

Counting shadows Harnessing informal economic activity in deprived areas

Community Links, 2006

Measurement of the informal economy in the UK to date has been based on macro level analysis of expenditure and income. Measurement of the informal economy at a micro economic level in this way has only ever been attempted on a ward level in three locations across England, not including any London Boroughs.

Community Links, an innovative inner city charity running community-based projects in east London has been the first to measure the size of informal economic activity, of the overall workforce (age 16-64), at a borough level in the UK. The sampling frame used borough Super Output Areas (SOA) (groups of 1,000 households) taking its sample from every one of the 190 SOAs in the borough. Working with these divisions enabled comparative analyses across a range of official statistics.

The research produced was a descriptive, cross sectional study, using a 'random sample at super output area level'. Its primary aim was to describe the extent: that is the size, the monetary value, and the longevity of people's stay in the informal economy. The secondary aim was to determine if there is a statistical relationship between characteristics such as age, gender, ethnicity, income level and accommodation cost and being in the informal economy. This paper described the research method in theory and in practice.

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Introduction

Community Links, an inner city charity running community-based projects in east London, was commissioned by the London Borough of Newham to conduct quantitative research to estimate the size, and scope of the informal economy in the borough using an experimental method. This method attempted to overcome peoples' potential aversion to disclosing sensitive information by using volunteer researchers working for a local charity to interview people in a street survey; while at the same time producing a sample sufficiently random to allow extrapolation of the main survey findings to the borough wide level. In order to achieve the required randomness, the borough was divided into administrative boundaries called SOA's each of which consists of 1000 households as defined by the Office of National Statistics (ONS 2006).

The survey was conducted between February and March 2006, by volunteers, some of whom were local residents, who had been recruited and trained as researchers. This process has generated a methodology that could be replicated across other boroughs to build a detailed geography of the informal economy in the UK. Having this detailed information could facilitate more directed policies to assist those working informally who wish to make the transition to the formal economy.

This paper presents and discusses the methodology used by Links UK to measure the size of the informal economy at a borough wide level. It is hoped that sharing the experience of using this methodology will enable the refinement of the methodology in order that it yields increasingly robust results in this shadowy and difficult area of research.

The 'informal economy' is known by a host of names: the hidden economy, cash-in-hand work, moonlighting; the grey economy, working off-the-books, tax evasion and benefit fraud. Definitions of the informal economy vary widely to encompass very different sets of activities. Within this report we have adopted the definition used by the Small Business Council (SBC 2004):

'Informal work involves the paid production and sale of goods or services which are unregistered by, or hidden from the state for tax, benefit and/ or labour law purposes, but which are legal in all other respects.'

This definition excludes the criminal element of the informal economy such as drug dealing, prostitution or gun running which are seen as beyond the scope of this research. The reason for adopting this definition is the policy context of the research, which is around the potential for bringing those who work informally into the formal sphere, focusing mainly on those who undertake legitimate activity in an informal way. Using this definition allows us to more easily understand what motivates people to avoid registration of their work, the hub of the issue.

Why understand, measure and scope the informal economy

The need to measure the informal economy more accurately is recognized internationally. The International Labour Organisation (ILO) 2002 Conference, 90th session called for the measurement of the informal economy through disaggregated statistics, so that a better response may be afforded to those people working in it.

Young describes the benefits of measuring the informal economy succinctly: *'The informal economy plays an important role for employment creation, income generation and poverty reduction in many countries, especially developing and transition countries. Statistics on the informal economy are needed as an evidence-based tool for research and policy making. They enhance the visibility of the many workers in the informal economy and of their economic contribution.'* (Young, S, 2004, cited in Hussmanns, R. 2004)

As Schneider puts it: *'Gathering statistics about who is engaged in underground activities, the frequencies with which these activities are occurring and the magnitude of them, is crucial for making effective and efficient decisions regarding the allocation of a country's resources in this area.'* (Schneider, p2)

In the UK understanding the informal economy is an issue in tackling poverty and inequality rather than merely compliance. Research shows that while informal work can be characterised by low wages and an absence of working rights, it can also play a positive role in peoples' lives, keeping them from poverty, and allowing them to develop confidence and skills (Travers 2001). Those working informally are not part of the *'mainstream'*, and are unable to access local and national government programmes designed to provide ladders out of poverty such as tax credits and other 'in-work' benefits, national insurance contributions and pensions, national minimum wage and workers rights. People in low paid informal work may also be trapped in low paid and low-skilled jobs with little future.

Workers and self employed people within the informal economy represent a hidden potential for local development. Efforts by local authorities to increase *'recognised / legitimate'* enterprise and employment will miss whole tranches of their population if they fail to recognise, understand and respond appropriately to people working informally. (Katungi et al 2006). Consensus about the nature and workings of the informal economy across developed countries is also beginning to emerge and it is largely agreed that the majority of informal work is not primarily benefit fraud, rather unreported formal or informal work in which households or employers may be complicit. (CESI, 2005). Research has found that informal work varies from borough to borough according to locally specific characteristics, In order to work on a local level with these issues, accurate local mapping is needed.

Measurement of the informal economy in the UK to date has been based largely on macro level analysis of expenditure and income. The definitions, means of measurement and estimates vary widely. From these figures we know that a considerable number of people in the UK are playing a part in the informal economy. The EU estimates that the informal economy accounted for between 7 % and 16% of GDP in the European economic area in the 1990s (Williams & Windebank 2004), equating to around £75 billion of the UK economy (Small Business Council, 2004). The Office of National Statistics reports that the UK's informal economic activity is around £17 billion, 1.6 % of GDP (CESI, 2005) The Grabiner report (2001) on the informal economy discusses the difficulties in quantifying the size and

scale of informal economic activity, although some believe that these can be overcome. (Copisarow and Barbour, 2004)

The limitations of macro-measurement of the informal economy are clear. These macro economic figures estimate the overall size of the informal economy and do not have a borough by borough picture of the situation across the UK. Qualitative research indicates that the nature of the informal economy differs from borough to borough; in some deprived boroughs in the UK there is little or no opportunity to earn additional income through informal economic activity; in other deprived boroughs, informal working is widespread, and enables people to keep themselves out of poverty. Research also suggests that much informal work is in fact to be found in more affluent areas (Williams and Windebank 2004). Therefore it is not reasonable to assume that we can know where to focus resources to assist informal workers without more detailed borough by borough knowledge.

The few micro level data sources for the size of the informal economy in the UK include the English Localities survey. This found 46 % of their sample of 861, which focused on urban neighbourhoods, to be engaged in some form of informal work, including almost half of these undertaking paid favours for kith and kin, (Williams and Windebank, 2004). Anecdotal evidence and qualitative research suggests that the phenomena is common in some areas, described by research participants as 'normal round here.' It is not only that these people may be helped into better jobs; but that these people may represent a hidden potential for areas which are persistently deprived, and if this is tapped may hold the key to regeneration.

For all of these reasons it seems highly important that accurate measurement and mapping of informal economic activity is achieved. The next two sections describe and discuss the methodology used to achieve mapping of the informal economy in Newham. The first section, 'getting an honest response' looks at the way in which the survey was carried out to achieve optimal results given the sensitivity of the topic. The second section, 'a random sample' discusses the sampling solution used to achieve a random sample without using an address based sampling frame.

Getting an honest response

The chosen methodology used by Community-Links for measuring the informal economy on a micro level was based on the following assumptions:

- a) A survey using simple random sampling cannot accurately measure the size of the informal economy because people are very unlikely to participate or give truthful answers if they are asked by someone who knocks on their door and knows their address.
- b) These were that people would be more likely to respond to the research and to speak more openly about their informal activity if they were asked away from their home address and if they were asked by volunteers working for a local community charity

The assumption that asking people about informal work away from their home will yield a more accurate result is based in common sense. The logic is that if the interviewee felt that

the interviewer did not wish to know their address then they would be more convinced that the researchers were not officials and therefore more willing to speak with them.

If people disclose information about illegal working practices, tax avoidance or benefit fraud on their doorstep, then they may feel they are making themselves vulnerable to prosecution. This is emphasised by fear of entrapment fuelled by recent television coverage in the UK of benefits surveillance officers tracking people who work whilst claiming benefits. In addition to these factors, people may not wish to disclose the fact that they are on benefits with someone who knows where they live due to the stigma attached to claiming benefits. The stigma perceived around benefits receipt is widely noted, (Yaniv, 1998, Riphahn, 2001, Blundell et al, 1988).

Although no comparison study was made, the response to the survey does suggest that many people being interviewed were open about participating in informal paid work. The success of the survey may also be due to the recognition and trust in the name of the local organisation running the survey. Although this would be an interesting topic to debate, this paper does not do so, rather it takes the assumption that people will be more honest away from the home about informal work than they would be if interviewed at their own home.

An anonymous postal survey would also have been possible for this survey. However, it was felt that response rates would have been very low and therefore administrative cost of undertaking the survey would have been prohibitive. The other issue with conducting a postal survey is that it excludes people who may not be able to read or write English well. In a borough such as the London Borough of Newham this is a very significant issue as a high proportion of people come from countries where English is not the first language.

As discussed further on in the report, address based sampling also excludes a key group in this research, those who are not formerly registered as residents. It was also felt that the personal interaction of face to face interviews was more likely to be able to elicit more honest responses from people. Volunteers were selected on the basis of their experience and training, their interpersonal skills and the languages they spoke.

The important factor for consideration in this work is that the researchers were volunteers. The researchers were able to say that they were volunteers and therefore indicate that the purpose of the research was benevolent, and not associated with punishment, but with achieving better understanding. This may be contentious. The researchers cannot guarantee a positive outcome from the results of the research. However, no research is in itself apolitical, and all research projects bear some implicit stance. Our contention was that these intentions should be made explicit. The researchers informed participant that they hoped to achieve a greater understanding of why people make certain work choices, and why they work for cash.

The ethics of interviewing people about informal work deserves some space for discussion. While on an individual level the disclosure of the information may not affect people who work informally, the sum result of disclosing the results of the informal work could have an impact on policy which is positive or negative for the respondent. While this is not the concern of a neutral researcher, bent on finding the truth, in fact we operate within a social context. It would not be possible to undertake the work, to carry on understanding the size and nature of peoples' informal work, if the work itself resulted in a clamp down on this

activity. Smith, G on working with community researchers, *'Ultimately, social research, viewed from this perspective is not merely about gathering 'the facts' in some scientific objective fashion. Rather it is a value laden and ultimately political process and should be recognised as such.'*

The motivation for many of the volunteers was to give something back to the community, and therefore they may well have had more determination to achieve results than paid employees. This is especially the case as weather conditions were uncomfortable and response rates therefore low at the time of the fieldwork. It is not clear whether paying the researchers would make a difference to the work.

The advantage of community researchers in forming trusting relationships with local people was that they could feel comfortable with the norms and language used in the local area. It is not clear whether people would be more inclined to discuss issues with those people who live locally to the area or those from other areas. The possible drawback to using local researchers is that they may come across people they know, or people may recognize them and realize that they live in the area, and therefore not wish to disclose information to them. The strategy for reducing this bias is to avoid sending researchers to their home area, and to make sure that they do not interview people they know.

Community Links is well known in Newham, and more particularly in Canning Town. Interviewers found that recognition of the name of the organisation was helpful in eliciting responses from people, and that people seemed more inclined to open up when they heard the name. Interviewers also noted that this was more prevalent in the immediate surroundings of the organisation. Therefore there may be some selection bias resulting, if people in other areas were less likely to respond truthfully because they did not recognize and feel trust for the charity. A second study, currently being carried out within another London Borough will provide a useful comparison for this discussion.

Newham is one of the most ethnically diverse boroughs in the UK: 65.2% Black and Ethnic Minority communities to 34.8% White British. There are over 100 different languages spoken in the borough. In order that this research project successfully engaged with such a diverse community we recruited and trained 18 local people, as community researchers. The volunteers were selected from, amongst other sources, an existing Community Links project that currently works in local Jobcentres, assisting people who do not have English as a first language to fill in benefit forms. We also advertised through Community Links extensive local networks. Allocations of interviewers were based on the boroughs' language composition to maximize an equal chance to every sampling element.

Achieving a random sample

This section discusses the sampling methodology required to make such a survey random, given that no sampling frame would be available from which to draw the sample. In addition, using a door to door method, drawing a sample from all of the addresses in the borough may exclude people who are not formerly registered in the borough, those residing here without legal status for example. The qualitative research suggests that this is a key group in this research and that attempts should be made to include these people within the sample.

Quota sampling has certain advantages where there is a particular characteristic that is linked to the activities in question. With the particular research that we are carrying out, there is no established quantitative data on the relationships between people's characteristics and informal economic activity. The total randomised dataset will be analysed for relationships between informal activity and age, gender, ethnicity, income bracket, housing cost and number of children. If we used a quota for some of these characteristics, then we are limiting the randomisation of the sample, so it will not be as accurate a representation of the borough workforce as a whole and gives less precision. Achieving a stratified sample was also not possible, as no existing data was available on which to base assumptions about the characteristics of those working informally and to build categories. Snowball sampling was ruled out due to the low level of precision.

Judgmental sampling is used when a sample is taken based on certain judgments about the overall population by the researcher. The underlying assumption is that the investigator will select units that are characteristic of the population. The critical issue here is objectivity: how much can judgment be relied upon to arrive at a typical sample? Judgment sampling is subject to the researcher's biases and is perhaps even more biased than haphazard sampling. Since any preconceptions the researcher may have are reflected in the sample, large biases can be introduced if these preconceptions are inaccurate.

The sampling method chosen was to conduct a sample by approaching all people in the streets at different times of day in the week and the weekend, across each of the borough's Super Output Areas (SOA's). This way, the randomness of the sample was maximized as far as possible. While this is second best to a random sample, it does seem that the resulting sample was representative of the borough overall.

The sampling frame used borough Super Output Areas (SOA) (groups of 1,000 households) with the sample spread across every one of the 190 SOAs in the borough. Working with these divisions also enabled comparative analysis with a range of official statistics. Achieving this spread across the SOAs in the short time frame was challenging, as was the organisational task of checking which SOAs had their quota filled.

In order to make inferences about the borough from the statistics found in the sample, the sample needs to be as random as possible. The typical method used for doing this is to take names and addresses for the whole area, to select addresses at random, and to knock on doors and ask people the questions.

Therefore, a method of street interviewing was chosen. The problem with extrapolating from the sample to the borough wide level using this method is that there may be some bias in the sample. There is no sampling frame (list of addresses, to select the sample from). Therefore the interviewers must select the people who answer in the street. The worry is that the interviewers will focus on a particular type of person and therefore sway the sample to contain more of one type of person than is truly representative.

The assumptions behind this method are that informal economic activities are evenly spread at the SOA level. Informal economic activities do not have a relationship with any particular ethnic background, business type or sector. While this may not be true, there is no documented information to allow us to assume a different pattern. Further assumptions

are that interviewers are perfectly unbiased but bias only towards their ethnic/language speaking community. This is highly important in collecting data in a multicultural area.

A number of things were done to try to minimise this bias. Firstly, as far as possible, the group of interviewers contained people from a wide range of backgrounds, broadly reflecting the spread of people across the borough; in terms of gender, age, language, ethnic and cultural background, profession. Also, each interviewer was advised in the training and reminded regularly to approach every person, regardless of their feelings about whether this person would answer.

A map was drawn up with each of the SOAs in the borough marked on it. Within each SOA, the sample was taken by approaching everyone who passed by, as long as they lived within their borough and spreading the sample as equally as possible across the borough's SOAs. This study measures and analyses the economic activity of people who are resident in the borough. It is acknowledged that a significant contribution to economic activity of the borough may come from people who live in other boroughs. However, a separate study would be necessary to measure and analyse this.

The borough was divided geographically based on SOA areas (clusters) and random sampling was done at SOA level. Such bottom line administrative boundaries are important in policy implementation based on the research results. This method provides the most precise sample. An SOA (lower layer) is a collection of 1000 minimum population. In terms of ethnic groups, age and gender of people living in the SOAs the variation in each SOA is high. Therefore each SOA is similar. Therefore it is possible to divide the samples among the 190 SOA's and to collect a random sample.

Practical considerations and learning

These strategies seem to have been effective in producing a randomised sample which is representative of the characteristics of people within the borough on many levels. However, on reflection more attention may be given to finding ways to explain and stress to interviewers the importance of this element of the work. Getting the message across clearly that 'we can't make any claims about the borough unless we represent everybody, so just ask everybody whether or not you think they will answer.'

Researchers were trained where best to find and interview people on the street. These include queues at bank machines, junctions where roads meet, outside shops and schools, bus stops. However, focusing too heavily on bus stops for example may have introduced some bias into the sample, as the type of people who take buses rather than driving cars may be those on lower incomes. Also, achieving privacy for the interview at a busy bus stop was challenging. Researchers should be reminded to try to clear a space out of earshot to conduct the interviews.

Response rates may have been affected by a number of circumstantial factors. The cold (0-8 degrees centigrade and snowing at times) was a major barrier to getting respondents in terms of getting people to stop in the street and allowing researchers to stay out and motivated for any length of time. The feeling amongst researchers was that warmer weather may have lead to larger response rates. As the methodology requires evening work, this became a particular problem for those on late shifts when the cold and the dark combined. Aside from the cold weather other factors may have affected the response rate, these

included: two television programmes on benefit fraud during the first week of surveying. A local London Borough of Newham benefit fraud media / advertising campaign was launched just before the survey was conducted.

Interviewers felt encouraged by partnership and support from their peers and supporting staff. Some commented that the early stages of doing the fieldwork were the most crucial, as low response rates for beginners who lack confidence may lead researchers to drop out. Interviewers felt they needed to be led by example.

The intention was to carry other research within an intensive week long period to minimise the likelihood of repetition. However, the response rate meant that the process overall took six weeks. Covering Each SOA in practice was not always easy, as some SOAs were very slow. In effect the difficulty was in keeping track of which SOAs respondents lived in and ensuring that researchers achieved an even spread across these SOAs.

Conclusion

This paper has presented a methodology that could, with refinement achieve a good second best to a purely random sample. If replicated, using locally appropriate methods, locally based organisations and large enough sample sizes, a fairly accurate picture of the informal economy, with some considerable detail about who is involved and why could be achieved for the UK. Furthermore, there may be potential for broaching many other sensitive topics through randomised street surveys in this way.

As Community Links is a charity concerned with supporting people in the local area to combat deprivation, the main motivator for undertaking this research was to evidence the hypothesis derived from qualitative research (Katungi et al; 2006) that informal working in this deprived area is widespread and connected to poverty. The benefits of local voluntary organisations conducting the research include the increased tendency for people to trust the researchers and to be open with them. Voluntary organisations can distance themselves from officialdom, and be seen as trying to help people, therefore people may be more likely to stop and give their time to the survey researchers.

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