to the inferior employment arrangements of informal work. Legal and illegal immigrants often provide the labor for sweatshops and irregular enterprises. According to the U.S. Department of Labor, "illegal immigrants are especially subject to exploitation because of their exposure to explicit or implicit threats of being reported to immigration authorities, if they object to working conditions or pay. Legal immigrants face barriers due to language or cultural differences that may limit their employment options and often steer them into the informal economy" (1992a:22). The U.S. General Accounting Office found Hispanic and Asian people were the ethnic groups most heavily represented among workers in the restaurant, apparel and meat-processing industries that were operating as sweatshops (1988b).

**Urban Setting.** While informal economic activity occurs throughout the United States, there are differences in the forms it takes in rural and urban areas. Sassen (1997) provides many insights into the operation of the informal economy in urban areas. For example, she describes the influence that the highly-capitalized, specialized service sector has on the informal economy. On the one hand, it pulls low-wage informal labor into the metropolitan core to serve the demand for low-end service workers (retail, janitorial, food services, hospitality, etc.). At the same time, this phenomenon drives up business costs, contributes to the dispersal of businesses to outer areas, and forces some operations to seek informal means of redress, such as moving to neighborhoods where costs are lower and zoning and building codes are less restrictive. According to Sassen, these enterprises may be small, medium or large, but they are generally fairly well organized.

Typically, the neighborhoods into which the businesses are relocated are not totally devoid of economic activity, but have experienced disinvestment and are often disconnected from regional economic activity. Family-sustaining jobs in the formal sector are limited or held by non-residents, and public and private services are limited. These conditions stimulate another level of informal economic activity: neighborhood-focused small businesses, including microenterprises (employing less than five workers), that respond to niches left unfilled by the formal economy, namely, the demand for goods and services — generated by consumers and residents — otherwise unavailable in disinvested urban neighborhoods.

**Industries and Occupations.** The level of informal activity varies across industries. People may operate small businesses in home repair, landscaping or gardening, catering, child or elder care, auto repair, sewing, hairstyling, or crafts. Informal economic activity is especially common in the construction industry, especially in carpentry, painting, plumbing, roofing and masonry (U.S. Department of Labor, 1992a). While construction is typically identified as a high-wage industry, the key to obtaining good construction jobs is through registered apprenticeship and ongoing skill development. Day laborers, those working for small contractors, and those working in right-to-work states are less apt to have access to

apprenticeship opportunities and are more likely to encounter informal labor practices. It is estimated that the largest single component of the informal economy is home improvements (Lachman and Brett, 1998). The authors report that the final step in negotiating the cost of a remodeling job is often the question, "And if I pay cash?" Thus, the price typically falls at least 10 percent and an off-the-books transaction is launched.

While some businesses may purchase production inputs through informal channels, the more common informal economy activity is the use of workers paid under-the-table, undocumented workers, and other informal labor arrangements. Generally, informal activity occurs in industries where labor laws are poorly regulated or marginally enforced; where substantial low-wage, low-skilled, labor-intensive occupations exist; and where unionization is minimal to nonexistent. The U.S. General Accounting Office (1988b) found that the restaurant, apparel and meat-processing industries had the most serious and widespread problems with multiple labor law violations (e.g., incidence of "sweatshops"). Other industries commonly utilizing informal workers include: non-precision manufacturing, electronic assembly, furniture manufacturing, automotive repair, food production and processing, textiles and apparel, hospitality and tourism, and domestic services (U.S. Department of Labor, 1992a).

## Study Design and Interviewee Characteristics

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In this chapter the study's research methodology is described and the personal characteristics of the sample members are presented.

### RESEARCH METHODOLOGY

ISED's study builds on the existing literature in three ways. First, we are focusing on a single ethnic or racial group, namely African Americans, in order to provide a rich accounting of one group's experiences. We are studying the informal economic activities of African Americans. Though we interviewed African Americans exclusively, we did not analyze broader issues affecting the participation of poor African Americans in labor markets and how economic and structural conditions in poor neighborhoods affect economic decisionmaking. Secondly, we selected a qualitative methodology that has been proven successful. Thirdly, we are adding to the literature by explicitly making the link between informal activities and microenterprise. This section describes the research questions, research locations, sample, data collection and data analysis for this study.

### Research Questions

The existence of the informal economy raises a number of basic questions. Our study answers the following research questions:

1. What is the nature of informal economic activities among African Americans living in low-income, urban neighborhoods?
2. Why do people participate in the informal economy? What incentives exist for informal economic activities and what barriers hinder participation in the mainstream economy?
3. How is informal economic activity patched together with more traditional income streams to support individuals and their families?
4. What, if any, are the implications for microenterprise development programs?

### Research Locations

We selected two urban locations in which to conduct this research:

- Baltimore, Maryland, is a predominantly African American city. Other racial/ethnic minorities are only marginally represented in the city. Its population has declined over the decades first as a result of out-migration of non-minorities and more recently of the African-American middle class. This has led to concentrated poverty in highly segregated neighborhoods that are disconnected from local and regional economic opportunity. Public

transportation systems only marginally serve these neighborhoods, making it extremely cumbersome to reach jobs. Baltimore has a substantial training and workforce development infrastructure, but is hindered by a lack of jobs in and in proximity to poor neighborhoods. Moreover, while its economy is somewhat diversified across service sectors, jobs remain bifurcated within sectors — those requiring very high skills and those requiring few skills. Baltimore's declining tax base and the concentration of poverty in the city have placed considerable burden on local government, making it difficult for it to be creative and entrepreneurial in its approach to addressing the needs of the poor.

- Chicago, Illinois, is much more diverse than Baltimore, but it remains highly segregated by race and ethnicity. African Americans are primarily found on the south and west sides of the city. The west side has historically been a port of entry for the city's poor. Today, it is almost exclusively African American. The presence of working- and middle-class African Americans has helped to insulate parts of Chicago's south side from the worst effects of widespread economic and social dislocation, though pockets of high poverty exist. Unlike Baltimore, Chicago's public transportation systems afford good accessibility between African American neighborhoods and job sites, though some urban residents are hesitant to take jobs in the suburbs. Chicago also has well-developed community economic and workforce development infrastructures, which have leveraged development in low-income communities and gains for poor residents. Its diversified regional economy includes non-service sectors (such as manufacturing, construction, transportation and warehousing/distribution) that offer accessible entry-level jobs, and many African American communities still house small manufacturers, though these jobs are typically held by non-minorities living outside the community.

It is important to understand that both of these cities have undergone considerable economic restructuring as they shifted from manufacturing- and production-based economies to service economies. This de-industrialization has resulted not only in a loss of manufacturing jobs in absolute numbers, but also in the decline in the ancillary support sectors; the conversion of remaining production jobs to advanced technologies requiring higher skill sets; the out-migration of many of these jobs to suburban areas often inaccessible by public transportation; and the closure of jobs in remaining manufacturers to neighborhood residents, due to skill barriers, exclusion or both.

The loss of manufacturing and production jobs in Chicago and Baltimore, many of which were union jobs, has had a devastating effect on African American communities. Low- and semi-skilled jobs held by their fathers are no longer available to the African American men and women living in these inner city neighborhoods. The elimination of well-paying jobs and the increasing joblessness of African Americans, coupled with institutionalized racism, precipitated a wholesale disinvestment of predominantly African American neighborhoods — economically, physically and socially. This joblessness and the systematic exclusion of African Americans from educational and job opportunities have relegated many residents of poor African American neighborhoods who are able to enter the labor

market to low-skilled, low-wage jobs in the service sector — jobs that offer minimal pay, few to no benefits, and limited advancement opportunities. Here, too, many of these jobs are outside African American neighborhoods, which themselves offer limited retail services and consumer choice, as well as the social supports to promote growth and development. These trends and conditions have pushed many families to seek alternative means to satisfy their economic needs.

## Sample

Due to the nature of the economic activity we are examining, it is impossible to compile a comprehensive list of people working informally to provide a basis for selecting a representative probability sample. Therefore, we used a non-probability purposive sampling method. We selected people who met specific criteria. These were:

- African American;
- adults between 20 and 60 years of age (with an emphasis on people under 30);
- roughly equal number of men and women;
- low-income; and
- currently operating a business informally or working informally, or have done so in the past 12 months.

Specific groups were also intentionally excluded from the sample. We excluded people connected with a microenterprise development program, since we wanted to talk with people who were truly operating without any input from a service agency; we excluded people whose cash income is erratic and not well-organized (e.g., sporadic babysitting for \$10 a night or a one-time job painting a neighbor's house); and finally, we excluded people providing illegal goods or services — stealing, drug sales and prostitution.

Multiple strategies were used to assemble a pool of potential interviewees. First, we identified community organizations, such as social service providers, employment training organizations, churches and neighborhood associations, which might help us connect with people who work informally. We prepared a letter describing the study to introduce the agencies to the research project and a flier that community organizations could share with prospective interviewees. Other recruitment strategies included: posting fliers at community centers or grocery stores; placing an advertisement in the *Chicago Defender*, the city's longstanding, leading African American newspaper; and taking referrals from people who completed an interview. We screened each potential interviewee by telephone to determine if the person met the study's selection criteria.

## Data Collection

Information obtained directly from the people working informally is the foundation of this study. We used an open-ended, structured interview format. We designed the questions to create a guided conversation with the sample members to elicit rich details about their experiences. ISED developed the interview guide with input from the Mott Foundation and the Aspen Institute.

The interview guide (see Appendix) contained a wide range of questions. Sample members were asked how they started out working informally, what they like and do not like about working informally, the likelihood that they will continue working informally, whether other family members work informally, and their assessment of how common working informally is in their neighborhoods. Detailed questions were included about the nature of their informal work or business — how many hours per week, income, method of payment, customer base, marketing strategies, etc. A few closed-ended items were included at the end of the interview to obtain demographic information, such as age, level of education, marital status and household income.

In November 2002, 55 in-person interviews were conducted — 25 in Baltimore, Maryland, and 30 in Chicago, Illinois. One interviewer conducted interviews in Baltimore and another interviewer conducted interviews in Chicago. Individual interviews took place in community libraries, private office space at the site of the referring organization, or the sample member's home. Interviews lasted from 45 to 90 minutes, depending on the complexity of the individual's circumstances. Sample members in Chicago were given the option of having the interviews tape-recorded. In exchange for the sample member's time and willingness to discuss highly sensitive information, a stipend of \$75 was provided at the conclusion of the interview.

### **Data Analysis**

The resulting data from the transcripts (for the 30 interviews that were tape-recorded) and interviewer notes were analyzed using a method of constant comparative analysis developed by Glaser and Strauss (1967). This is a process of repeatedly combing the text/notes to identify common themes and patterns across the interviews to obtain a greater understanding of the interviewees' experiences.

## **DESCRIPTION OF THE STUDY SAMPLE**

Demographic characteristics<sup>6</sup> of the 55 sample members are presented in Table 2.1. The typical interviewee is African American, 33 years old, unmarried, a high school graduate, and has a monthly household income less than \$1,000.

*Ethnicity, Gender and Age.* All of the interviews were conducted with African Americans. Nearly an equal number of women and men were interviewed. The average age was 33, with ages ranging from 21 to 60.

*Marital Status, Household Size and Level of Education.* Sixty-two percent of the sample members have never been married; 22 percent are married; and the remaining are divorced, separated or widowed. Nearly half of the sample members live in a household with three to four people. Sixty-two percent have a high school education or less. Half of the individuals who have less than a high school education were enrolled in GED classes at the time of the interview. Twenty-two percent have college degrees.

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<sup>6</sup>The demographic information is self-report and based on telephone screening interviews and face-to-face interviews.

*Household Income*<sup>7</sup>. Household income includes all sources of income from formal employment, informal employment, self-employment, public assistance, unemployment insurance and disability insurance. Forty-one percent report a monthly household income less than \$1,000. Thirteen percent (seven people) indicate that another person in their household also works informally or operates an informal business (results not shown).

*Patching Informal Income with Formal Wage Income*. Eighteen percent of the interviewees (10 people) have income from formal employment (W-2s are issued, and state and federal taxes are withheld).

*Activity in Addition to Informal Business or Job*. Thirty-six percent of the interviewees (20 people) are participating in a job training program<sup>8</sup> or educational program (results not shown). Specifically, 10 are participating in job training programs; five are taking adult basic education or GED classes, or attending college; and five are participating in both education and a job training program.

**TABLE 2.1 PERSONAL CHARACTERISTICS OF SAMPLE MEMBERS**

VARIABLE	SAMPLE MEMBERS (N=55)	
	NUMBER	PERCENT
<b>RACE/ETHNICITY</b>		
Black/African American	55	100%
<b>GENDER</b>		
Women	28	51%
Men	27	49%
<b>AGE IN YEARS</b>		
21-29	21	38%
30-39	16	29%
40-49	12	22%
Over 50	6	11%
Average age	33 years old	
Age range	21-60 years old	
<b>MARITAL STATUS</b>		
Single, never married	34	62%
Married	12	22%
Divorced or separated	8	15%
Widowed	1	2%
<b>SIZE OF HOUSEHOLD (ADULTS AND CHILDREN)</b>		
1	7	13%
2	18	33%
3-4	25	45%
5 or more	5	9%

<sup>7</sup>Income obtained solely from informal employment or self-employment is reported in Chapter III.

<sup>8</sup>The 15 sample members who are involved in a job training program are from Baltimore. The primary recruitment source was an agency in the community that provided job training.

**TABLE 2.1 PERSONAL CHARACTERISTICS OF SAMPLE MEMBERS**  
(CONTINUED)

VARIABLE	SAMPLE MEMBERS (N=55)	
	NUMBER	PERCENT
<b>LEVEL OF EDUCATION</b>		
Less than high school	16	29%
High school/GED	18	33%
Some college	9	16%
2-year college degree	7	13%
4-year college degree	3	5%
Graduate degree	2	4%
<b>AVERAGE MONTHLY HOUSEHOLD INCOME (ALL SOURCES)</b>		
\$499 or less	8	14%
\$500 - \$999	15	27%
\$1,000 - \$1,999	18	33%
\$2,000 - \$2,999	9	16%
\$3,000 or more	4	7%
Not provided	1	2%
<b>TYPE OF EMPLOYMENT</b>		
Informal work only	45	82%
Combines formal wage job and informal cash income	10	18%

Source: ISED in-person interview. Number of respondents = 55.

Note: Percentages may total more than 100 due to rounding.

## Entry into the Informal Economy

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People engage in informal economic activities for a variety of reasons. For some it is a necessity, their only resort or their best option — a better alternative than low-wage formal employment. Others are involved in informal work as a choice — for personal fulfillment, social connection or to supplement primary income. This chapter describes how sample members were first introduced to the informal economy, and it describes their current informal businesses, informal employment arrangements or formal wage jobs.

### HOW PEOPLE ARE FIRST INTRODUCED TO THE INFORMAL ECONOMY

People are first introduced to the informal economy in many ways. Some people are exposed to informal work as a way of life. Family situations make it a necessity for some. Still others were aware that cash businesses or jobs existed, but had not personally ever done this type of work until something changed with their formal wage job. These reasons are described below.

As children, some sample members saw other family members or people in their neighborhoods working informally — doing odd jobs, helping others and earning money on the side. Many describe informal work as a way of life or family tradition:

*When I was about 10 or 11 years old, my dad used to take me around to my relatives' houses and different family members that needed work done. I just really got interested in basically working with my hands, wondering if I could really do this, and after I started doing it, then I would stand back and look at my work and think, 'I guess I am pretty good.' So, that's basically how I got started. I like working with my hands and I like doing what I do and I like being satisfied with my own work after it's done.*

*I'm used to seeing people getting extra jobs or working on the side — whatever they have to do to get by. When I was a child, my mother always worked more than one job. She always taught us to be independent and never rely on anybody else — always be your own person.*

*I've been doing it my whole life, delivering pizzas, working security at bars, bartending. I mean, I'd say in my life probably 70 percent of the jobs are done under the table and I don't think that's really unusual — at least not for people in my neighborhood. The majority of people, in a big city like this anyway, probably work informally. It's the only way you can get by. If you're making minimum wage and working 40 hours a week, after your taxes, you're walking away with a little over \$100 a week. But, most of the jobs that you do get paid under the table, they're jobs where you're waiting tables, bartending, delivering pizzas, so you're getting tips, plus the hourly wage.*

Some are introduced to informal work because of family or personal situations that present them with the opportunity to develop specific skills.

*My younger sister is mentally challenged. She's 37 years old, but only has the mental capacity of an eight or nine year old. I've always taken care of her — bathing her, feeding her, giving her medicine — since I was little. Friends of my family knew I did this sort of work and they told me about other people in the neighborhood who needed someone to care for a sick person. Right now, I am working in three homes.*

For some, entry into the informal economy is a voluntary choice, and for others there really is very little choice involved — it is the only avenue open to them. Gary's<sup>9</sup> story below illustrates how the need to earn money pushed him to work informally.

### Gary's Story

Gary is 20 years old and, until recently, he worked as a cook in an Italian carry-out restaurant. He learned his cooking skills at home and in home economics classes in middle school, and considers himself a chef. He worked at the restaurant for six months earning about \$150 a week. He received no benefits, but did get meals and was allowed to take food home to his family. This latter perk was very important to Gary, since he is considered the family "breadwinner" — a role he assumed at 15 years of age after his mother's illness precluded her from working. Gary did not hesitate to try to provide for his family, which includes three siblings.

His first attempts to earn money involved criminal activities. These "jobs" were plentiful and easy to find in his community, but for many, have led to incarceration or death. Eventually, Gary's mother found out about his criminal activities. While she was appreciative of her son's commitment to the family, she ultimately forced him to abandon a life of crime.

A friend helped Gary find the job at the Italian restaurant, and further influence from his mother led him to a job training program for youth. He credits both his street experiences and the job training program with building skills he will use in the future. He plans to attend college to study math and computers. He considers himself the family's role model and was influential in urging his 17-year-old sister to find a formal wage job. She, too, contributes to the household income from her restaurant job and by earning extra income by braiding hair. 

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<sup>9</sup>Sample members' identities are protected by giving them different names and sometimes even altering the descriptions of their businesses or jobs if they are quite unique.

For others, the introduction to the informal economy is due to a change in their formal wage job. Of the 55 sample members, 17 had never worked informally prior to the activity about which they were interviewed. Until this most recent experience, 15 had worked formal wage jobs. For the other two, this was their first connection to the labor market. For the former wage employees, layoffs are the most common reason people are pushed into the informal economy. Victor, age 42, said: *“I was laid off as a full-time file clerk for a local insurance company after working there for 10 years. The company was bought out by another company and a lot of us were laid off. I did odd jobs while I had my wage job, but I mostly worked for family members, and I wasn’t really getting paid for the work I did. I just wanted to help them out. Now, I do the side work full time while I’m looking for a regular wage job.”* A few who held formal wage jobs were not laid off, but choose to pursue informal work, because they wish to be “their own boss” or have more control over their lives (see Chapter IV and Chapter V).

For those who were laid off, most are biding their time in the informal economy, hoping for a break to go back to formal work. One person said: *“I’m staying off the streets and out of danger. I’m meeting nice people every day, and someday they might know someone who is hiring, and it might be a blessing where they can help me get a real job.”*

## **DESCRIPTION OF INTERVIEWEES’ INFORMAL BUSINESSES OR INFORMAL EMPLOYMENT**

Sample members were asked about their current informal business operations or informal employment (Table 3.1). At the time of the interview, three-quarters were operating a business informally or working informally. The remaining quarter had worked informally or operated a business informally within the last 12 months, but were not doing this activity at the time of the interview.<sup>10</sup>

*Self-Employed.* Seventy-one percent (39 people) are self-employed. They operate their own businesses, but in an informal way — being paid in cash or personal check, not filing taxes on their income, and being unregistered. They operate a range of businesses — home repair, lawn care, hairstyling, child care, home health aide and residential cleaning. The entrepreneurs secure their customers in a variety of ways. They often rely on strong family and neighborhood networks to generate business. Troy, 36, commented: *“A friend of mine asked me to cut his lawn when he was away driving a truck. So, I started out with him and then the lady next door to him asked if I could do her lawn, too. I just started adding a few more customers that way. Now I have six regular customers.”* Others rely on referrals from their customers. Allen, 60, who has operated his hauling and moving business for 20 years, said: *“Basically, I found that in this business people are usually connected. If you’re good to this person, they’ll give you a customer. I do a good job and they just take you as their mover and tell their friends about you. My best advertising is doing a quality job.”* A few individuals receive referrals from community organizations or churches. Some respondents rely on industry connections and referrals to generate work and future leads, while a few rely on door-to-door solicitation or walk-up customers (in the case of the street vendor).

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<sup>10</sup>The research conducted with informal workers uses a 12-month period, since some people may have seasonal work or the availability of work may fluctuate.

**TABLE 3.1 DESCRIPTION OF INFORMAL BUSINESSES OR INFORMAL EMPLOYMENT**

VARIABLE	SAMPLE MEMBERS (N=55)	
	NUMBER	PERCENT
<b>EARNING INFORMAL INCOME AT TIME OF INTERVIEW</b>		
Yes	42	76%
No (but has in last 12 months)	13	24%
<b>NATURE OF INFORMAL ARRANGEMENT</b>		
Self-employed	39	71%
Employed	16	29%
<b>NUMBER OF YEARS WORKING INFORMALLY/OPERATING BUSINESS INFORMALLY</b>		
Less than one year	11	20%
1 to 4 years	16	29%
5 to 8 years	12	22%
9 to 15 years	10	18%
More than 15 years	6	11%
<b>AVERAGE NUMBER OF YEARS WORKING INFORMALLY/OPERATING BUSINESS INFORMALLY</b>		
	7.5 years	
<b>RANGE</b>		
	9 months to 21 years	
<b>OCCUPATIONAL CATEGORY OF BUSINESS OR JOB</b>		
Construction, building trades	8	14%
Home health aide, elder care	7	13%
Food services, catering	6	11%
Hair braiding, hair stylist	6	11%
Retail sales (including street vendors, commission sales)	5	9%
Residential cleaning, commercial janitorial services	4	7%
Moving, hauling, truck driving	4	7%
Child care	3	5%
Yard work, outdoor clean-up	3	5%
Secretarial, office work	3	5%
Desktop publishing, resumes	2	4%
Auto body repair	1	2%
Tax preparation	1	2%
Upholstery, sewing	1	2%
Private tutor	1	2%

Source: ISED in-person interview. Number of respondents = 55.

Note: Percentages may total more than 100 due to rounding.

*Informal Employment.* Twenty-nine percent (16 people) are employed by companies and paid in cash.<sup>11</sup> All of those employed informally work in the service sector: five work in restaurants as dishwashers, cashiers or delivery persons; two for cleaning-related companies; four in retail sales; two as secretaries; one as a truck driver moving people cross-country; one in outdoor clean-up; and one as a newspaper and advertisement flier distributor.

They work for companies that employ from 1 to 55 employees. With the exception of one person who was the only employee, all interviewees reported that their employer also hires other people to work under-the-table: two-thirds of the employers hire all workers informally, while the other third hire both formal and informal workers. Several respondents note that only lower-wage workers or those in positions that could be easily filled are paid informally. Stanley, 27, who has worked as a busboy in a nearby restaurant since he was laid off at his formal wage job one year ago, explained: *“The busboys and waitresses are all paid in cash. The cooks, they get a regular paycheck every two weeks. It’s harder to keep good cooks — but it’s easy to find someone to serve food or clean tables — so we’re paid in cash once a week.”*

While none of these informal employees report receiving traditional work-related benefits, such as health coverage, sick or vacation days, or a retirement plan, some do receive “special perks.” For example, Candace works as a receptionist at an auto body shop and receives free oil changes and reduced fees for car repairs. Restaurant workers receive meals on-site and/or food to take home. This is an enormous cost-saving arrangement for many of the people interviewed. If they are allowed to take food home for other family members, their family’s grocery bill is greatly reduced. One employee cites the substantial on-the-job training he receives as a benefit. Another respondent receives incentive bonuses, but cites this as rare among the companies he has worked for. One person who works in an office is encouraged to pursue additional training at the area community college and is given a flexible schedule to attend classes, but she pays for this training herself.

People locate these cash-only jobs through a variety of methods. Most sample members find their jobs through informal hiring networks — friends and/or family members already working at the company.<sup>12</sup> Some respondents check the “want ads” in newspapers or respond to “help wanted” signs in storefront windows. A few find work because of a pre-existing relationship with the employer. For example, one respondent working for a large retail florist was converted from formal to informal status. Another was told about a job by his church. Thomas, 28, explained: *“It was a church that I was attending and they said, ‘We can help you get some cash if you sell Christian books for children and adults door-to-door on commission.’ I didn’t have a job at the time, so I said ‘Yeah.’ So they gave me the books, and I’ve been doing it for two years.”*

*Length of Participation in Informal Economy.* The length of time people have participated in the informal economy varies. Sample members have worked informally from as little as nine months to 21 years; the average length of time is 7.5 years (Table 3.1). Anne, 49, said: *“Housecleaning is a four-generation tradition in my family. My great-*

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<sup>11</sup>With the exception of one person who is paid by personal check.

<sup>12</sup>In the literature, the lack of informal hiring networks is cited as a leading barrier to formal employment among minorities and residents of low-income neighborhoods. The fact that the people we interviewed referenced informal networks so frequently as their entry into the informal economy deserves further examination to discern any implications for formal labor market participation.

*grandmother did it, my grandmother did it, my mom did it, and now I'm doing it. I've been housecleaning since I was only 11, but I've been doing it for money since I was 30."*

Contrary to the expectation that long-time participation in the informal economy would be the domain of older workers, the length of participation varies across the age spectrum. While a number of the older interviewees, aged 40-60 years, have participated in the informal economy for 10 to 40 years, more than half of the respondents under the age of 29 have been working informally from four to 16 years. This largely reflects a continuation of the practices of young girls engaging in hair care and babysitting and young boys in yard work or home repairs. This reflects a strong and early work ethic, as well as the pressing financial needs of many of these families.

*Occupational Categories.* People engage in a range of business or job types. As can be seen in Table 3.1, the top five occupational categories are construction and building trades (14 percent); home health aide and elder care (13 percent); food service (11 percent); hair styling (11 percent); and retail sales (9 percent). There is also a fairly typical gender division: men primarily work in construction, yard work and retail; women work in child care, home health care and hair styling.

A higher skill level than that of the informal occupations is evident when wage employment during the previous 12 months is considered. Prior occupations in the formal economy include baker, certified nurse's assistant, computer technician, construction worker, copywriter, drug abuse counselor, florist, information technology specialist, licensed practical nurse, mortgage broker, medical orderly, social service agency supervisor and welder.

Thirty-three percent of people interviewed (18 individuals) have multiple informal jobs or businesses. For men, the most common combination is yard work and building trades. For example, among men who engage in more than one occupation, it is not uncommon to find those with experience in the building trades engaging in moving and hauling, outdoor clean-up, and/or janitorial work. Often this combination of services is influenced by seasonal considerations or market needs. Hal, 32, noted: *"I'm a handyman. I do whatever is needed. I do painting in the summer time and I work inside in the winter. Sometimes I even do cleaning at some of the apartment buildings. The manager over there knows me and he calls me in the cold months."* One person reported: *"I've had this business for 13 years and I provide three basic services, because everyone needs somewhere to live, something to eat, and heat. I do all of this — I fix houses, I'm a short-order cook, and I install heaters/boilers."* Among the women, the most common combination of multiple occupations is hair care and child care. Other women combine various food preparation services with child care, elder care and textiles.

*Income from Informal Activities.* Monthly income data are provided because many reported erratic informal work from week to week (Table 3.2). Informal income ranges from a low of \$200 per month for a woman who styles hair to augment her wage job to a high of \$2,400 per month for a man whose sole support is derived from his 20-year-old moving business. The average monthly income from informal economic activities is \$910.

As can be seen from the monthly average of \$910, sample members are not earning very much; they often struggle to make ends meet each month. Moreover,

none of those who previously worked in the formal economy have succeeded in matching their earlier income level. Those who have been in the informal economy for more than 15 years and those who are 35 years and older tend to earn slightly more than younger workers or those who are new to informal work.

On average, people who are informally operating businesses earn more per month (\$1,013) than do people who are employed informally (\$702). Women report earning more than men from their informal economic activities (\$963 compared with \$879). This difference may be due to the fact that women are more likely to be self-employed rather than employed informally; thus, earning more.

*Hours Dedicated to Informal Activities.* Respondents generally devote considerable time to informal economic activities, an average of 38 hours per week (Table 3.2). This figure represents all informal work — both primary and secondary — and ranges from a minimum of eight hours per week to as much as 70 hours. For 38 percent, their informal activities are full time (more than 35 hours per week), and for 62 percent, it is a part-time endeavor (34 hours or less per week). William, 31, who is a truck driver, explained: *“It all depends on if we have a job. Some weeks I can work up to 70 hours and then a few weeks later I don’t have any hours.”* People who are affected by the weather are especially vulnerable to these hour fluctuations. Steven, 29, who does lawn care, said: *“I pray for snow in the winter, or else I won’t have any work.”*

For most respondents, the generation of income from informal activity is a labor-intensive process. When averaged over a monthly period, it appears that many of those working 40-50 hours per week are actually earning less than the minimum wage — though taxes are not withheld. However, many respondents report flexible work schedules that may actually yield a better return on the time invested in informal work. Janice, 48, who is an elder care provider, explained: *“I put a lot of hours into my business, but I get more than just money out of it. I can be home with my daughter when she gets home from school, and I can take on as many customers as I want. I’m the boss.”*

**TABLE 3.2 INFORMAL BUSINESSES/JOB: INCOME AND HOURS**

VARIABLE	SAMPLE MEMBERS (N=55)	
	NUMBER	PERCENT
<b>AVERAGE MONTHLY INCOME FROM INFORMAL WORK/BUSINESS ONLY</b>		
Less than \$499	8	14%
\$500 - \$999	23	42%
\$1,000 - \$1,999	18	33%
\$2,000 - \$2,999	5	9%
More than \$3,000	1	2%
<b>AVERAGE MONTHLY INCOME FROM EITHER INFORMAL BUSINESS OR WORK</b>	\$910 <sup>a</sup>	
<b>AVERAGE MONTHLY INCOME FROM INFORMAL ACTIVITIES ONLY</b>	Informal Business (n=39)	Informal Employment (n=16)
	\$1013	\$702
<b>AVERAGE MONTHLY INCOME FROM INFORMAL ACTIVITIES ONLY</b>	Earnings for Women (n=28)	Earnings for Men (n=27)
	\$963	\$879
<b>AVERAGE NUMBER OF HOURS WORKING INFORMALLY PER WEEK</b>		
Less than 10 hours	4	7%
11 – 20 hours	8	14%
21 – 30 hours	12	22%
31 – 40 hours	16	29%
More than 40 hours	15	27%
<b>AVERAGE NUMBER OF HOURS PER WEEK</b>	38 hours	

Source: ISED in-person interview. Number of respondents = 55.

<sup>a</sup>This figure does not include the income from one sample member who provides legal and accounting services informally and earns considerably more than the other respondents (\$4,000). The \$4,000 is a true outlier given the fact that the next highest monthly income is \$2,400. Had this dollar amount been included the average would be \$1,203.

It is not surprising that most of the people who have a formal wage job in addition to their informal work spend fewer hours working informally than do people whose primary income is from informal work. Nann, 30, who does hair styling in the evenings and on weekends, said: *“I spend about 10 to 15 hours doing hair each week and that’s enough for me. I still need time to be with my son and keep my regular job. There are only so many hours in the day.”*

## DESCRIPTION OF INTERVIEWEES’ FORMAL WAGE EMPLOYMENT

Though it was not the primary focus of the interview, sample members were asked about their current formal wage jobs. A substantial number (18 percent) of the sample members also have formal wage employment (Table 3.3). They work in a range of occupations — data entry, counselor and nurse — and most work full time. For this subgroup, the average monthly income from wage employment is \$1,263. The average combined monthly income from formal wage income and informal sources is \$1,942. Most often people “patch” their incomes to earn additional money when a single income source is insufficient to meet their basic needs. One person said: “I need to make a buck on the side, because sometimes just a regular job is not going to do it. I can’t get by living paycheck to paycheck.”

**TABLE 3.3 DESCRIPTION OF CURRENT FORMAL WAGE JOBS**

VARIABLE	SAMPLE MEMBERS (N=55)	
	NUMBER	PERCENT <sup>a</sup>
<b>OCCUPATIONAL CATEGORY OF BUSINESS/JOB</b>		
Data entry	3	5%
Counselor: mental health/substance abuse, career	2	4%
Tutor	1	2%
Nurse	1	2%
Food service	1	2%
Retail sales	1	2%
Commercial cleaner	1	2%
<b>AVERAGE NUMBER OF HOURS WORKING INFORMALLY PER WEEK</b>		
Full time	7	13%
Part time	3	5%
<b>AVERAGE MONTHLY INCOME FROM FORMAL JOB</b>		
Less than \$499	1	2%
\$500 - \$999	4	7%
\$1,000 - \$1,999	3	5%
\$2,000 - \$2,999	2	4%
More than \$3,000	0	0
<b>AVERAGE MONTHLY INCOME FROM FORMAL WAGE JOB ONLY</b>	\$1,263	
<b>AVERAGE MONTHLY INCOME FROM INFORMAL AND FORMAL SOURCES COMBINED<sup>b</sup></b>	\$1,942	

Source: ISED in-person interview. Number of respondents = 10.

<sup>a</sup> Percentages calculated based on total sample of 55 to make percentages comparable.

<sup>b</sup> Data from the respondent providing legal and accounting services informally and earning \$4,000 were excluded from this calculation.

## Reasons People Are in the Informal Economy

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For many interviewees the most common response to the question of why they run their businesses informally or work informally is, “I need the money,” or “I need to make a buck on the side, because sometimes just a regular job is not going to do it,” or some variation on these themes. When probed more deeply, however, it appears that most, though not all, engage in some analytical process in deciding whether to operate in the informal economy. While a few interviewees simply respond to an informal opportunity at a time when they need cash, most respondents weigh the pros and cons vis-à-vis such considerations as earning potential, time factors, barriers to formal work, skill-building opportunities, personal/family commitments, social responsibility and long-term career objectives.

Interviewees identified a number of tangible reasons why they work in the informal economy. Besides the obvious financial considerations, interviewees cite such reasons as the need for independence; the desire to work from home; the desire for some extra income to help pay for special items; the need for additional income for a short period of time, such as while paying off a debt or pursuing job training; and helping get a family through a medical crisis. Nann, 30, who does hair styling, said: *“I have a full-time job. I do hair on the side to buy extra things for my son and me. Special tennis shoes, going to the movies — things like that. My wage job takes care of our rent and basic living expenses.”*

Other interviewees gave slightly more abstract rationales for working in the informal economy, such as the diversity of holding multiple jobs, which is easier to do with informal jobs; wanting a safety net in economic hard times; having no passion for wage employment or no outlet for creativity or self-expression; and wanting to help other people. Candace, 30, who works as a receptionist, explained:

*When hard times come I know I can do something on the side. That extra money is going to put gas in my car or buy some food. It helps a lot just knowing I can get some extra cash. Just having a couple of dollars to tie you over makes a big difference. You don't get enough with just a regular paycheck. You can't go to your employer and ask for an advance.*

We analyzed the 55 interviews and grouped the experiences of the respondents into six meaningful categories that best capture their stories. The reasons are: (1) the desire for undocumented income, (2) the inability to secure formal employment, (3) dissatisfaction with formal employment, (4) the desire for independence and control, (5) first stage in the pursuit of a formal business, and (6) desire to strengthen neighborhood social support networks and economic conditions. The order in which the six categories are presented is not significant — they are not listed in order of importance or frequency.

## DESIRE FOR UNDOCUMENTED INCOME

Some people pursue informal arrangements because they wish to hide their income from a government institution; they want to avoid paying child support; or they do not wish to jeopardize their public assistance, disability or unemployment benefits. For some, it is a long-term arrangement, while for others, it is short-term. Examples of each of these situations are presented below.

*Child Support.* Several of the men interviewed for the study identify the desire for undocumented income as the primary driver of their participation in the informal economy. In most cases, these men are non-custodial fathers responsible for child support payments. These fathers offer two different rationales for seeking undocumented income. Some men want to “hide” as much income as possible in order to minimize child support levels. Others, who accept their fatherhood responsibilities and readily make support payments, believe they need to supplement their income to make ends meet.

*Public Assistance.* A number of the female interviewees receive public assistance and believe that the department’s rules restrict recipients from earning income without experiencing a reduction in benefits. A few interviewees cite these limitations as the primary cause for engaging in informal activity. They believe the level of public support is insufficient to meet household expenses and plan for the future. Evidence from the literature indicates that welfare recipients in most states cannot survive on their benefits alone and pursue supplementary sources of income — doing odd jobs or working for cash on the side (Edin and Lane, 1997).

One respondent likens her situation to a Catch-22. Her public assistance benefits are not enough to live on, so she supplements them by providing hair care and babysitting services to friends and family for cash. She would like to receive additional training to open a hair salon or a restaurant, but feels she cannot use the extra income for self-improvement without raising questions with the welfare department that could jeopardize her benefits. In the meantime, she is working to complete her GED and attends a training program to become a Certified Nurse’s Assistant. Although she considers herself highly self-motivated, she feels constrained by the system’s limitations in putting her extra income to really good use.

*Disability or Unemployment.* Others do not wish to lose their disability or unemployment benefits, so they work for cash on the side. Gloria, 52, described her situation: “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.” Dorian, 50, is working as a bartender after she was laid off as a bank teller. “My unemployment ends in a few months. I intend to be back on a regular wage job before that, because I need to have a weekly paycheck as a ‘sure thing.’ I’ve been doing bartending off and on for 10 years, but I can’t see myself doing it as my only primary job. Now I’m solely dependent on the bartending and you get an eerie feeling of not being secure.”

## UNABLE TO SECURE FORMAL EMPLOYMENT

Some people operate informal businesses or engage in informal work when they are unable to find formal wage employment. This is often because they have low

education or minimal skills, a criminal record or drug problems. These reasons are discussed below.

*Low Education or Limited Skills.* A number of interviewees are unable to find wage employment because of low education or minimal marketable skills. Anne said: *"I dropped out of high school in the tenth grade. Most wage jobs are hard to get for me. And, the wages that you do get are low, and when taxes are taken out, there's nothing left for rent or food. Working for cash is really the only option for me."* The younger sample members who are just entering the labor market believe they have few jobs skills. Tonya, 23, works 20 hours per week at a local grocery store. Her older sister worked at the same store when she was younger, and Tonya believes it is really the only place she could get hired.

*Criminal Record.* Several people interviewed have criminal records and this directly affects their ability to find formal employment. One person explained: *"I'd rather have a wage job, because I'd work two weeks and get a paycheck. But, my background is all messed up. I've got a record, and I can't get a regular job. Now, I have to hustle for customers all the time."* Another described: *"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."* The reality of not finding a wage job limits the options a person has to eke out a living. Cassie, 41, said: *"I'm walking around with a big X on my back, because I was in jail. I babysit and I clean houses. Some people sell their bodies, but I've never done that — thank God."* The combination of racial discrimination and having a criminal record is a double hindrance. Hal made this observation: *"As soon as they find out that you been in jail or you got a felony, they don't find any work for you. The unions won't let you work. But, it's funny, though, because I know so many white guys that have records and they work."*

Others have tried to seek formal employment but have been disappointed by their efforts. One person said: *"A friend of a friend hired me to drive cars and wash cars at his car lot. He knew about my record, and he said, 'No problem, don't worry about it; I'll take care of it.' So, I got my driver's license and showed up for work, and he said they couldn't hire me after all, since I had a record. But, at least I got my driver's license."* Another described this situation: *"I went to UPS and I put it down on the application that I had a record and they didn't hire me. A little while later I went back to UPS and filled out another application and I didn't put it down I was an ex-con and they hired me. But, after I was on the job for a few days, they found out and I was fired. I never tried to get a wage job since."*

Even working informally is not without its concerns for people who have a criminal record. Once they begin working informally, there is still the threat that their record might curtail their earning power. One person who does interior painting and carpentry, explained: *"When you get a criminal record, they don't want you to work for the federal government anymore, so you have to do it on your own. And, I've been doing it on my own and it was working pretty good for awhile, but then some customers decide to check your references, and then they won't have you in their houses."*

*Drug Problem.* A few sample members have current or recent drug problems that have either made it difficult to work (not showing up for jobs or getting fired) or made it impossible to work (being in a mandatory court-ordered drug treatment

program). Sheryl, 29, described her situation quite openly: *"I've been in and out of prison for selling drugs, and I'm a user too. I've been to a couple of detox programs, so it's not like I can build a good work history with any employers."* Another person indicated that his life is disrupted whenever he begins using drugs again. Though he did not turn to crime to support his habit, he did state that he could not go back to regular wage work, since he was fired several times.

## **DISSATISFACTION WITH FORMAL EMPLOYMENT**

Of the 55 sample members, 56 percent (31 people) have held formal wage jobs at some point in their lives. Some have had negative experiences with formal employment and consequently see informal arrangements either as a better option or as their only option. Others have had long-term formal jobs and decided they did not want to continue wage employment.

Some interviewees have had frustrating experiences in formal jobs — unreasonable bosses, difficulties with co-workers, or undesirable work conditions. Others had been hired on full time, but slowly their hours were reduced or their shifts switched. Therefore, they sought informal work, often with trusted relatives or friends. One person noted: *"There's nobody over you on the job yelling at you or watching you. You can take your time; the customers won't bother you. All I have to do is get my work done and the customer's happy. I like it that way."* One interviewee who works for a cleaning company owned by a relative believes he has achieved a higher level of responsibility than was possible in either a wage job or working for a non-relative. For LaNelle, 26, the time and expense of taking a bus across town for just a few hours each day was not reasonable. She said: *"I tried a wage job in the city, but the cost of the bus and train was too much. Plus, I was hired full time, but they soon scheduled me for only 30 hours. Then they gave me four three-hour days, rather than having all the hours in one day."*

Others remarked that tight hiring networks, politics and race often play a role in their disenchantment with formal wage work. Rodney, from Chicago, described his disappointments and his decision to pursue informal work: *"It's tough getting a job down at city hall or even getting an interview down there. You put in an application and nothing happens. If you don't know someone that's working down there, you don't have a chance. There's a lot of political stuff. You need to be tight with the alderman in the neighborhood. So, I just basically try to do what I can do on the side, trying to keep my spirits up and not get frustrated and not get aggravated for not being hired."*

Some turn away from formal wage employment as a deliberate decision to change their careers or their lives. Theresa, 53, started working in a factory immediately after graduation from high school. She worked there for 32 years. For the last two years she has been an elder-care provider. As she remarked: *"I already did my time working a regular job. What I'm doing now is for pleasure. I like getting out and helping people in the neighborhood."* Davis suffered a personal loss that spurred him to assess his life. He explained: *"I had a regular factory job for 15 years, and then I got divorced. It threw me into a whole different life, into another lifestyle. I was really depressed, and I just wanted to be off by myself. I would get a job, and I might work for a*

*week or two, and then I would just stop going. I just needed a change, so I started doing moving, and I liked being in charge of my own destiny.”*

## **D E S I R E   F O R   I N D E P E N D E N C E   A N D   C O N T R O L**

The lure of independence and control is very strong for some people. Motivating factors are the desire to set one’s own work schedule, earn as much as one is willing to dedicate in work hours, and be free from outside forces. Gregory, 37, a self-employed dry-waller and carpenter for 12 years, summarizes these ideas: *“I just don’t like being restricted in my earnings. A person can only make so much at a regular wage job. Your wage is only so high. But, for me, I’d rather rely on my own skills and know that I can make however much I want. I think I have enough wisdom to go out there and create my own future.”*

Others determined that formal wage employment would not help them achieve their goals. Charles, 27, explained: *“I never, ever once, I never thought about going and working at McDonald’s or going to do something like that. It was never an option for me. I always knew I wanted to be my own boss and be in control of my own work. Even if I wanted to, it wouldn’t have paid enough money for me.”*

Some sample members talk about their need to avoid being at the mercy of an unstable economy. They view their decision to pursue informal work as a viable strategy in a very different job market now compared with 30 years ago. One person remarked: *“I guess getting a wage job is the normal thing. That’s what you’re taught. You grow up — you go to school to get a job. But, that’s not how things are now.”* Many have been laid off themselves or have seen people laid off or fired and left with nothing (e.g., retirement, security). Timothy, 33, a resume and proposal writer for three years, explained:

*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.*

Rodney, 30, who does home repair in his neighborhood said:

*I don’t believe that people should be unemployed and claim ‘I can’t find a job.’ Each person can make a job. When I got tired of knocking on doors and begging people for [wage] jobs and being told ‘We aren’t hiring,’ I started asking people in the neighborhood what they needed done to their houses. I told people, ‘Let me fix your porch, mow your lawn.’ I created my own work.*

Others have family commitments that make standard 9-to-5 jobs implausible. One person is unable to work a regular wage job, since she is raising her two young granddaughters. She needs to have a flexible work schedule to allow her to be home in the afternoon when the children are out of school. A young mother who works at home doing desktop publishing said: *“I like the cash job, because I can set my own*

*schedule around things that I need to do. My daughter has special medical needs and I need to have a flexible schedule.”*

## **FIRST STAGE IN THE PURSUIT OF A FORMAL BUSINESS**

A few sample members are strategically thinking about making their businesses formal and registered. Interviewees fall along a continuum of planning. Some are at one end of the spectrum. They say, “It would be nice to have this as a real business,” but they have not made any concrete steps beyond this “wishful stage.” A few are at the other end of the spectrum, and they are taking deliberate steps to achieve their goals. The following examples illustrate these different stages.

*Eventually, once I have this tutoring business established, I’ll probably make it a legal business and start paying Social Security and taxes. But, I just can’t do it now. I would lose 10 hours of income a week to taxes. I’ve had my own business before, and you always think you’re going to make more money than you do.*

*Right now, I’m in a certification class at the technical school. At the end of the class I’ll have a certificate. I’m learning what forms I need to fill out to register my business. I’ve taken these steps to accomplish the goal of having a legal business. I’ve been adding customers and making investments by buying my own tools. My planning and preparation is over. It’s time I actually put it all together.*

Several respondents reported specific efforts to expand their self-employment activities into registered businesses. A few have taken entrepreneurship classes, taken job training classes, completed certification required for licensing, and/or consulted with institutions that could provide technical assistance. However, none have actually formally registered their businesses. A few women enrolled in a child-care job training class seem to view the goal of formalization most tangibly and have identified the steps to become registered. One person who works in upholstery consulted a local microenterprise program, but she was discouraged from moving forward because of the small size of her operation. Etta’s story highlights the experiences that may prompt a person to pursue informal work initially and then decide to take the steps to register the business.

### **Etta’s Story**

Two years ago, Etta completed training as a Certified Nurse’s Assistant (CNA). She worked in a CNA job in the formal sector for one year, but became ill and had to leave her position. During her own illness, she became aware of the lack of home health care services in poor communities and vowed to help alleviate this problem by offering her services to others in need. She has been a home health provider for the last year, working primarily with the elderly and indigent who learn about her services from her friends and family

members. It is the first time she has worked informally. She does not have any set fees for her services, but accepts what people can give her. During this time, Etta also started working at a hair salon under-the-table. Together these two endeavors provide her with income of about \$800 each month.

Etta hopes her health will improve enough so that she can manage a wage job in the future. She has considered trying to identify formal assignments in hospitals or as a private duty nurse, but decided that her true calling is working with children with special needs. She is currently enrolled in a training program that will result in child-care certification and help her take steps to formally register her business. Here, too, she cites the lack of affordable, quality care available to families with special needs children who live in her neighborhood. Etta speaks glowingly about the satisfaction she receives when caring for others, but decries a system that makes quality health care and other social services elusive to African American communities like hers. In her opinion, the social good of informality far outweighs the loss of tax revenues to government coffers.

## **DESIRE TO STRENGTHEN NEIGHBORHOOD SOCIAL SUPPORT NETWORKS AND ECONOMIC CONDITIONS**

Several interviewees want to strengthen their neighborhoods' social support networks and economic conditions. They explicitly explained their decisions to participate in the informal economy in the context of the economic disinvestment and structural conditions affecting poor neighborhoods like theirs. Through their efforts, they hope to increase accessible, affordable goods and services; increase economic and consumer choices; and develop and sustain supportive social and financial networks. Many see themselves as filling a niche left void by the lack of economic choices and social services. Their informal work is a way for them to contribute to their communities and help sustain a fragile social and economic infrastructure. Individuals expressing these community sentiments include elderly care givers, hair care providers, a street vendor, cleaners, construction/home repair workers, an upholsterer, sales persons and a professional services provider.

Other respondents have been motivated by personal suffering (either a medical condition or personal loss) that heightens their sense of social responsibility and is a factor in their decision to work informally. Mavis' story (below) offers an example of how personal adversity reaffirmed a decision to serve broader community needs by working informally.

### ***Mavis' Story***

Mavis is a self-employed child-care provider who specializes in caring for children with special needs. She also is a hairdresser on the side. She became interested in children with special needs, because she was so classified as a

youngster and understands how important it is for these children to receive the appropriate attention and care. She also has several nieces and nephews with special needs, one of whom is under the care of Mavis' mother. As a teenager, Mavis began reading about special needs children and caregiving on her own time. She also attended parenting classes with her mother aimed at addressing the needs of the niece. She became critically aware that affordable care for special needs children is sorely lacking in neighborhoods such as hers and pledged to do something about it. Now, at 22 years old, she cares for up to four special needs children who are referred to her by friends, family and neighborhood residents. In a good month she earns about \$1,200 from this work and another \$250-\$500 styling hair.

Mavis claims no passion for the wage jobs she's held in the past. She's outspoken and opinionated — traits that are not rewarded in the low-wage labor market. Mavis loves working for herself and is now receiving additional training to become a licensed child-care provider. Her long-term objective is to remain self-employed but in a legitimate business. Mavis believes she will always earn extra income styling hair for family and friends. She also has bigger plans: she is currently seeking capital to open a salon with one of her siblings who is training in cosmetology. Mavis will take an active "investor" role and monitor the management of the business. Thus, for her, working in the informal economy has opened up several pathways to opportunities that she doubts would have come her way in the formal economy. Moreover, she is giving back to her community.

Others enjoy giving back to their neighborhoods in a meaningful way and intentionally do not charge very much for their services. For example, many home health aides and elder-care providers care for people in existing family and social networks (such as church) and typically do not charge for their services; instead, they accept what people can afford to pay. Doris, an elder-care provider, 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 trying to take people's money. It is a very valuable reward, because the work I do is important. The people I care for can stay in their houses and they don't have to go to a nursing home off by themselves where they'd be alone."*

For many people, the social relationships nurtured through their informal businesses are important. Some spoke about the social benefits they derive from working informally, such as keeping abreast of family and neighborhood news and issues, and learning about other employment opportunities. One person who cleans houses in the neighborhood does not want to sit in the house all day. She enjoys getting out and visiting with the people whose houses she cleans.

## Advantages and Disadvantages of Operating Informally

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A clear message from the sample members is that operating in the informal economy is neither entirely positive nor entirely negative. One person summarizes this sentiment:

*There are pros and cons with both cash jobs and wage jobs. It depends on the type of person you are and if you have a family to support, which arrangement is going to be best for you. No matter what you're doing, if you're working and it's honest work and it's legal work, you're doing the best you can.*

We found that people are more likely to identify advantages rather than disadvantages of operating an informal business or working informally — 100 percent of the sample members identified at least one positive aspect of participating in the informal economy, while only 73 percent noted negative aspects. Most recognize that by being in the informal economy, they have made a decision to give up something, such as employment benefits or a regular paycheck, in order to obtain independence and immediate cash income. Quite often an advantage produces a related disadvantage — for example, an informal employment arrangement provides freedom, but hinders a person's ability to secure credit cards or loans that are tied to a formal work history.

### ADVANTAGES

Sample members were asked to consider what they liked about working informally.<sup>13</sup> The advantages most frequently cited by sample members are being paid in cash without taxes being withheld, independence and entrepreneurial spirit, a way to build occupational skills, informal employment arrangements, and best solution to temporary situation. Each is described below.

#### Being Paid in Cash and No Taxes

The most important benefit to being in the informal economy is being paid in cash immediately — “having the money in your hand,” not having to pay check-cashing fees, not needing a bank account, etc. These feelings are summarized in the

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<sup>13</sup>More than one advantage could be identified. Less frequently mentioned advantages noted by a few people include the social connections made through informal work; a sense of personal satisfaction from the work; having a steady, loyal customer base; and the ability to help others find work through informal channels.

following quote: *“The most important advantage to me is getting paid in cash at the end of the day. I don’t have to go to a check-cashing store where they have a high service charge just to cash such a pretty small check. I lose too much money that way. I’ve never had a bank account, so I have no other choice but to go to the check-cashing place.”* Another person explained that being paid in cash is a time saver:

*Being paid in cash saves you money and time. You don’t have to cash your checks. You’ve got your money as soon as you get off work. You’ve got cash in your hand and you can go do whatever you want to do. If you have a regular job and you worked until 10 o’clock at night, everything’s closed — banks, money stores. You’re stuck.*

Not having to pay taxes is another commonly cited advantage.<sup>14</sup> Some people are quite forthright about stating this as a reason: *“Why wouldn’t you want to get paid in cash? That way Uncle Sam won’t get his hands on any of it.”* Others are open, though a little cautious, about mentioning this reason: *“To be honest with you, I don’t have to pay income tax on it.”*

While sample members recognize that not paying state and federal taxes is illegal, they often give some justification for their actions. Some declare that what they are doing “isn’t really that bad” compared with selling drugs or committing a major crime. One person explained: *“There are a lot of other people doing worse things. I’m just one person getting a little extra cash. I don’t think I’m hurting the government.”* Some who also hold wage jobs believe they are already contributing enough tax through their formal jobs. One person explained: *“I’m not trying to put anything over on the government. It’s just that cash is a lot better than a wage job. I’m not trying to duck from the IRS. I still file on my regular job.”*

## **Independence and Entrepreneurial Spirit**

Since nearly three-quarters of the sample members are self-employed, reasons related to independence and having more control in one’s life were voiced repeatedly. Many of the self-employed respondents are drawn to informal work, because they have a marketable skill that they could match to a specific demand. A number of interviewees view self-employment as the best way to position themselves in the labor market. By not limiting themselves to one employer and controlling how and when they enter the labor market, they are able to create new economic opportunities and exploit those that present themselves most efficiently and productively given their needs at the time. One person explained: *“There’s a lot of construction going on around here. I can do dry-walling in the winter and painting in the summer. I’m one of the few people around who knows heating and cooling systems, so there’s a demand for that work. I keep in touch with what’s needed in the area.”*

Some of the other characteristics that serve as proxies for independence and entrepreneurial tendencies include wanting flexibility, controlling one’s time, controlling one’s income, controlling one’s work environment, exercising creativity

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<sup>14</sup>However, not all sample members view the absence of tax payments as an advantage. They understand that hiding income means there are considerable benefits and financial management tools — such as the Earned Income Tax Credit (EITC) — that are unavailable to them. Other respondents spoke of envying friends who work in the formal economy and receive tax refund checks.

and self-expression, financial independence, and control of labor productivity. This statement sums up this fact: *“The best part of being an entrepreneur is that your ‘paycheck’ can always go up. I control how many customers I have, how much I earn. At a regular job, I can only earn \$7 an hour — it doesn’t matter how hard I work in that hour or how many customers I serve; I’m only going to earn \$7.”*

In some instances, these themes are explicitly cited as *reasons* for working in the informal economy. Independence is the driver, not the result. In other cases, interviewees view independence-related themes as *results* or *benefits* gained from working informally. Quite a number of the interviewees discuss their entrepreneurial and self-employment aspirations in the context of the historic and current disenfranchisement of African Americans from mainstream opportunities. They express well-informed views and personal experiences of racial bias, lack of educational and economic opportunities, and other forms of racial and class disparity.

### **Build Occupational Skills**

A number of respondents — both self-employed individuals and informal wage workers — credit informal arrangements as a chance to acquire on-the-job training and develop valuable skills. Some believe they have achieved a level of job responsibility well beyond what they could achieve in a formal wage job. One man who works for private construction contractors, including businesses owned by relatives and friends, confided that while he lacks both a GED and formal building trades training, by working informally, he has amassed considerable skills that make him quite competitive with certified construction workers. He understands that he has been fortunate and is now pursuing a GED and has hope of one day being self-employed. A 22-year-old man, who works for a wholesale perfume distributor selling on the street, credits the experience with building entrepreneurial, communications and financial management skills — skills he is sure he will apply in future self-employment endeavors. Stanley, 40, who sells books door-to-door, holds a similar view:

*I know selling has definitely helped me. I could get a regular marketing job and do it really well; I could get any sales job or customer service job. It’s the experience that I’ve had dealing with all sorts of people. I’m not afraid to approach people and tell them about my products. I’ve learned good sales delivery, techniques of selling, and how to handle rejections. I have self-confidence that I can do sales, customer service, any job dealing directly with people. I have a strong work ethic, and I wouldn’t be afraid to get a regular job in the future.*

In addition to building their own skills, many are providing skill-building opportunities for others. One self-employed mover/hauler, Allen, discussed the opportunities he is providing young men in the neighborhood to learn marketable skills. He recognizes that there are few jobs for 14- to 22-year-olds that do not involve stealing or selling drugs. Allen is committed to providing honest work while being an authority figure. He explained:

*I provide job training. They'll stay with me a couple of years. Some of them leave to start their own businesses or take a regular wage job. I encourage all of them to go to school, which I didn't do, so I know it's important. I represent an older man or a father figure to them, so I take that as a serious responsibility, because a lot of them don't have their own fathers in their lives. I demand certain things of them. I expect them to show up to work when we have a moving job, not be high or drunk, and be polite to the customer. Those are important things to learn when you're young. It's a lot better than hanging out with gangs and getting into trouble with the law.*

### **Relaxed Employment Arrangement**

For some people, the relaxed or casual nature of the informal employment arrangement appeals to them — they can come and go as they please. Most recognize that their employment ties are not as rigid as they would be if they held formal jobs. For example, leaving a formal wage job has implications, i.e., their reputations are damaged if they walk away from a wage job, thus making it more difficult to find another job.

*You're not committed to stay [at the job]. If you want to leave one day, you can do that — no problem. But, at a regular job, you can't just quit. They want a letter of resignation, and you might want a reference. And, you've got to give them two to four weeks' notice. You have to give them a good reason, because they spent their time and money on you — training you for a lot of things — and they got to find somebody to replace you. If you leave on bad terms, it's really hard, if you wanted to go back there or find a job in the same line of work. They're [employers] going to think that since you just up and left, you're not dependable. However, with a cash job, you can get up today and say to yourself 'I want to quit,' and it's no big deal."*

### **Best Solution to Temporary Situation**

Twenty-nine percent of the interviewees had never worked in the informal economy prior to the loss of their wage jobs. All of these respondents indicate a desire to resume working in the formal economy and/or anticipate working informally only as pressing needs dictate — not as a way of life. The following quotes highlight the “temporary” nature of the informal economic status.

*I would prefer a steady job. I've been looking since I was laid off two years ago. I've been staying with my dad and I thank the Lord that he's being patient with me and understanding. I have to pay my way. I'm not living off of him — I pay for food, part of the electric bill, stuff like that. I appreciate that he's helping me out through my hard times.*

*My doctor told me I am a high-risk pregnancy, so I had to quit my regular wage job (as a security guard). I have to stay off my feet for the last three months of my pregnancy. Then, once I have my baby, I will go back to my wage job.*

Others choose to work for less income, because that is all the money they need right now. Some have spouses or partners who have formal wage employment, and they decided their family does not need a second formal wage earner. Others are single and require less income. One person explained: *“I’m not married, so I’m not in a situation where I have a family to support. If I did, I probably would rely on my actual education and get a regular wage job.”* The implication for most of these individuals was that if something changed in their need for more money — their spouse lost his/her job or they had a child — they would reassess their current informal arrangement and pursue a higher-wage formal job.

## **DISADVANTAGES**

Operating in the informal economy is not always positive. While 73 percent of the sample members identified at least one disadvantage of working in the informal economy, 27 percent reported that there are no disadvantages. The most common disadvantages are having no employment benefits, lack of economic security, reduced opportunity to establish credit, dealing with unscrupulous employers, and risks/penalties of not reporting income.

### **No Employment Benefits**

A common disadvantage mentioned is the absence of employment benefits — paid sick days, paid vacation days, retirement, health insurance and dental insurance. As one person who lost her formal wage job as a Certified Nurse’s Assistant (CNA) at a hospital after 13 years noted: *“I’m doing the same work I did as a CNA employee. The only difference is not having the benefits. That’s the only disadvantage for me.”*

Of these employment benefits, health insurance is the most highly valued. The degree to which sample members miss these benefits is related to their family situation and the presence of another adult in the household who has employment benefits. For example, Candace, 28, who works as a receptionist at an automotive repair shop, does not receive any benefits, but her husband is employed full time and the family is covered under his health insurance. Nann, who works part time at a regular wage job and is a hairdresser on the side, does not have any health care coverage for herself, but her child is covered under Nann’s mother’s health insurance. Others are not as fortunate, since there is not another adult in the household, and they are without health coverage for themselves or their children. Under these circumstances, they go to free medical clinics or the emergency room for care. One person said: *“I miss the health benefits. I have to go to the county hospital to see a doctor and the lines are so long and the care isn’t the best.”*

Others regret not having an employer-provided retirement plan or Social Security. They realize their futures are more precarious, since they have little connection with the formal labor force. Even younger sample members are aware of the implications of working informally. Tanja, 23, said: *“I know I can’t do this [work for cash] forever, because I need to have some sort of retirement plan from my employer.”* Allen, 60, one of the older sample members, commented: *“What’s going to happen to me when I can’t work any more? I won’t get much Social Security [from his earlier wage*

job]. Right now, I'm in good health, but I can't keep hauling and lifting forever. I have some savings, but not enough to carry me for 20 more years." Another person commented:

*Just think, when I'm 65, I'm not going to have Social Security. I want to work and have something at the end of my life. But, I can't get a job that pays more than minimum wage and that's not enough [income] for me. I have to work for cash now. I don't know what will happen when I'm too old to work.*

### **Lack of Economic Security**

Another common disadvantage is the lack of economic security. Economic security is affected by several factors — the irregularity of income, pricing skills, a low-income customer base, difficulties collecting payments from customers and a small customer base. Each of these is described below.

The income from cash jobs and self-employment varies from week to week, month to month. The variability and unpredictability of income makes it difficult for people to budget and plan. The lack of a regular paycheck is especially worrisome for those sample members who once held a wage job. The following quotes illustrate their concerns.

*When you work an hourly wage job you expect a check each week. You can balance your budget that way. If you work on the side, you don't have that security. Something might come up and you can't work. Then you don't have any money coming in that week.*

*I had a really nice 401(k) job at a bank, but I was laid off. I knew exactly what my paycheck was going to be. Now [as a bartender], I don't know what I'll take home each night. On a good night, I could make about \$180. But, if it's a bad night, I might make only \$60. That makes it hard to budget and pay my bills.*

Price-setting skills affect the income levels for the self-employed. Not surprisingly, those who are most savvy are more likely to earn a profit. For example, some base their prices on aspects of the specific job, e.g., time involved, the size of the job, number of children, hours expended, etc., and quote a price with a built-in profit margin. A few have a thorough knowledge of market conditions and set their prices competitively. One person said: "You've got to be careful about taking care of your occupation, so it actually makes you a living. You can't take on jobs that are going to lose you money — the jobs that take too much time and don't pay you enough." In most cases, particularly among the hair stylists and child-care providers, they undercut the formal market. The exception to these practices is the individuals who do not quote a price, but instead accept whatever the client can afford to pay.

Some sample members do not earn very much from their cash jobs, because many of their customers are low-income. This is especially true for businesses such as health aides, child-care providers, hairdressers and handymen, when their customers are primarily from their own neighborhood. Having low-income people

as their primary customer base causes difficulties for some entrepreneurs — undercharging and collecting payment:

*I'm not getting rich, because my customers don't have much money. Most of my customers are poor or live on a fixed income because of Social Security. They have to try to stretch their money, and if they have to buy medicine, they don't have much left over. I try to help them out [by not charging too much], 'cause they are helping me out [by hiring me]; I try not to overcharge them.*

*Sometimes customers don't pay me on time. Sometimes they have to wait for their monthly government check, which means I have to wait until the first of the month to get paid.*

Another factor that makes entrepreneurs' income so unpredictable is that some of the self-employed have a very small customer base — again, this is especially true for the people offering services in their own neighborhoods. One person said: *"I cut lawns, clean gutters, trim hedges, general lawn maintenance. I only have six regular customers right now. And, they don't want something done every week, so sometimes I don't have any money coming in."*

### **Reduced Opportunity to Establish Credit**

By being paid in cash, sample members do not have the opportunity to build their credit, apply for credit cards or loans, or have a bank account. One person explained: *"The downside for me is I can't apply for a credit card or purchase a car. Credit card companies or banks want to see proof of employment. They want to see a check stub. I don't have that."* Not being able to have a credit card is especially frustrating for those individuals who have acted responsibly.

*I don't know why I can't get a credit card. I pay my bills on time. I know other people who lie to get them, but I haven't done that, because I don't want to make trouble for myself. I don't want to lie on the application. So, since I don't lie, I can't get a credit card.*

Another person discussed the banking relationship he lost when he switched from a formal wage job to a cash job after being laid off:

*At my wage job, I had direct deposit, and the employer actually got me the account at the bank. So, I had a checking account and a debit card. I lost the bank account once I was laid off and stopped having direct deposit. I have bad credit, so I couldn't keep the account on my own. You can have all the cash in the world, but if your credit's no good, they don't want your money.*

### **Dealing with Unscrupulous Employers**

Several interviewees consider the lack of enforcement of labor laws and avenues for

redress associated with informal work as problematic. Three examples of dealing with unscrupulous employers follow. Lisa, a restaurant worker whose story is discussed in the next section, did not know she had been hired under-the-table until she had already worked a week. While the work was tolerable and her performance more than adequate, Lisa was denied pay raises, because she did not have a GED. One truck driver is given little notice regarding upcoming long-distance deliveries and is only offered the undesirable jobs that the formal employees have already turned down. He cannot complain about this treatment, since he would lose his job if he did. Penny's story highlights the difficult work conditions some informal workers face.

### Penny's Story

Until recently, Penny worked at a large floral operation, performing multiple assignments for which she was paid under-the-table from the owner's personal, non-business account. The business employed low-wage workers (including undocumented immigrants) off-the-books, but hired its management and administrative staff legitimately. Penny received no benefits and was discouraged from taking time off, which effectively precluded her from looking for other work.

Tired of those conditions and of not being able to benefit from making tax and pension payments, Penny asked her employer to pay her wages and withhold the requisite taxes. She was told that that was possible only if she accepted a salaried position. Having seen her workload increase with only marginal increases in income, Penny knew that she would be even more overworked as a salaried worker. She turned down the salaried position and left the company, but concluded that she learned enough about various aspects of the florist business that she could successfully operate a florist shop.

Currently, Penny is pursuing training in business administration through a job-training agency to augment her practical knowledge and help facilitate her long-term goal of being self-employed. She vows to never work informally again. 

### **Risks and Penalties of Not Reporting Income**

While not frequently mentioned as a disadvantage of working informally, several interviewees are concerned about the risks associated with not reporting earnings from informal activities. One interviewee with legal and accounting skills feels sufficiently experienced in knowing how to report a portion of his informal income to avoid detection by tax auditors. Clearly, however, his experience is not typical of most low-skilled informal workers.

People who are out of work due to medical disability and receive disability benefits take considerable risks when they decide to work informally. Two examples are provided. One person, a former welder with military experience, was forced to

retire from his wage job due to illness. He reports having no problems with officials because of his informal activities, because he “stays under the radar.” It is worth noting, however, that he is one of the interviewees who provides care to the sick and elderly, but does not “charge” them; rather, he simply accepts what they offer him — a subtle distinction, but one that may assuage officials, if asked. A self-employed caterer, who works both large and small jobs, reports income from large employers who may document the payment, but does not report income from small jobs. The following story underscores the risks to someone with limited experience in earning undocumented income.

### *Lisa’s Story*

Lisa suffers from a congenital heart condition. At 37 years of age, she has had open-heart surgery three times. Since Lisa receives Supplemental Security Income (SSI), she is eligible for Medicaid. Lisa lives with her son, who is considerably overweight. She cites the high cost of durable clothes for someone his size as the primary reason she sought additional income through informal work. The extra income allowed her to have telephone service, which was deemed essential by doctors and family members concerned about her heart condition. A friend who worked as a wage employee at a restaurant referred Lisa to a job as a restaurant cashier, for which she earned a little over \$185 under-the-table for about 30-40 hours of work a week.

Lisa did not know she would be paid in this manner until her first pay period. Most people in her circle of family and friends hold legitimate wage jobs, so she had no sources of advice to guide her in negotiating conditions with the restaurant owner or working around the rules related to disability assistance and outside work. Although the employer would not give Lisa a raise because she did not have a high school diploma or GED, she kept the job for a year while receiving disability, because the employer understood her health condition and made sure her work was stress-free. However, the lack of advancement opportunities pushed her to enroll in a GED class and seek job training as an Information Technology (IT) technician. She ultimately left the restaurant job and accepted an on-the-job training position in IT earning \$350 a week. This was a formal job and caught the attention of SSI, resulting in a reduction in benefits — an outcome she did not anticipate. The SSI staff person impressed upon Lisa that it was her duty to report her income and threatened her with revoking her benefits entirely, if she did not report her undocumented income. Lisa is not sure whether SSI had actual evidence of the restaurant job or whether they bluffed her into admitting it.

Since Lisa’s objective was to keep her disability and health benefits, she gave up her informal job. However, she remains optimistic about both her health and her ability to re-enter the IT field and secure a good formal job with sufficient health coverage.

Based on this experience, Lisa is adamant about never working for cash informally while receiving disability. Nor, will she ever work as an undocumented employee or in a job without benefits. However, she has not ruled out the possibility of earning additional income through self-employment, providing IT and computer services to friends and people in the neighborhood once she's in a wage job. 

Clearly, operating in the informal economy is complicated. There are both advantages and disadvantages. Some interviewees carefully weigh their options and decide to pursue their informal business or informal employment arrangements. Others recognize that there may be more disadvantages, but believe they have little choice. Given this reality, not all of the sample members are equally interested in moving into the formal economy. Therefore, microenterprise development programs that wish to serve informal entrepreneurs face many challenges; these are discussed in the next chapter.

## Conclusion and Implications

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Why should anyone care if people are operating informal businesses or working informally? The answers are philosophical as well as practical. Most basically, our society is built on the foundation of an open, honest, law-abiding system in which income is reported and taxes are paid by both households and businesses. Yet, the facts show that more and more people across the income spectrum are deciding not to report part or all of their income, and more and more types of businesses across industries are operating informally in some way. Other than the “sheer joy of paying taxes,” how will informal business owners benefit from formalizing?

We started this project with formalization as an assumption, but we realized that if microenterprise development is a means for people to create income and livelihoods, then formalization is the primary goal. However, formalization may not be right for everyone. If microenterprise development programs want to encourage and enable informal entrepreneurs to formalize their businesses, it may be best to consider formalization as a long-term, gradual process, rather than an immediate change. Informal entrepreneurs might be more receptive of microenterprise development (MED) service if they are first able to trust the provider and then discover, over a period of time and as a result of business growth, the benefits of formalizing.

This question does not have an easy answer. On the one hand, our economy fails to provide jobs and adequate incomes for our nation’s poor — many of whom are forced to create their own incomes through self-employment in the informal economy. Yet, society expects people who are barely surviving in the informal economy to pay taxes. Many people choose to operate informally. For some it is a necessity, their only resort, or their best option — a better alternative than low-wage formal employment. Being in the informal economy enables them to survive and to provide some level of support for their families. Others are involved in informal work as a choice — for personal fulfillment or social connection, or to supplement primary income.

Based on the experiences of the people we interviewed, it is reasonable to expect some level of informal operations to exist in any community. MED organizations must decide whether they are willing to serve people who would benefit from their services, even if they want to maintain the informal status of their businesses, or whether they are going to insist that their clients enter the formal economy.

There is a natural link between the informal economy and the services provided by MED programs. This chapter addresses two questions: (1) Could people who operate their businesses informally or work informally be potential new clients for MED programs? and (2) What challenges would MED programs face in order to

serve this population? At the end of this chapter, our suggestion for the next step in this research is presented.

## POTENTIAL NEW CLIENTS

Interest in licensing or growing their enterprises into legitimate, profitable businesses varies among the sample members. There are others who may have larger ambitions, but legal issues constrain how visible they can become. There are those who will never seek more than to pursue self-employment on a very limited basis for risk mitigation and income supplementation. Still others may have limited skills and capacities to operate in sectors where price competition is strong. We identified four distinct groups:

- the self-employed who are interested and ready to make their businesses legal (9 percent);
- the self-employed who are interested but cautious to make their businesses legal (42 percent);
- the self-employed who are not at all interested in formalizing their businesses (20 percent); and
- those who are involved in informal work and have not considered self-employment (29 percent).

### Self-Employed Who Are Interested and Ready

As discussed in Chapter IV, for some people owning a small business is their goal, and they are taking deliberate steps to achieve it. For others, owning their own business is just a dream at this point. A few sample members are strategically thinking about their current informal businesses as an early stage in making their businesses formal. These people have made specific efforts to expand their self-employment activities into a registered business. A few have sought additional training, taken entrepreneurship classes, completed certification required for licensing, inquired about financing and/or consulted with institutions that could provide technical assistance. However, none had actually become formally registered at the time of the interview.

The people who are actively formalizing their businesses clearly see the advantages of moving from the informal economy to the formal economy. One person, who has been in business for more than 15 years, has decided he wants to compete openly with other registered home repair businesses. In order to do this, he must license and register his business. He also has the desire to be placed on a city government vendor list: *“The advantage of having a legitimate business is that I could advertise in the Yellow Pages and get more customers. I could also bid on the really good city contracts. The city has to give a certain percentage of the contracts to minorities. I can only bid on those jobs if I am registered, licensed and insured.”* Another person had a failed formal business in his past, but he is being more careful in his planning this time. He is taking the time to build a customer base to determine whether there is truly a need for his services as a private tutor for people preparing for the English as a Second

Language test. He intends to formalize, both because it is the “right thing to do” and because he would be able to apply for a loan and serve more customers — whereas he currently relies on word-of-mouth for referrals.

As microenterprise practitioners have observed, the desire to grow and a corresponding need for financing, appear to be the most compelling triggers to becoming legal (Edgcomb, Klein and Clark, 1996). Our interviews support this finding.

### **Self-Employed Who Are Interested But Cautious**

Others are interested in the idea of formalizing, but it is an abstract goal. We heard the following statement quite often: “*Oh, sure I'd like to own my own business, be my own boss.*” But, when probed for more details about their exact plans, it was clear that very little concrete planning had occurred. Most of these individuals seemed cautious to approach a service agency, because they are unsure whether they are eligible for services, or they believe that their current personal situation makes it difficult for them to formalize their businesses at this time.

People who have a criminal record or who have poor or bad credit believe they are ineligible for services. These individuals have thought about formalizing their businesses, but believe that they would have to do it on their own, since their past behavior makes them too great a risk for agencies to serve. One person declared, “*I have a criminal record. There aren't any agencies out there that will help me. People think I'm a bad person, just because I made a mistake a while back.*” Another person explained, “*No one is going to give me a loan. I have terrible credit. I had to declare bankruptcy once. No bank is ever going to touch me.*” It is clear that for most of these individuals, their negative perceptions of available services are influencing their actions, rather than actual rejections from organizations. When probed regarding whether they have actually confirmed this assumption by approaching an agency or bank, only a few had done so. One person described his experience:

*I went to [a local agency] that helps people like me who have a criminal record and want to find work. I went down there and met with a lady and filled out some forms. I didn't hear from her for a long time, so I called her, and she said they didn't have any jobs now, but she would call me back. She never called me back, so I called her again, but she wouldn't take my calls. So I went down there [to the office] and she wouldn't even see me. I haven't tried anything like that again.*

Others believe that their current situations prohibit them from taking steps to formalize their businesses. Some are needed in the home to care for a young or ill child, and this makes it difficult for them to dedicate the time necessary to attend classes or complete the required paperwork to obtain a license. A few have chronic health conditions that limit their ability to schedule or plan activities in advance. Their illnesses are quite debilitating during certain periods, and they just do not believe that they can plan for their “health to be there when they need it most.”

Still others recognize that their poor, urban communities offer limited employment opportunities and this is often exacerbated by racial issues. Some do not have transportation, so they cannot conveniently move around the city for job

interviews or keep regular work schedules. When asked about public transportation, this was frequently dismissed as inadequate and too time-consuming. Seeking employment in the suburbs is not viewed as feasible or desirable. Therefore, they believe there is little alternative to the informal businesses they operate now. As one person said: *"It's the best I can do in a bad situation."*

### **Self-Employed Who Are Not Interested**

Some self-employed people are simply not interested in having their businesses become legal. They believe that the advantages of remaining in the informal sector outweigh the disadvantages of operating in the formal economy. As discussed in Chapter 5, the advantages of remaining in the informal economy are: being paid in cash without taxes being withheld, avoiding burdensome regulations, being free to organize one's own work schedule, and being able to "hide" income. They either wish to maintain their informal business status or to change from informal business operators to formal wage earners.

Some engage in small-scale neighborhood services. Their goal is to strengthen their neighborhoods' social and economic networks rather than to expand their businesses. They enjoy the personal relationship they have with each of their customers and enjoy offering needed services to their neighbors. Some are reluctant to look for new customers outside of their immediate neighborhoods. They feel comfortable in their own neighborhoods and do not see themselves expanding their market into other areas of the city or venturing into the suburbs. This is especially true for the people who provide home repair services and are not union members. Gaining entrance into the construction and trade market is nearly impossible for a non-union worker and doubly difficult for African Americans facing discrimination.

Other unlikely candidates for MED services are people who:

- like the freedom afforded by operating an informal business;
- wish to hide income to avoid paying child support, or do not wish to jeopardize their public assistance, disability or unemployment benefits; and
- hold "good" formal jobs who pursue a self-employment activity as a risk management strategy (in case of job loss), as a creative outlet or for personal enjoyment.

### **Informal Workers Who Have Not Considered Self-Employment**

When asked about their future plans, none of the people who work informally (i.e., paid in cash by an employer) identifies self-employment as his/her goal.<sup>15</sup> They either wish to obtain formal full-time employment or to continue working informally.

Of 16 people who are employed informally, six aspire to regular formal employment. Some of these six were laid off from their formal wage jobs. They are receiving unemployment insurance and plan to return to the formal economy as

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<sup>15</sup>Sample members who are employed informally were not specifically asked about their desire to be self-employed. They were asked to respond to the following question: "Do you see yourself earning income the way you do now in the future?"

soon as their insurance runs out. Others quit their previous formal wage jobs and are actively looking for a better formal job (i.e., higher wages, more hours and more employment benefits). All six individuals believe formal employment is the best career path for them. For these individuals, job training or educational programs might be a more appropriate service option than microenterprise development.

The remaining 10 individuals are not interested in formal employment for a variety of reasons. Some want to keep their income hidden because of child support, disability, unemployment or public assistance. They have made the conscious decision to keep their income unreported. Others have turned away from formal employment. They give a variety of reasons, e.g., they believe they are unqualified or poorly educated; they worked formally for a long time and do not wish to return to it; they were disappointed with the experience of working formally (e.g., mistreated by boss or discrimination); or they tried to secure formal employment, but were turned away because of a criminal record.

For the individuals who wish to remain working informally, it is unclear if microenterprise services are appropriate. It may be that they have not seriously considered the idea of self-employment, but would be interested. Or, it may be that the barriers they perceive as prohibiting them from entering the formal employment labor market are the same barriers they perceive as making self-employment improbable. Effective interventions might be traditional job training programs specifically designed to work with people with criminal records, or education and training programs specifically targeted to people who have low education.

## **M I C R O E N T E R P R I S E   S E R V I C E   C H A L L E N G E S**

If MED programs wish to serve people who operate in the informal economy, they must understand how informal entrepreneurs perceive their opportunities and constraints, and recognize the diversity of goals people have. It is probably accurate to state that current clients of most microenterprise programs are people who have already taken or are willing to consider steps to formalize their businesses. This is the “interested and ready” group in our study. MED programs can probably serve this group with their current training, technical assistance and credit services with fairly little modification.

The challenges emerge when MED programs seek to serve people who are in the “interested but cautious” category. To serve this hesitant group, programs will need to: (1) consider what changes are needed in current program policies and procedures to allow agencies to serve this population, and whether the program is open to those changes that will make services more feasible; and (2) help the entrepreneurs recognize the benefits of operating in the formal economy and how they exceed the disadvantages/constraints of operating in the informal economy — as well as the means of operating formally that will make it feasible for the entrepreneur.

## **Consider Current Program Policies and Procedures**

MED programs must consider whether their current policies and procedures are compatible with serving informal business operators. If policies and procedural adjustments are needed, are MED programs willing to make these changes? The most immediate issues are related to:

**Expectation of Formalizing.** Formalization is both a real and perceived barrier. MED programs either believe that formalization is a regulatory requirement based on their particular funding source, or they make it a programmatic objective. The Small Business Administration (SBA) clearly requires that businesses be in the formal economy, since it cannot sanction non-payment of taxes. SBA loans require that entrepreneurs provide either a Social Security number or a TIN number. Though we did not survey MED program managers, we do know that many programs consider formalization as “the right thing to do” and either require or strongly encourage clients to formalize their businesses.

MED programs need to grapple with the issues related to requiring formalization of businesses, and consider the implications of their policies. Some funders may require that businesses be formal, but others may provide flexibility.

If formalization is required, MED programs must clearly communicate this expectation to their clients. Agencies must decide if formalization must happen right away or if it can be a longer-term goal. It may be best for formalization to be a process over time, rather than an immediate change in status, so that clients can slowly move in the direction of formalization and make the necessary changes to their enterprises.

If formalization is not required, MED programs will need to address the issue of trust with their clients. There is the perception among sample members that getting something (i.e., MED services) for nothing (i.e., not requiring they formalize their businesses) is unlikely. People may be reluctant to trust agencies. The informal entrepreneur needs to understand what, if anything, the program expects from the client in return?

**Loans.** In the early days of microenterprise development programs, managers took fairly informal approaches to lending, loaned relatively small amounts, and made loans to people that other financial institutions would not even consider. MED programs still operate with somewhat more risk tolerance than do mainstream financial institutions. However, they have approached scale by becoming SBA intermediaries or establishing loan loss reserve and other agreements with banks; they have sought to mitigate risk and have increasingly relied on credit industry standards such as credit reports, credit scores, collateral requirements, etc., to help justify lending decisions. Consequently, the low-end microenterprise clients — those with small capital needs and barriers to credit — are often excluded from accessing microenterprise development program resources.

Furthermore MED programs have struggled with the question of how they can afford to serve high-risk clients who need small loans. They know that small loans have high transaction costs. There are at least two possible ways to address this issue.

One approach is to lower transaction costs for the low-end customer by doing away with the usual underwriting criteria such as completion of training, credit

reports, requirements for credit repair, etc. The entrepreneurs we interviewed can benefit from smaller loans, but for many good reasons, will not or cannot engage the required process — and need the money “right now.” For example, a furniture mover who has a broken-down truck is out of business. A small very short-term loan could be made “on the spot” by a program based solely on the potential of the business idea or opportunity. The offer of these loans can be contingent on the willingness of the client to simultaneously engage in credit repair. Thus, clients begin to resolve existing credit problems at the same time that they generate self-employment income for themselves and establish a positive credit rating by repaying the business loans.

Another approach is for MED programs to develop a variety of lending products that meet the varied credit needs of business owners along the small business development continuum. Transaction fees and interest earned from serving larger scale business owners can be used to subsidize customers of loan products at the low-end of the continuum, since often these “on the spot loans” are high risk.

**Criminal Record.** Nearly all of the interviewees who have a criminal record dismissed the possibility that they would be eligible for any kind of services. Are MED programs willing to serve people who have a criminal record? If they are, programs have to make this commitment and plan for the special challenges of serving this population — the availability of traditional financial supports, restrictions of businesses allowed to operate, and more cumbersome registering procedures.

**Assessing the Market.** MED programs sometimes have difficulty serving the “interested but cautious” group, because programs are often designed to help clients who have more concrete plans or clients who are already operating at a more organized level. Thus, MED programs may provide services that are too formal for this population. That is, they help clients develop business plans and provide training when what the “informal” client needs is help in sustaining or increasing the opportunity.

“Sustaining the opportunity” means helping the client analyze his/her customer base to see if there are enough customers to sustain the business at its current level of operation over the long haul. MED programs can help clients realistically determine if there is a demand for their services/products and the size of this demand.

“Increasing the opportunity” means broadening the market for products or services. Informal entrepreneurs cannot advertise openly. MED programs could show clients the advantages of using traditional advertising techniques, rather than word-of-mouth to secure customers. It would be especially effective if MED programs had personal testimonials in which current or former clients increased their gross income as a result of newspaper advertisements, ads in the Yellow Pages, radio spots, etc.

### **Demonstrate Benefits of Operating Formally**

It is not necessarily obvious to entrepreneurs how formalizing will benefit them. This is one reason that many do not seek MED services. MED programs must help

the entrepreneurs understand the benefits of operating in the formal economy and how those exceed the disadvantages/constraints of operating in the informal economy — as well as the means of operating formally that will make it feasible for the entrepreneur.

**Demonstrate Advantages of Operating Formally.** MED programs need to clearly demonstrate the benefits of operating formally for this population. For some informal businesses, movement into the mainstream economy can stimulate growth by providing greater access to capital, advertising and potential linkages with other mainstream organizations. In an informal setting, emerging entrepreneurs can test their products and services in a limited market, and can gain experience in production, marketing, customer relations and other business areas without making an investment in registration and other elements of formalization. MED programs can show clients how many of these learned skills can be transferred to the formal business world.

**Demonstrate Disadvantages of Operating Informally.** MED programs could show how operating informally can pose constraints to business growth. For instance, businesses operating on a cash basis cannot qualify for most loans (since they cannot demonstrate that they generate enough net income to repay the loans), leaving entrepreneurs either operating with very low levels of capital or resorting to more expensive and limited sources of financial support (informal sources, personal loans, credit cards, etc.). Also, they cannot accurately value their businesses, if they choose to sell them. Neither can they become too visible in their marketing, for fear of becoming apparent to regulators.

**Overcome Fear of Government and Paperwork Aversion.** Many informal entrepreneurs are leery of the paperwork that is required to become legal. One person said: *“I look at some guys I know who are legal and there’s so much paperwork, forms and red tape with politicians that I don’t even know if it’s worth the headache.”* MED programs need to demonstrate how paperwork can be streamlined and minimized. They can also suggest that some reporting tasks can be outsourced for reasonable costs.

**Overcome Fear of Growth.** Sometimes the reluctance to formalize is related to a fear of business growth. That is, informal entrepreneurs are afraid that they do not have the skills necessary to operate a larger business. The MED program needs to provide assurances that it will be ready to assist with the issues related to growth. For example, a client may be afraid of hiring employees. The MED program would need to assure the availability of assistance with all of the tasks related to hiring and maintaining employees.

## **FUTURE RESEARCH DIRECTION**

We believe the next step in the research process is a pilot project to test the potential of microenterprise development programs to serve informal economy participants.

By identifying issues and documenting various approaches to addressing those issues and their relative success, the field would learn how to best serve informal business operators. This pilot would answer the following research questions:

1. Which marketing strategies are most effective in reaching this population?
2. Which program policies and procedures need to be modified to serve this population?
3. What products and strategies need to be developed to serve this population?
4. What were the anticipated and unanticipated challenges of serving this population?

As the researchers, we would work closely with the MED programs throughout the pilot — from the initial selection stage and implementation through follow-up. The MED program would benefit from the continuous, quality feedback loop that we would create. We would provide feedback to the agency at each stage to ensure what mid-course adjustments, if any, are necessary to better serve this population. The pilot project would entail:

- A Request for Proposals (RFP) process in which applicants would agree to analyze policies and procedures that may need to be modified, and commit themselves to making the changes necessary to effectively serve informal economy participants;
- Selecting the pilot MED programs;
- Analyzing current policies and procedures needing modifications;
- Designing new products and strategies to effectively serve informal economy participants;
- Preparing staff to serve this new market;
- Marketing and outreach to informal economy participants;
- Monitoring the service process;
- Collecting data from program staff and new clients to assess the effectiveness of the service strategies and to identify what changes need to be made to increase effectiveness; and
- Documenting program processes, outcomes and adaptations.



## Appendix: Interview Guide

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### INFORMAL ECONOMY INTERVIEW GUIDE

Name of Interviewee \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Referral Organization/Person: \_\_\_\_\_

Date of Interview: November \_\_\_\_\_, 2002      Length of Interview: \_\_\_\_\_

#### CURRENT SITUATION

1. What is your current work situation?

\_\_\_ Currently working in the informal economy

\_\_\_ Not currently working in the informal economy, but has in the past 12 months

Date when last worked informally \_\_\_\_\_

\_\_\_ Also works regular, wage employment

#### Respondent's Primary Informal Work

2. Now, let's talk more about the details of your informal work. I'd like to learn as much as I can about this. What sort of informal work do/did you do?

3. How did you first start out working informally in this line of work?

4. How long have you done this particular kind of work?

5. In a typical week, how many hours do/did you work informally?

6. What attracted you to this kind of work arrangement — one where you work

“off-the-books”?

PROBE: Is this the only work you could find in the neighborhood?

PROBE: Is it easy to get to, convenient?

PROBE: Is it comfortable as opposed to looking for work elsewhere?

7. Do/Did you work for yourself or do you work through someone else?

7a. IF SELF-EMPLOYED ASK:

- Who are/were your primary customers or clients?
- How do/did you find out about future jobs?
- Do/did you advertise, is it by word-of-mouth, or do people approach you?
- How much do you charge customers for your work? How does this compare with what your competitors charge?
- How are/were you paid? Paid in cash, by check or through some other arrangement?
- Could you estimate what you make from this work in a typical month?
- Or, when you think of your total income, how much of it comes from this work? Is it one-half, one-quarter, etc.? Please give examples.

7b. IF WORKS FOR SOMEONE ELSE ASK:

- Do/Did you work for a company? If yes, how many other people work in the type of arrangement that you do? Are there some people who are employees and earn a wage rather than working informally?
- How did you learn about this opportunity — did someone approach you or did you approach your employer?
- How are/were you paid? Paid in cash, by check or through some other arrangement?

- Could you estimate what you make from this work in a typical month? Or, when you think of your total income, how much of it comes from this work? Is it one-half, one-quarter, etc.? Give examples.
- Do/Did you receive any benefits through your informal work, such as use of equipment, reduction on uniform costs, health insurance, sick days or vacation days?

### **Benefits and Motivations of Informal Work**

8. Is/Was this the first informal work that you have done?

PROBE: What led you to seek informal work?

PROBE: How did you first get started working this way?

9. What do you like best about working informally? What are the greatest benefits?

10. What do you like least about working informally? What are the biggest problems?

11. Is there anything that keeps you working informally?

PROBE: Do you have child support problems, IRS issues or a criminal background?

12. Do you see yourself earning income the way you do now in the future?

13. What would need to happen for you to stop working in the informal economy?

13a. IF SELF-EMPLOYED ASK:

- Have you ever thought about what you might need to grow into a registered business?

- Have you ever looked into what it would take to make this a registered business?
- Have you ever tried to get help to make this into a business?
- Have you ever applied for a loan or any type of financing?

13b. IF WORKS FOR SOMEONE ELSE ASK:

- Have you ever thought about what you might need to work a single full-time job where you wouldn't have to work informally?
- Have you ever tried to get help to make this happen?

### **Respondent's Other Informal Work**

NOTE: IF PERSON HAS/HAD MORE THAN ONE INFORMAL JOB, ASK:

14. We've just talked about your primary informal work and you mentioned earlier that you do/did more than one type of informal work, tell me about your other informal work.

15. How many hours in a typical week do you work in this other informal job?

PROBE: So in addition to the hours you work at the informal work we discussed earlier, you work ...

16. How much do you earn in a typical week from this other informal work?

### **Respondent's Wage Employment**

IF ALSO WORKING FORMAL WAGE EMPLOYMENT ASK:

17. Other than your informal work, you also mentioned you have wage employment — by this I mean a job that you pay taxes on. What do you do for regular wage employment?

18. In a typical week, how many hours do you work for wage employment?

PROBE: So in addition to the hours you work at the informal work we discussed earlier, you work....

19. How much do you earn in a typical week from wage employment?

### Interviewer's Summary

20. You've told me a lot of detailed information and I would like to make certain I have a clear picture of what you do. So, before we move on to some different questions, let me just summarize what I've learned so far. From your primary informal work, you work an average of \_\_\_ hours each week and earn roughly \_\_\_\_ each week. From your other informal work, you ... From your wage employment, you ...

(NOTE: TABLE BELOW IS TO HELP INTERVIEWER JOT DOWN SUMMARY DETAILS AND PROBE IF THERE IS ANY NEW INFORMATION SHARED AT THIS TIME.)

	<b>Average hours per week</b>	<b>Average earnings per week</b>
<i>Primary informal work</i>		
<i>Other informal work</i>		
<i>Wage employment</i>		

**OTHER HOUSEHOLD MEMBERS**

21. We've talked a lot about your experiences, now I'd like to ask you some questions about other members of your household. I'd like to get a picture of any informal work they might do. Again this could include working off-the-books, working under-the-table, doing jobs on the side or moonlighting.

21a. How many people are there in your household? \_\_\_\_\_

21b. In the past 12 months, do/did other members of your household earn cash to make ends meet in ways other than regular wage employment?

21c. Has this been the case for a long time or is this something new, temporary, seasonal?

21d. If so, what type of work? Please describe. How many hours do they work? How much do they earn per week? (NOTE: May wish to fill-in table below to keep numbers straight.)

Family member (name not needed — refer by relationship to respondent)	Describe informal work	Average hours per week	Average earnings per week

**FRIENDS/NEIGHBORS**

22. We would like to understand how widespread working informally is — do you have friends, co-workers or neighbors who are also working informally?

Is it fairly typical for people you know to work informally or is this rare?

Could you tell me a little about the type of work they are doing?

**ADDITIONAL THOUGHTS**

23. Is there anything else about informal work that I need to know to really understand what informal work is and why it is so popular?

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## DEMOGRAPHIC ITEMS

Before we end, I just have a few personal questions to ask you. These questions help us get a picture of who works informally. Again, everything you share will be kept confidential.

D1. What race or ethnic group do you consider yourself? CIRCLE ONLY ONE

AFRICAN AMERICAN

WHITE

LATINA OR HISPANIC

ASIAN OR PACIFIC ISLANDER

NATIVE AMERICAN (AMERICAN INDIAN)

MULTI-RACIAL

OTHER? (SPECIFY) \_\_\_\_\_

D2. Gender: FEMALE MALE

D3. What is your current marital status? CIRCLE ONLY ONE

MARRIED SEPARATED DIVORCED WIDOWED

NEVER BEEN MARRIED, SINGLE LIVE-IN SITUATION

D4. How much education have you had? CIRCLE ONLY ONE

LESS THAN HIGH SCHOOL (Write in highest grade completed \_\_\_\_\_)

COMPLETED HIGH SCHOOL OR EARNED GED

SOME COLLEGE

2-YEAR COLLEGE DEGREE

4-YEAR COLLEGE DEGREE

ATTENDED GRADUATE SCHOOL

GRADUATE DEGREE

OTHER: \_\_\_\_\_

D5. Considering all sources of income, would you say your household income in a typical month is: CIRCLE ONLY ONE

Less than \$499

Between \$500 and \$999

Between \$1,000 and \$1,999

Between \$2,000 and \$2,999

More than \$3,000

**Thank you very much!**

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**Also Available:**

*The Informal Economy: Latino Enterprises at the Margins*. This companion document was written by Elaine Edgcomb and Maria Medrano Armington from FIELD. It can be downloaded free from the FIELD Web site ([www.fieldus.org/publications/index.html](http://www.fieldus.org/publications/index.html)) or from the ISED Web site ([www.ised.org](http://www.ised.org)). In addition, a very limited number of print copies are available from FIELD for a small shipping and handling fee. To order, visit the FIELD Web address above.

*Informal Economy Literature Review*. This piece summarizes existing research into the U.S. informal economy and suggests why it appears to be a permanent part of the modern economy. Included is a set of recommendations offering ways to promote the positive aspects of the informal economy, repress the negative effects and help business owners make the transition from informal to formal status. To download a free PDF, visit: [www.ised.org](http://www.ised.org) or [www.fieldus.org/li/lit\\_review.htm](http://www.fieldus.org/li/lit_review.htm).

*FIELD forum* Issue 14, "The Informal Economy and Microenterprise in the United States." This 12-page publication offers a succinct definition of the informal economy and details the experiences of – and key issues for – microenterprise development organizations that work with those engaged in informal work. Also described are the wide range of people who engage in informal work, along with their motivations. To download a free PDF, visit: [www.fieldus.org/li/ie\\_news.htm](http://www.fieldus.org/li/ie_news.htm).

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