

STRENGTHENING STRATEGIES OF THE INFORMAL SECTOR IN TRADITIONAL MARKET: AN INSTITUTIONAL APPROACH

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ABSTRACT

Indonesia is a developing country with a large informal sector. However, the various studies claim that this sector has not received priority in both economic and development policies. The implication is that the informal sector (in traditional markets) is difficult to develop and is unable to solve their main problems which are sourced from formal legal aspects. This study shows that the legality problem makes the informal sector persistent in their three main problems; we call them uncertainty of space, financial and skills limitation. These three problems are the root of various problems in the informal sector, ranging from disorganized, slums to poverty. In this article, we argue institutional is the most effective approach to addressing the problem of the informal sector by strengthening small traders. For implementation of strengthening through institution, we purpose three programs according to their main problem, namely facilitating the space, providing and facilitating financial institutions and capacity building.

Keywords: Informal Sector, Traditional Market, Institutionalism, Strengthening Strategies.

INTRODUCTION

The informal sector has become an inherent fact in urban areas, especially in developing countries (Henley et al., 2009). This sector has interests for at least three reasons; in a response to poverty and unemployment, as incubators of business opportunities and stepping stones to formal economic accessibility and as absorbers of the majority of the workforce (Nguimkeu, 2014). There is about 30-70% of the workforce population in urban developing countries, work in the informal sector (Bappenas, 2009). The Overall from ILO (2009) and UN-Habitat (2006) mention that 60-90% of jobs exist in the informal sector (Nguimkeu, 2014). Therefore, some researchers have highlighted the benefits of informality based on the three reasons above and made it an important part of social and economic studies (Rothenberg et al., 2016).

Like most of third world countries, the informal sector in Indonesia accounts for a large proportion of total employment (Suharto, 2002). Majanto's study shows that most of Indonesian workers (65.4%) in 1998 attempted in the informal sector. This condition puts Indonesia as one of the countries that have the largest informal sector in the world. According to the business field or main occupation, the informal sector role is much higher than the formal sector. This applies in agriculture, forestry, labor, fisheries and in the field of large trade, retail, and restaurant. Such conditions have not experience significant changes in 2002 because the role of the informal sector was much higher than the formal sector in the same business field (Majanto, 2002).

The contribution of the informal sector to the real economy places it as a reality of peoples economy that plays an important role in community development and development in Indonesia (Haris, 2011; Wauran, 2012). This is indicated by the ability of this sector to survive from the impact of the economic crisis in 1999 until now. In addition, the informal sector survives and is able to rise from economic downturns when hit by a crisis (Anggraini & Nasution, 2013) and also disaster (Firdaus, 2014). If the development programs were not capable to provide employment opportunities for the workforce, the informal sector with all its shortcomings can act as an economic rescue valve and alternative employment opportunities for job seekers (Wauran, 2012). However, the studies on the informal sector have so far shown that there is no specific approach taken by government and private institutions in efforts to strengthen the informal sector.

Nevertheless, the Solo City experience in managing the informal sector is an exception. The government intervention through regional regulations and implemented through market physical development and the arrangement of small traders has changed the system of values and attitudes of street vendors, organizational culture and informal sector participations (Wirutomo, 2011). The development practice by government institutions through its policies in the city of Solo is a reference for the author's argument in this article. The author argues that government and private institutions are very influential in determining the success of strengthening the informal sector in traditional markets. Therefore, the institutional approach is very important in efforts to strengthen the informal sector in traditional markets, especially in developing countries. By using institutional approach, in this article we purpose the strengthening strategies of the informal sector in traditional market. For the objective, we mapping and explain the main issues faced by the informal sector in traditional markets. And then, we discuss the institutional approaches that can be used to address these key problems.

LITERATURE REVIEW

Market & Institutional Approach

As a root of their study, political science defines institutions as anything formal such as parliament and law, including markets (Peters, 1999). In a broader framework, institutions are not only understood as a formal structures (March & Olsen, 1996). North defines institutions as any form of constraint that human beings devise to shape human interaction (Portes, 2010; Saikia & Bhaduri, 2012). The coverage of the North institutional concepts relating to formal aspects (a legislature, an agency in the public relations, or a legal framework) and informal aspects (a network of interacting organizations, or a set of shared norms) (Saikia & Bhaduri, 2012). Similar to the view of political science, sociological approaches tend to associate institutions with organizations (Meyer, 2010; Peters, 1999). Sociologists view that human social life is embedded with institutions (Jepperson, 1991; Meyer, 2010), therefore the institutional theory in sociological approach has an interest in how phenomena is spread in the field and form an isomorphic field, and often add the political economy to its analysis (Fligsten & Dauter, 2007).

Although it's very different from organizations, the institutional theory approach gets a broad place in studies that are related to institutions, both formal and informal (Abrutyn & Turner, 2011). Several studies discussing how institution fluencies various sectors, such as industries (Segawa et al., 2014), health (Fitriati & Rahmayanti, 2012), entrepreneur & gender (Warnecke, 2013), social capital (Huysseune, 2003; Rothstein & Stolle, 2003), transportation (Daraba et al., 2018), an also market (Ding & Akoorie, 2009; Saikia & Bhaduri, 2012). These

studies as a whole explain that formal and informal institutional interventions (institutions, rules, norms and agreements) for the various sectors that are the subject of their studies. These studies show that the institutional role has a major influence on the sectors that are being intervened. However, there are limited studies that discussed the role of institution related to strengthening of informal sector, especially at traditional market.

In this article, we pointed the market as institution (Zakariya et al., 2016) where social processes also take place between various economic actors and non-economic actors converge (Ahrne et al., 2015; Fligstein, 1996) for various purposes (Swedberg, 1994). In addition, the institutional approach put the market as an organization that organizes and coordinates all activities in it (Root, 2007). The main interest of actors in the market is to make an exchange of goods and services according to agreed prices (Agboola et al., 2018; Fligsten & Dauter, 2007; Lie, 1997). For this reason, we argue that an institutional approach is an important approach in the process of strengthening the informal sector in traditional markets.

Indonesian Informal Sector

Theoretically, the concept of the informal sector developed in the early 1970s which was introduced by Hart through his paper *Urban Employment in Ghana*. The informal concept itself is an extension of the traditional concept. Hart said that informal activities are a way of doing things, characterized by: a) easy of entry, b) reliance on indigenous resources, c) family ownership of enterprises, d) small scale of operation, e) labor-intensive and adapted technology, f) skills acquired outside the formal school system and, g) unregulated and competitive markets. Informally largely ignored, rarely supported, often regulated by the government activities (Bromley, 1978). Thus, the main characteristic of the informal sector is a labor-intensive and low-income economic activity (Nguimkeu, 2014).

In Indonesia, the informal sector is often referred to informal economy, unregulated economy, unorganized sectors, or unobserved employment (Haris, 2011; Suradi, 2011). The informal sector refers to those who involved in non-wage employment, namely entrepreneurs, entrepreneurs assisted by families, daily laborers, and unpaid family workers (Suharto, 2002). The informal sector includes an understanding of various activities which in general terms are referred to own business (Irianto, 2014). The most non-wage or self-employed work in Indonesia is street vendors (PKL). Their activities are synonymous with traditional markets and are the main source of income for urban residents. According to social scientists, PKL is one of the important and real jobs in various developing countries and is able to solve the level of poverty in urban areas (Irianto, 2014). But, in many cases, the informal sector does not receive more attention than the formal sector in Indonesia (Rini, 2012; Suradi, 2011; and Wauran, 2012), whereas Indonesia is one of the countries with the most traditional traders in the world.

METHODS

This article is explanatory research from traditional marketplace at Padang City, the capital of West Sumatera province, Indonesia. The marketplace known as the Pasar Raya Padang, the main and biggest marketplace in Padang City (Figure 1). Data collecting conducted in the 2015-2016 through in-depth interviews with 18 small traders, Focus Groups Discussion (FGD) with local organizational leaders and several visits to Pasar Raya Padang Traditional Market. The interviews were also conducted with shops and the Padang City Market Official. The FGD participants were selected based on recommendations from traders who had previously

been interviewed. The FGD was held in a closed manner and not involving merchant figures to avoid domination in the discussion. The FGD activities were carried out with two groups of traders who were taken based on their type of merchandise, namely vegetable traders and daily needs, and non-vegetable traders. The data analysis process is carried out through the process of data reduction, data display and drawing conclusion (Miles & Huberman, 1992). The results of data analysis related to the purpose of this writing are then presented in analytically description.

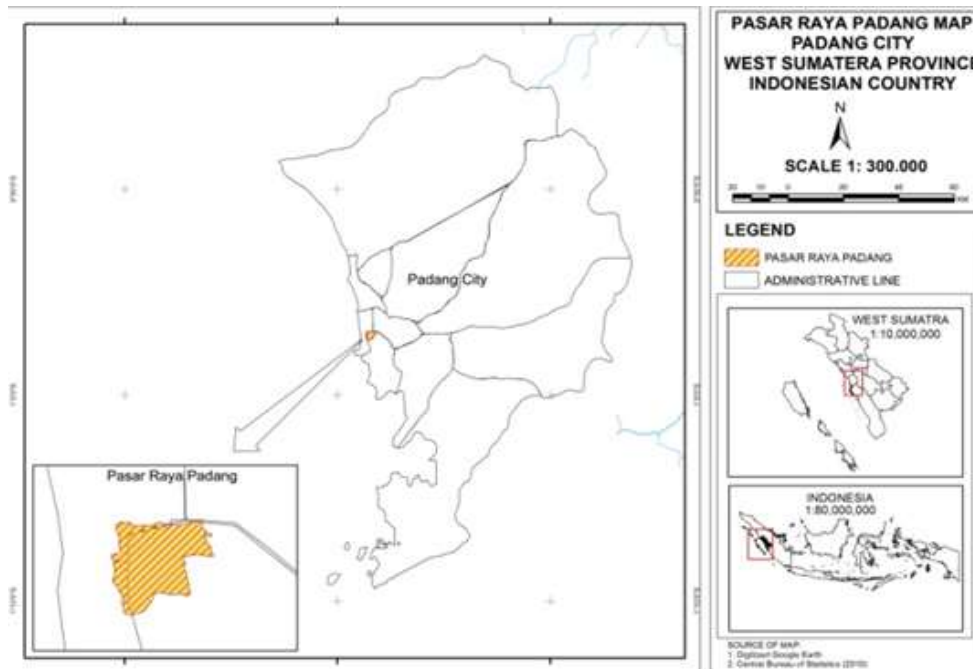


FIGURE 1
MAP OF AREA STUDY

RESULTS AND DISCUSSION

Informal Sector Characteristic at Traditional Market: Evidence from Pasar Raya Padang

The majority of informal sectors in Pasar Raya Padang is small traders or known as street vendors (In Indonesia known as PKL) (Figure 2). They are traders without shops, kiosks and/or official places of trade. They held their merchandise in front of a shop with two types of merchandise. The first type is exactly the same as the merchant's shop, and the second is related to the type of merchandise in the shops (such as yarn traders, tailors, knives, scissors and others in front of a textile shop, or repair services in front of an electronic shop).



FIGURE 2
PICTURE THAT SHOWING STREET VENDOR (PKL) AT PASAR RAYA PADANG

The choice as small trader is considered as the pioneering road to grow and develop into a large trader. They believe that large traders start their businesses by trading on a small scale, because they assure that there are no traders who directly become large traders, unless they get inheritance from their parents. It makes them consider the traditional market as a kind of college to learning trade management. “...*this traditional market is a university for us to learn the trade science.*” (FGD, 2016). Therefore, the informal sector in Pasar Raya Padang is the beginner trader who is still learning to be a trader.

The growth of small traders in Pasar Raya Padang is driven by two factors. First, the dynamics of market space use encouraged the control of space by small traders in peddling their wares (Zusmelia & Firdaus, 2015). Changes in use of parking lots, open spaces, and pedestrians since the reformation era have made the growth of small traders more intense. They are more free to hold merchandise in front of shops.

“... *the space that is supposed to be a parking lot in the market area of Phase VII and its surroundings is used as a trading place for small traders. The process of transferring space functions continues until the road is also used as a place to trade. Their number continues to increase year by year.*” (Male merchant interview, October 2015).

The second is the Minangkabau cultural factors. The Minangkabau urbanization culture known as “*marantau*” (out of the village for economic or educational purposes) influences the growth of small traders in almost anywhere traditional market in Indonesia and Southeast Asia. Trading is the main goal of Minangkabau migration in the new residence (Pelly, 1998). Urbanization and shrinking of the public sector and the increase of young people in the labor market is the core of the informal sector (Monteith & Giesbert, 2017).

Main Problem of the Sector Informal at Traditional Market

Until the research conducted, there was no policy to accommodate the street vendor and small traders by government. Their status is traders without legality. According to interview with chairman of Small Traders Association (IPK) of Padang City (2016), none of their members are officially registered in the market agency of the city of Padang. It caused them to have three main problems: they do not have a permanent and legal place of trading, cannot access to financial support from banks and cannot be involved in empowerment programs.

Illegal trade place status caused their sustainability vulnerable to various threats from various sectors and actors-both formal and informal-that take advantage of market activities. Every day, informal sector actors in Pasar Raya Padang under the threat of eviction and uncertainty in the trading space. The situation forces them to have to pay various illegal fees for and in the name of securities. In certain cases, their place of trade at any time can be given to another trader who is able to pay more by an officer. "*Tuan takur*" (market authorities from the elements of thugs) in this situation more freely determine market space according to their wishes.

The limitation of access to the bank makes the informal sector in traditional markets unable to survive the unpredictable market fluctuations. The case of Mr. DT (moving to another city with a new job) and Mr. MS (now trading at home), Mr. PR (back to chaotic job) and other cases of trader shows the small traders of financial inability. Some small traders without alternative livelihood, trapped to loan shark who take loan interest far greater than the loan interest of bank.

Their informal status also makes them unable to get access to capacity-building programs provided by the government or institutions that provide official documents. Thus, their learning processes are only self-taught and only with person who they are affiliated. This problem in line with general problem of informal sectors, there is no legal recognition, state protection, official taxation, or other regulations that bind and protect them (Babbitt et al., 2015; Rothenberg et al., 2016).

Strengthening Informal Sectors in Traditional Markets

The weakness of the informal sector by legality which has implications for space certainty and access to banking does not make them fully vulnerable in the market. In the case of the Padang Earthquake disaster in Padang in 2009, small traders were the informal survivors among other traditional market economic actors. Small traders only need 3 days to recover from the trauma of the earthquake and return to the market to trade (Firdaus, 2014). Nevertheless, their strength was recovering from the trauma, not recovering from running out of economic capital. By using an institutional approach that emphasizes the role of institutions in determining rules and promoting the regulation in the framework, roles and identities (March & Olsen, 1996), several things can be done in the process of strengthening the informal sector in Traditional Markets.

Facilitation of Trading Space

The majority of studies on small traders in Indonesia found that there are no systematic efforts made by the government in ensuring the availability of space for small traders to trade, as well as the informal sector in the city of Padang. With the status of being a trader without space, the city government needs to provide and organize available space to be allocated for small traders. So, with the availability of space, small traders have the certainty about the space where merchandise will be held. With the availability of fixed space for trading, the informal sector does not have to pay illegally to illegal collectors in the name of security. In contrast, the government can take taxes through legal leasing of places to traders. The legality of the trading space for the informal sector can be provided through identity card that is officially registered in the government database system. Solo City program on providing space for small traders by providing free kiosks, and provides various choices of space or place of business for street vendors, namely shelters, tents (on sidewalks and limited time roads), carts and tents (Wirutomo,

2011) can be adopted by other local governments in the process of strengthening small traders according to local cultures and characteristics of traders.

Capacity Building

The informal sector in traditional markets as mentioned above, are those who are learning to become traders by making the market as a college. Thus they are traders with limitations in trade management, ranging from arranging merchandise, communication with buyers, marketing strategy, financial management and etc. Therefore, they need to increase the capacity and skills they already have. In accordance with the spirit of investing in human resources in the process of sustainable development (Eade, 1997; McGinty, 2002) increasing the capacity of traders to become better is an effort to make them empowered both individually and institutionally.

The process of capacity and skills building can be intervened by the government and the private sector through training and mentoring according to their needs. Training aim is to improve the skills of traders in supporting economic activities in the market. With these skills, they will be able to manage the business better through increasing sales, retaining customers, providing good services to customers and other matters related to trade management. Training and mentoring are also needed in financial management and governance for the development of trading businesses. Mentoring activities are carried out sustainably by assistants prepared by government agencies to assist traders' economic activities in the market. Assistance is carried out simultaneously and continuously by placing facilitators as traders' supervisors and discussion partners in overcoming their various problems.

Provision of Microfinance Institutions

Small traders in traditional markets generally have limited financial characteristics. In addition, they also cannot access banks because of constraints on administrative and collateral requirements as mentioned above. In order to overcome their financial problems is by creating accessed microfinance institutions by them. Through the creation of accessed microfinance, traders can access soft loans for the development of their businesses. Soft loans in this case are low-interest loans and without collateral. The provider of microfinance can be from private banks or government. The existence of institutions for lending is very important because traditional market traders-especially small traders-with the level of capital vulnerability will require capital injections if falls into a critical situation. This is in line with Indonesian informal sector where 97% of small businesses in Indonesia have a turnover below IDR. 50 Million/year and who legally have limited access to financial resources, cannot borrow to expand their businesses, and are limited in accessing the market (Rothenberg et al., 2016). Therefore, they are very suitable with the type of community banking institutions such as microfinance institutions (Baskara, 2013).

In addition to financial capital, institutions can also provide financial assistants who provide supervision to traders in developing business and managing finances. This mechanism is not only an effort to control traders, but also a form of empowerment and strengthening for traders with a sustainable mechanism (Zusmelia & Firdaus, 2016). The benefits of a pattern like this, in addition to loan guarantees are also to control that loan repayments.

CONCLUSION

Almost all studies on the informal sector state that the informal sector, especially street vendors (PKL) is an economic sector that is able to become the backbone of the people's economy even though various crisis. The strength of this sector is labor intensive, not capital intensive. So, the availability of large capital does not become the main requirement for growth and development. Even so, there are various main problems that prevent them from development or become established traders. Their main problem is legality which has implications for physical and non-physical aspects. Physically they have problems with the space where they trade, and they are non-physically limited to sources of financing and training to improve skills.

By making labor-intensive power an entry point, strengthening small traders in traditional markets can be done through the intervention of government and private institutions. Some interventions that can be done by ensuring the availability of clear and legal space by the city government, increasing the capacity of traders and providing microfinance institutions by both the government and the private sector. This institutional intervention is important because government institutions and assisted by the private sector have the authority and flexibility in overcoming the main problems of the informal sector in traditional markets.

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