

# FACING THE FACTS

## Acknowledging the informal economy in anti-poverty policies and services



**OXFAM**

November 2012

**Most people who work informally are forced to do so to make ends meet rather than out of a desire to cheat the system. Yet by working in the informal economy, many become even more trapped in poverty. Oxfam has undertaken research to explore why people work informally and the impact this has on their lives and communities. In sharing our findings, we hope to encourage policy-makers to take the reality of the informal economy into account in efforts to help people overcome poverty.**

The informal economy – also known as the ‘grey’ or hidden economy, or cash-in-hand work – includes economic activities which are legal in all respects other than that they are hidden from the state for tax, benefit, or labour law reasons. Although informal work is hard to research, recent studies suggest that in the UK it could account for 12% of GDP and be worth as much as £120 billion each year.<sup>1</sup>

Since 2005, Oxfam has been looking behind the statistics to uncover what drives people to work in the informal economy, and the impact this has on them – and on their communities – in both the short and long term. Oxfam does not condone benefit fraud, but we have found that for many households surviving on the margins of poverty, informal economic activity of different kinds can provide a vital source of income. It also provides individuals with opportunities to put their skills and creativity to good use; and can give communities access to local goods and services that would otherwise be unavailable. However, there are also serious problems with informal economic activity: taxes go unpaid and businesses unregulated, benefit claimants run the risk of criminal prosecution, and already-vulnerable people are left with no employment protection.

**Whilst Oxfam recognises these challenges, our work has shown us that to ignore this sector of the economy is to ignore a very real part of people’s lives – and one that could be useful in terms of getting people back to formal work.**

This paper summarises our most recent research, in the Langworthy district of Salford, and presents our overall findings to date. By trying to ‘lift the veil’ on the informal economy, we aim to find solutions for people who – in order to survive – find themselves effectively trapped between the demands of employers and an inflexible benefits system.

*“If you are on benefits, there is a huge problem with the transitional period between being unemployed and working again. The security blanket goes away.”*

*“I understand the need and the temptation [to work informally]. We, as an organisation, can’t help them. Once we find out they are working informally, we stop the service while the problem persists.”*

Stakeholders, Langworthy

## Informal economic activities in Langworthy, Salford

In 2011, Oxfam, Community Links,<sup>2</sup> the Seedley & Langworthy Trust (SALT) and Salford City Council carried out research to reveal more about the extent of informal work in the deprived Langworthy ward within Salford in Greater Manchester.<sup>3</sup> This aimed to: determine the size and scope of informal economic activity in Langworthy; explore the motivations for involvement in informal work; and get stakeholders together to discuss findings and identify possible responses in terms of regeneration and worklessness strategies.

### Method

The study was conducted by Community Links, working closely with a local community-based organisation, SALT. SALT managed a team of community researchers who completed a **quantitative street-based survey** in which 400 working-age Langworthy residents were interviewed. This was followed by **qualitative research** in which a series of workshops and semi-structured interviews were held with local stakeholders and practitioners from the public and voluntary sectors, to understand their attitude and approach to the informal economy, and explore ways people could be supported to move out of poverty and informal work.

### Key findings

- 14% of respondents had worked cash-in-hand in the previous year.
- Of these, 63% earned less than £99/week from informal work (rising to 77% of lone parents).
- 43% of those working informally were claiming out-of-work benefits, whilst 43% had a formal sector job.
- Gender differences: more than 70% of those doing regular cash-in-hand work were female, whereas men tended to do one-off jobs.
- The overriding reasons given for working informally were low income and debt.
- 18% of JSA claimants said that they had worked informally in the past year.
- More than 60% of those working informally had done so for more than a year; 10% for more than five years.
- More than 50% of informal workers did fewer than ten hours a week.
- 51% wanted to stop; only 6% were determined to continue.

#### Most common types of informal work in Langworthy

| Type of Work                 | Number of respondents | Proportion (%) |
|------------------------------|-----------------------|----------------|
| Construction                 | 14                    | 26             |
| Cleaning                     | 10                    | 19             |
| Catering and hospitality     | 7                     | 13             |
| Miscellaneous                | 7                     | 13             |
| Sales                        | 6                     | 11             |
| Beauty                       | 4                     | 7              |
| Child/social care            | 4                     | 7              |
| House and garden maintenance | 2                     | 4              |
| <b>Total</b>                 | <b>54</b>             | <b>100</b>     |

## Conclusions

Although the survey cannot be generalised to the whole population, it does suggest that informal economic activity is an important feature of the local economy in Langworthy, providing residents with opportunities to gain work experience and skills as well as vital income, and enabling others to access services which could contribute to new strategies to address family poverty and worklessness.

The fact that more than 50% of informal workers in the ward worked part time, and that more than 60% earned less than £99 a week from their activities, supports the claims of previous studies that many people work informally because of 'need not greed' – because it offers an immediate strategy for dealing with financial problems .

Most of the practitioners we spoke to acknowledged that instead of criminalising individuals who work informally, a more constructive approach would be to support them to formalise their work, or at least allow them to use the experience and skills gained informally to enhance CVs and job interviews for formal employment.

The survey also revealed that the overwhelming majority of respondents were open to the possibility of stopping their informal activities, provided they were able to find suitable alternative employment and be supported through the transition off benefits.

## Recommendations

The following steps were prioritised to help harness the initiative and hard work of people in poverty who work informally:

- Outreach by local organisations to encourage disclosure, so that people can use the skills and experience gained in the informal economy to improve their CVs.
- Provide training and information for frontline staff to raise awareness of informal work and encourage appropriate referrals.
- Clarify who has a 'duty to disclose' informal work – and who doesn't.
- Local agencies to develop a 'formalisation service' to support self-employed informal workers to make the transition to the formal sector.
- Specialist provision for women working informally, exploring scope for collective solutions to formalise their situation whilst retaining flexibility.
- Agreed outcomes, and a system for monitoring and evaluation, to ensure that lessons are learnt from these initiatives.

## The informal economy and poverty: a complex relationship

The following observations are drawn from Oxfam's investigations, since 2005, into the informal economy in the UK, and how it interacts with and affects individuals and communities in poverty.

**The principal advantage – and the main incentive to work informally – is the boost to household income which cash-in-hand work provides. The resulting total income is often greater**

than could be earned in any locally-available formal sector jobs, which were often part time and insecure. Many people reported that in some areas there simply weren't any formal jobs available.

However, while cash-in-hand work may offer an important survival strategy – helping low-income families deal with household emergencies or debt problems, for example – it is all too easy for informal workers to become trapped in low-paid, low-skilled and insecure work with few opportunities for progression.

**Informal paid work can have a positive role in people's lives, enabling them to gain skills which are transferable to formal employment. The socialisation experienced while working may contribute to developing people's confidence and self-respect, and building social capital.**

However, the hidden nature of informal work means that the skills and experiences gained can't be used to enhance a CV or job interview – again, making it very hard for people to move into formal work. Little support is available to ease the transition from informal self-employment to setting up as a sole trader or small business.

**Another major advantage was the perceived flexibility of informal work, which enabled people (particularly women) to work around their caring and domestic responsibilities. Informal work is also seen as an attractive option because it often involves working for friends and neighbours who don't require the employee to have formal qualifications or go through a rigorous job selection process.**

In fact, it is often employers (or subcontracting companies further up the chain) who benefit from this 'flexibility'; who can make work available or take it away with little notice. At the same time, workers outside the mainstream do not have access to the national minimum wage, holiday or sick pay, or legal protection; and they are unable to seek redress against their employer in the event of an accident at work or unpaid wages. In short, they are wide open to exploitation. Cash-in-hand workers are also at very real risk of prosecution if their undeclared earnings are detected – a threat that brings additional fear, anxiety and stress to many vulnerable people.

**In the context of the wider community, the informal economy plays a vital role, enabling people on low incomes to access services and products (for example hairdressing, childcare, painting and decorating) that would otherwise be unavailable to them. It also makes an important contribution to social cohesion.**

But while the informal economy offers affordable services in deprived neighbourhoods, it also masks the reality of deprivation – the inadequacy of benefits and wages, the lack of jobs and opportunities, and the unaffordability of basic services. This enables society to neglect its responsibilities to particularly vulnerable groups.

**The fact that people may be better off on benefits than in low-paid work, added to the complexity and inflexibility of the benefits system, makes moving into formal work difficult and risky, and leaves people feeling very vulnerable. Despite the threat of exploitation and prosecution, cash-in-hand work is seen by many people as a more reliable option than moving into formal work.<sup>4</sup>**



Seven per cent of the survey respondents were involved in informal work in hairdressing and beauty. Photo: David J Colbran/DJC Design

“There’s always going to be informal work. If you are on benefits, it’s what’s people have to do to put food on the table.”

“The informal economy is essential... it provides a structure which the community could not function without, because of its flexibility and the lack of choices and opportunities people face.”

Stakeholders, Langworthy

Oxfam has been working to end poverty in the UK since 1996. We develop projects with people in poverty to enable them to improve their lives and have a say in the decisions that affect them; we raise public awareness of poverty to create the pressure that is necessary for change; and we lobby government for policies that will tackle the root causes of poverty.

## Oxfam’s work on the informal economy

Oxfam began to study the relationship between poverty and the informal economy in the UK in 2005, initially by collating existing research and anecdotal experience. This brought us into contact with Community Links. Oxfam subsequently joined the CREATE campaign (for a Community Allowance) and the Need Not Greed campaign (for wider welfare reform).

The informal economy also intersects with Oxfam’s work on labour rights. For many years, Oxfam worked closely with the National Group on Homeworking which provided advice and support to homeworkers. This included lobbying the government to ensure that the National Minimum Wage legislation introduced in 1999 included specific regulations to cover piece-rate workers, and subsequently supported homeworkers to take action against employers who refused to pay. Oxfam has also explored the particular situation of women working informally.<sup>5</sup>

In 2008, we supported the Community Pride Unit to collate information about individual informal workers in Greater Manchester, and then to bring them together in a ‘School of Participation’ to identify their key concerns and suggest ways to improve their situation.<sup>6</sup> We presented the findings to Salford City Council, who agreed to partner with us in research in 2011 to quantify the informal economy in Langworthy, alongside Community Links and Seedley & Langworthy Trust.

## Next steps

This research was presented to the Think Skills and Work Board in Salford in November 2011, and in 2012 Oxfam partnered with the Seedley & Langworthy Trust to bring local women’s organisations together to pilot a project on women and the informal economy.<sup>7</sup> We are also working with the City Council and other local services to explore the scope for a formalisation pilot. This work is, however, jeopardised by the ongoing cuts in Local Authority funding, and the consequent impact on local services and the community and voluntary sector in Salford.

The research has also informed Oxfam’s lobbying on the Welfare Reform Bill. While we welcome the proposed measures to make it easier for individuals to take on small amounts of casual work whilst claiming benefits, we are concerned about the substantial cuts in welfare budget, and changes in the payment system that are likely to adversely affect women. In addition, the regulations on self-employed work are likely to make it more difficult for self-employed informal workers to access Universal Credit, should they decide to formalise their situation.

## Resources

McIntyre D and Stewart A (2008), *Invisible Workers: the Informal Economy*, Manchester: Oxfam and Community Pride Unit

Katungi D, Neale E and Barbour A (2006), *People in Low Paid Informal Work: Need not Greed*, York: Joseph Rowntree Foundation

National Group on Homeworking (2004), *Homeworking in Britain: Flexible Working or Exploited Labour?*, Leeds: National Group on Homeworking/Oxfam

## Find out more

For further information about Oxfam’s research on the informal economy and its relationship with poverty in the UK – or to request a copy of the paper on the Langworthy research – contact Lucy Brill, Oxfam UK Poverty Programme.

Email: [lbrill@oxfam.org.uk](mailto:lbrill@oxfam.org.uk) or [ukpoverty@oxfam.org.uk](mailto:ukpoverty@oxfam.org.uk)

[www.oxfam.org.uk/ukpoverty](http://www.oxfam.org.uk/ukpoverty)

## References

1. Chen M, (2003) *Rethinking the Informal Economy*, Seminar, Vol.531, November 2003. Schneider F, (2002) *Size and measurement of the informal economy of 110 countries around the world*, presented at a Workshop of the Australian National Tax Centre, ANU, Canberra, Australia, July 17, 2002.
2. For more information about Community Links’ work on the informal economy, see [www.community-links.org/our-national-work/the-informal-economy](http://www.community-links.org/our-national-work/the-informal-economy), and for SALT’s community research see [www.srdseedley.org.uk](http://www.srdseedley.org.uk)
3. The full research paper *Understanding Women’s Experience of Working in the Informal Economy in Salford* is available on request.
4. We are hopeful that the introduction of Universal Credit will improve this situation, although we remain concerned about the effect on individuals during the transition to the new system, the new rules for self-employed workers, and the constraints imposed by budget cuts.
5. For example, in 2008 we worked with the West Yorkshire Pay and Employment Rights Service to explore the work that women from South Asian communities were doing in their homes.
6. The findings from this project are available in Community Pride’s report, *Invisible Workers: the Informal Economy*, Manchester: Oxfam and Community Pride Unit
7. The report of this work will be available shortly.



**OXFAM**

Oxfam is a registered charity in England and Wales No 202918 and Scotland SC039042. Oxfam GB is a member of Oxfam International. Inhouse 5755