

REVEALING THE ROLE OF NECESSITY AND OPPORTUNITY DRIVEN IN THE UNDERGROUND ECONOMY: CASE OF CICAHEUM MARKETPLACE IN BANDUNG, INDONESIA

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ABSTRACT

The existence and widespread of underground economy have been a growing problem of taxation around the world. Considerable number of studies about underground economy have been conducted. Mostly attempted to measure the size of underground economy from econometric approach, leaving little understanding about the ground of underground economy such as monetary activities, the participant, the process, the size, and the motives behind those activities. Therefore, this study attempted to explore the activities, the participant, the process and motives of necessity and opportunity behind the underground economy in marketplace, where majority of micro enterprise economic activities occur. In this case, Cicaheum marketplace as one of major mid-sized marketplace in Bandung were the context of this study. Participant observation around marketplace and 150 interviews to participant of marketplace economic activities were conducted to collect data. This study found almost every monetary activity in marketplace are underground economy and the motives behind those activities were varied, driven from solely necessity, solely opportunity, and both necessity-opportunity.

Keywords: Underground Economy, Entrepreneurial Motive, Small and Medium-sized Enterprises

INTRODUCTION

Underground economy in Indonesia is enormous. According to (Schneider et al., 2010; Radulescu, 2010) 19.3% economy of Indonesia was considered as underground economy. Samuda (2016) concludes the average size of the underground economy in Indonesia during 2001-2013 was 8.33 percent of Gross Domestic Product (GDP). Consequently, the average size of potential tax loss was Rp. 11,172.86 billion (\$836.35 million, \$1 approx. Rp. 13,000) or about one percent of GDP. A substantial share of all firms in Indonesia are micro, small, and medium-sized enterprises, and over 93% of enterprises are informal in which underground economy (Rothenberg et al., 2016) and most of micro enterprise in Indonesia are concentrated in traditional marketplaces, where almost every middle and low-class population are participated (Evers & Mehmet, 1994).

There was lack of understanding about underground economy especially in traditional marketplace. Economists have attempted to measure the size of the underground economy through indirect means, but have not made much use of survey techniques to answer a range of questions concerning who is involved in the underground economy, and how or why they operate. As more the population becomes involved in opportunity entrepreneurship and as more people leave necessity entrepreneurship, the more we see rising levels of economic development (Acs, 2006). Based on that discussion, this study attempted to explore the activities, the participant, the process and motives of necessity and opportunity behind the underground economy in marketplace, where majority of micro enterprise economic activities occur. In this case, Cicaheum marketplace is one of major mid-sized marketplace in Bandung were the context of this study.

LITERATURE REVIEW

Underground Economy

Economic activities can be classified under structural approach into two major group namely, formal economy and informal economy (underground economy) (Kiani et al., 2014). Feige (1997) reported different forms of underground economy which is shown in Table 1 below.

Type	Definition
Illegal Economy	Totality of the revenues that are generated by those economic activities that violate the legal status of legitimate forms of trade.
Unreported Economy	Activities that violate the fiscal rule report, tax evasion, and benefit fraud to governmental agencies for statistics.
Unrecorded Economy	Activities that avoid institutional conventions that define the necessary requirements for the income report to governmental agencies for statistics.
Informal Economy	Economic activities that avoid costs and excluded from the rights and benefits that come along with leasing, work contracts, loan, and social security.

Lippert & Walker (1997); Morales (2011) further suggest some classifications of underground economic activities in the form of monetary and non-monetary transaction, which are shown in Table 2 below.

Activity Category	Monetary Transactions		Non-monetary Transactions	
Illegal Activities	Trade with stolen goods; production or dealing of drugs; prostitution; smuggling; gambling; fraud etc.		Barter of drug, stolen goods, smuggling etc.; produce or growing drugs for own use; theft for own use; etc.	
	Tax evasion	Tax avoidance	Tax evasion	Tax avoidance

Legal Activities	Unreported income from self-employment; wages, salaries, and assets from unreported work related to legal services and goods.	Employee discounts fringe benefits.	Barter of legal services and goods.	All do-it-yourself work and neighbor help.
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Necessity and Opportunity Driven Motivation

Motives to involve in entrepreneurship have become commonplace in the entrepreneurship literature to find a distinction being drawn between “*necessity-driven*” or “*opportunity-driven*”. “*Necessity-driven*” entrepreneurs pushed into entrepreneurship because other options for work are absent or unsatisfactory, and “*opportunity-driven*” entrepreneurs pulled into entrepreneurship more out of choice (Maritz, 2004). Generally, necessity-motivated entrepreneurs tend to have lower aspiration levels than opportunity-motivated entrepreneurs (Reynolds et al., 2002). Since necessity-motivated entrepreneurs are likely to depend heavily on their daily economic survival this may positively affect the aspirations they have for their enterprise. They may also be forced, because of their situation, to act on less promising opportunities or the closest available survival option such as the underground economy. Some results show that people can be driven in their entrepreneurial motivation by both necessity and opportunity dynamics (Giacomin et al., 2011; Williams, 2008).

METHODOLOGY

Participant observation or practices of involvement with people in observation area over extended period time to collect data with close familiarity were conducted. Researcher maintains moderate participation with a balance between “*insider*”, “*outsider*”, and bystander roles in establishing rapport investigation of underground activities, the participants, and the processes. Overt and covert interview also conducted to explore the processes and motives of necessity and opportunity behind those economic activities. Observation procedure representing socioeconomic areas namely; Block A-Marketplace, Block B-Surrounding commercial area outside of marketplace, Block C-Street and neighbouring area of marketplace. Total of 502 participants were asked, “*why did you decide to set up this enterprise?*” followed by two probes that involved first, repeating the answer with an inflexion (“*to be more independent?*”) and second asking “*any other reasons?*” with probing into “*I wanted to run my own business*”, “*I identified a gap in the market*” or “*I wanted to be independent*”.

FINDINGS

Ten monetary activities of underground economy were found. Detail about underground activities showed in Tables 3 and 4 below.

Table 3	
UNDERGROUND ECONOMY MONETARY ACTIVITIES	
Activity	Description
<i>“Security”</i> service	An extortion by racketeers to trader, which demand daily payment for <i>“security”</i> from unknown threats.
<i>“Trading space”</i> dues	Daily payment per trading day demanded by resident community and transportation station company (public) to nonofficial trader who used their land surrounding the marketplace.
Install & uninstall market stall	Service to install and uninstall portable market stall including electricity conduit by marketplace heaver (self-employed) to nonofficial trader surrounding the marketplace.
Shared electricity	Sharing electricity by official trader inside the market (electricity meter & conduit provided officially by public marketplace management) or by neighboring resident area to nonofficial trader (using only of property open space, road, and parking area).
Toilet fee	Toilet fee of public toilet inside marketplace area provided by marketplace management charged by toilet keeper (informal labor) to every person who used the toilet (excluding marketplace management and the toilet keeper) paid in pay per use.
Parking fee	Motorcycle and car parking fee charged by parking officer (informal labor) to every person who parked (excluding marketplace management and the parking officer) paid in pay per parking when driving off the parking area.
Porter/goods carrier	Goods carrying service by marketplace porter (self-employed) to every person who needed carrying assistance in surrounding area, commonly from stall which the goods purchased to nearby public transportation waiting area or parking area.
Truck load & unload <i>“security”</i> service	An extortion by racketeers to truck driver, (who supply goods to trader) which demand payment per day of supply for <i>“security”</i> from unknown threats.
Trading official stall ownership	Trading of official permanent stall (inside marketplace) ownership to new owner. As legal state by marketplace management, those stalls are officially public owned under city government and managed by marketplace management company which contracted to trader under right of use for goods trading.
Trading nonofficial space-of-trading ownership	Trading of nonofficial space-of-trading (surrounding the marketplace) ownership to new owner. Nonofficial space-of-trading legally are property owned by private residence or public property managed by transportation station which used under no contract by nonofficial trader.

In the case of the underground economy, is it being driven by necessity or opportunity related motive? For that purpose, those participants were first asked in an open-ended manner, *‘why did you decide to start this enterprise?’* As Table 4 below reveals, the finding is that overall 30% and 31% participants with respectively stated that it was in order to generate sufficient income to survive or to generate additional income, whilst minority of 10%, 17%, and 12% participants respectively stated that it was a desire to have own business, to fill gap in the market, and independence reason.

Activity	Participant	To generate sufficient income to live/survive	To generate additional income	Desire to have own business	To fill gap in the market	Independence	Total
Trading Goods	Legitimate trader	34	23	17	10	16	100
	Non-legitimate trader	32	26	6	22	14	100
	Street vendor	58	26	0	11	5	100
“Security” Service	Racketeer	0	0	0	100	0	100
Daily Active Trading Charging	Landowner	0	100	0	0	0	100
	Transport station	0	100	0	0	0	100
Stall Setup Service	Marketplace heaver	43	57	0	0	0	100
Sharing Electricity	Legitimate trader	0	68	0	32	0	100
	Electricity owner	0	57	0	43	0	100
Toilet Charging	Toilet keeper	67	33	0	0	0	100
Parking Charging	Parking officer	50	50	0	0	0	100
Porter/Goods Carrying Service	Porter	50	50	0	0	0	100
Truck Load & Unload “Security” Service	Racketeer	0	0	0	100	0	100
Total		30	31	10	17	12	100

Note: All numbers in percent.

For detailed result concerning activity, several activities have clustered responses. “Security” service for trader and truck the finding is that 100% participants stated that it was to fill gap in the market since there are no other racketeering group before. As for daily active trading charging 100% participants stated it was to generate income since it was their private property itself used by trader by permission before, and demanding fee as form of daily renting space was a term of obligation to set rule of fairness between community and as well an opportunity to gain profit. For another activity, it is the case that the reasons are varied with a notion that trading goods were the most varied. Stall setup service, toilet charging, parking charging, and porter were a combination to generate sufficient income to survive and to generate

additional income reason. And the last is sharing electricity was a combination to generate additional income and to fill gap in the market since every no legitimate trader doesn't have access to electricity. They depended to legitimate trader or household resident nearby to provide them with paid sharing electricity.

To gain understanding further into their motives, two additional probes followed this initial question. These first repeated the answer given by the respondent with an inflection (“*to earn sufficient money?*” or “*to generate additional income?*”) and second, asked in an open-ended manner, “*any other reasons?*” Analysing the responses, it is obvious that rendering participant involved in underground economy as either necessity-driven or opportunity-driven is an oversimplification. As Table 5 below reveals, when the fuller range of motives were analysed in response to these additional probes, the results are varied. Overall 20% and 21% participants are considered to be solely necessity and solely opportunity driven respectively whilst the rest are combinations of both necessity and opportunity driven. Down to the detailed activities, only daily active trading charging as landowner and truck “*security*” service is solely opportunity.

Activity	Participant	Solely necessity	Mostly necessity but also opportunity	Mostly opportunity but also necessity	Opportunity	Total
Trading Goods	Legitimate trader	23	28	37	12	100
	Non-legitimate trader	23	31	27	19	100
	Street vendor	37	21	32	11	100
“Security” Service	Racketeer	0	0	33	67	100
Daily Active Trading Charging	Landowner	0	0	0	100	100
	Transport station	0	0	100	0	100
Stall Setup Service	Marketplace heaver	43	29	14	14	100
Sharing Electricity	Legitimate trader	4	9	30	57	100
	Electricity owner	7	21	29	43	100
Toilet Charging	Toilet keeper	0	67	33	0	100
Parking Charging	Parking officer	0	50	50	0	100
Porter/Goods Carrying Service	Porter	17	50	33	0	100
Truck Load & Unload “Security”	Racketeer	0	0	0	100	100

Service					
Total	20	26	32	21	100
Note: All numbers in percent					

DISCUSSION AND CONCLUSION

Monetary activities of underground economy were mainly the activities of every participant in the marketplace and were not side activities like underground economy occurring in mid-size and big-size enterprise (Feige, 1997). Those activities considered as daily routine business practice and several occur as only for entry/exit from trading or expand/downsize the current business. As for motives, every activity has different socioeconomically reason following into necessity and opportunity driven as subjective reality.

This research provides basic knowledge of what happen, who participated, and why people participated in underground economy. These findings address the concern of underground economy and how it causes socioeconomic problem. According to Kesselman (1997), there is little agreement about the size of the underground economy relative to the total economy, no matter how small or how large it might actually be, it has important implications for public policy.

As for motives, in much of the recent literature on entrepreneurs' motives, there has been a tendency to differentiate between necessity-and opportunity-driven entrepreneurs, which every activity has different socioeconomically reason following into necessity-driven and opportunity-driven as subjective reality (Maritz, 2004). This research provides varied and commixture of dichotomy of simplified entrepreneurial motives people involved in underground economy. These findings address the concern of underground economy and how it has been the factor of socioeconomic problem. Between the critically evaluated understanding and the lived practice, indeed the lived practice are more integrative and dynamic than is captured by this static either/or dualism (Williams, 2008).

This has important research and policy implications. In terms of future research, this study adds further weight to the growing demand to transcend the deeper and more comprehensive investigation regarding underground economy in urban marketplace communities. Having started to show the relationship between participant involved in underground economy in Indonesia complement the footing of previous studies problem in instance of lack of understanding on microeconomic of underground economy Further studies would enable understanding of whether these findings are more widely valid or not.

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