

The Prospect of Poor Home-Based Enterprises in Yogyakarta

Agam Marsoyo^{*1}, Wahyu Kusuma Astuti²

¹Head of Center for Studies in Regional Development and Planning, Universitas Gadjah Mada

²Research Assistant, Center for Studies in Regional Development and Planning, Universitas Gadjah Mada

Abstract

This paper involves a discourse of both the perspectives of government and home-based enterprises (HBEs) operators and the fore coming challenges from internal and external environments to see the prospect of poor HBE in the future. The paper is aimed at explaining the conditions, future potentials and opportunities, and strategies for HBE to alleviate poverty. The result implies that alongside with the affirmative assistance of the government, factors i.e. household and shelter condition, age of HBE and operators, and income affects the performance of HBE internally, whereas limited buyers, networking, dependency to government's assistance, location and profitability, competition, and technology challenge the development of HBE from the external side. The recommendation put forward the appropriate strategy for HBE to alleviate poverty i.e. micro-credit group, innovation and technology, and networking.

Keywords: Home-based enterprises, poverty, challenges, prospect

I. Introduction

Urban informal economy has been noticed as a form of resilience in facing the urban economic pressure, on one hand, but also as a form of vulnerability in terms of competitiveness, on the other hand, to the power of wider economic scale (Meagher, 2013). Researches have prevailed that informal economic activities contributes significantly in the GDP and employment of a nation, instead of being a hindrance to the formal economic (Schneider & Enste, 2002; ILO, 2002). Despite the fact that it is unrecorded and illegal, the demand from buyers has influenced its existence, involving the rationality in economic, social redistribution, and failure of formal market to provide goods and service (Williams & Martinez-Perez, 2014).

Home-based enterprise has been widely introduced since 1980 as part of informal activities (Strassmann, 1985; Gilbert, 1988). Concluded as the micro business operated in a house by the members of family, terminologies as *home-based work*, *home-based income generation*, and *homeworking*, have disclosed the characters of HBE (Lipton, 1980;

Edward & Hendrey, 2002; Gough & Kellett, 2001; Felstead & Jewson, 2000; Moore, 2006; Louw and de Vries, 2002; Green et.al, 2000). Previous research has unveiled that households with home-based enterprises tend to have larger income than non-home-based enterprise ones, with 3.6 and 1.4 times bigger, in Yogyakarta and Surabaya respectively (Marsoyo, 2012; Tipple, 2005). In relation to poverty line, almost half of HBE in Yogyakarta can exceed the line by only operating HBE, while the other half complements HBE with other employments (Marsoyo & Widiyanto, 2013). This finding calls attention to the research of Gough et.al (2003) and gives credence that home-based enterprises contribute to household poverty reduction.

In notion to the household source of income, 88.5% of HBEs are operated as the sole employment of households. Averagely, HBE activities contribute to 75.16% of the monthly income of the operators. This research revisits the findings of Marsoyo and Widiyanto (2013), that 91% of HBE in Yogyakarta has exceeded the poverty line according to consumption and income indicators of World Bank, Statistical Bureau, Sayogyo Rice Equivalency, and Minimum Regional Wage of Yogyakarta. It bears an outlook to the role of HBE to reduce the poverty of the household and at the same time poses the

^{*}Ir. Agam Marsoyo, M.Sc., Ph.D., Head of Center for Studies in Regional Planning and Development, Universitas Gadjah Mada. Tel: (0274) 566361 Fax. (0274) 562800 e-mail: agam@ugm.ac.id

potential of the 9% of the rest to revive from poverty even if they only serve within the neighborhoods.

Roughly, in four sub-districts observed in Yogyakarta, the ratio of HBE and household number is 7:100, or equally 2 or 3 HBE in an RT (unit of neighborhood). The ratio is highest in Sorosutan and Tegalrejo, with 17:100 and 12:100, respectively. It indicates the role of HBE in supporting domestic activities of households in the neighborhood area. Moreover, the finding that 43% of HBE has the area of marketing in the local neighborhood emphasizes that HBE supports the livelihood in local area.

Despite of these works, little elaboration has explained about the internal and external challenges of poor households in operating the enterprises. This research aimed at, first, reviewing the perspective of government, in terms of policies and programs, to overlook HBEs in Yogyakarta as an aim to reduce poverty, and second, it serves to highlight the challenges and possible prospects of poor household in performing the small enterprises. Eventually, this research attempts to seek for the potentials of HBE to flourish in the future as a financial resilience strategy of poor households in urban area.

II. Methods

This qualitative research involves a random-sampling method to identify the samples in four sub districts in Yogyakarta, e.g. Tegalrejo, Pringgokusuman, Mergangsan, and Sorosutan. The locations of this research were purposively selected based on the poverty level which is the highest in the municipality. A set of questionnaire of both open and close questions was tested in 306 respondents, firstly, and further exploration of the poor HBE was conducted, afterwards. This study also involves an in-depth interview to the Social Department of Yogyakarta Municipality in relation to its policy and programs regarding HBE and poverty.

III. Results

HBE in Policies

Post-economic-crisis phase was the out peak of poverty level in Indonesia where 24.23% of the population was poor in 1998, increasing almost 7% from that of 1996. Poverty reduction, afterwards, has been prioritized by the government through policies and programs. Reflecting to the needs at grass-root level, community development was introduced through National Program for Community Development which started in 2006. This program is mostly associated with an attempt to improve the living conditions of the poor by improving substandard housing, providing infrastructure, and at the same time empowering the micro economic of

the poor people. Since 2010, the policies have been clustered into three; family-based social assistance, community-based poverty alleviation, and micro-economic-empowerment-based poverty reduction, and has been under the National Team for Poverty Alleviation. The third cluster promotes a single program of micro credit for poor community which elaborates the attempts to assist the financial, marketing, and skill aspects of poor micro business operators.

Alongside with the implementation from the national government, local government promotes as well programs in conjunction to poverty reduction through micro-credit assistance. *Kelompok Usaha Bersama Fakir Miskin (KUBE-FM)*¹ and *Usaha Sosial Ekonomi Produktif Keluarga Miskin (USEP-KM)*² are among the programs implemented by local government to trigger entrepreneurship and networking among poor HBE operators. KUBE-FM and USEP-KM emphasize on partnership between operators of HBE. A group of different types of business of KUBE-FM and USEP-KM requires the least of 10 and 30 people in the same neighborhood, respectively. Another prerequisite of the group is 20% of the members is not poor as these programs emphasize collective action and inclusiveness of business operators in a neighborhood.

Besides networking, the two programs give capital assistance to initiate, strengthen the institution, and develop further business within the group. The management of the fund is under the responsibility of the group. Not every group is able to continuously revolve the fund for the sake for business development. However, per year 2014, these program have reached 400 groups for KUBE-FM and 90 groups for USEP-KM. Besides, almost 70% of the targets is considered as successful in developing and even expanding the enterprises.

As part of the controlling process, monitoring and evaluation meeting is conducted every three months to analyze the problems of business group and address solution to each of the problem. Training and facilitation is also given during the meeting, e.g. food health certification socialization from Department of Health in order to persist the quality and expand the market of the business, business management training, and network building. Annually, local government also conduct a business fair for the groups of HBE to exhibit and market their products.

The two mentioned programs are under the Social Department, while there are also several other programs from other government and private

¹ Group of Business for Very Poor Households

² Productive Social Economic Business for Poor Households

institution. One of the challenges that needs to be overcome is the overlap of assistance. Not only has it created inefficiency of poor alleviation programs, it also has been motivating poor HBE operators to rely on government's assistance without sustaining the business.

The incidence of home-based enterprises, however, is also difficult to be identified. There needs an annual update of the database because of the dynamics of the HBE. As micro enterprises and, in this study, operated by poor people, the appearance and disappearance of HBE cannot be predicted. Therefore this research elaborates internal and external factors as the two main challenges of the existence of HBE in poverty in the future. The internal factors entail household condition, skill of HBE operators, age of operators, age of HBE, while buyers, location and profitability, dependency to government's assistance and technology are explained under the external factors.

Challenge for the Future of the HBE in Poverty Household Condition

Family has been the main operators of HBE thus HBE performance is subject significantly to the commitment and condition of family in persisting the enterprises. Some cases have indicated that additional burden in the family and failure in the inheritance of the enterprise may threaten the existence of the enterprise in the future. In contrast, inheritance issue is one of the problems less considered by HBE operators, from 306 samples, only one respondent mentioned this problem. Incidence in family e.g. family member's illness, death, or additional needs e.g. education for children, were also among the causes for the decline of the performance of HBE.

Shelter Condition

The existence of HBE cannot be alienated from the place where it lays, the house. In order to develop the business, larger space is required, while most of poor household occupies substandard shelter with temporary materials and small domestic area.



Fig. 1. Sub-standard shelter of poor HBE
(Source: Field Survey, 2014)

Income

As a micro enterprise, HBE was started with a very small capital and result also in a small return. Trade-type HBE has the lowest daily revenue, which is Rp65.000,00 compared to service and industry-type. In contrast, poor households operating HBE receive less than Rp10.000,00 a day while some of them operate HBE as the sole employment. With this much of income, it is difficult for household to persist or even develop the enterprises while at the same time spend the household expenditure in daily basis.

"I actually wish I could have another business but, how, I don't have any other skills. It is, of course, not enough to cover my daily basis. Sometimes, I borrow money from the neighbors to survive." (interview with Harjo Isman-Warung³ owner, 13 June 2014, 13.42)

Age of Operators

Motivation and innovation of HBE depend on the age of operators. Elder operators tend to be effortless in promoting an innovation of the enterprise. Further, elder operators tend to have an aspiration to stop operating the HBE due to lack of energy and lack of people or family members who are willing to help them operating the HBE. Meanwhile the younger ones tend to have more energy and motivation to increase the performance of the HBE. Among them are the willingness to expand the enterprise in the future, for example increasing the number or variation of commodity, increasing the number of staffs, renovation of workplace e.g. stores and hair-do saloon, increasing facilities for service, and move

³ Small and local store providing daily needs

the workplace to a more accessible place e.g. alongside of local street.

“I am getting old now, unlike when I was young I can go here and there, taking the commodity to Beringharjo Market myself. I used to be the one who has the most buyers, but since my husband passed away, when I was around 50, my income fell significantly and less people come to buy, I got only Rp200.000 per month. As I am getting older, I am too lazy to do shopping around, I have surrender to God no matter how much money I earn. It comes from God.”(interview with Amir Wargono-Warung owner, 27 June 2014, 15.33)

Age of HBE

Along with the age of operators, it is also reflected in the average income of two types of HBE that HBE initiated before 1996 tend to have lower income than HBE initiated afterwards. Furthermore, HBE’s vulnerability of poverty is shown highest for HBE which is initiated before 1996 and after 2005 (Marsoyo, et.al. 2013). It implies that the age of the enterprise impacts on the productivity, and less productivity threaten the existence of the HBE.

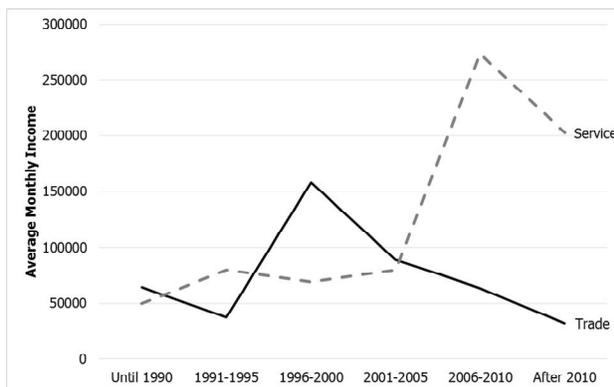


Fig. 2. Average monthly income of service and trade-type of HBE based on the year of business start-up (Source: Analysis, 2014)

Limited Buyers

The problem of lack of buyers remains important in the context of poor HBE development. Accessibility, competition, and the high price of the commodities are among the reasons associated with the buyers’ issue. Small-scale HBEs have limited market in local neighborhood area and thus be reached mostly by the neighbors. In this case, household finds hindrance in developing the business due to limited market and thus impacts in the limited income.

Networking

Individual HBE bears more risk to desertion when it is not connected to other similar or supporting parties in general. Networking here is identified as partnership between the same types of HBE, different type of HBE as the groups formed by the government’s assistance, and relationship between HBE and other actors i.e. consumers, government, private sectors, NGO, etc. The expansion of networking enables HBE to promote and innovate the commodity and services. The role of networking between similar types of HBEs is significant regarding the ability of small-scale enterprise to produce, partnership can promote order sharing if one HBE finds difficulties to produce a commodity, i.e. printing service.

“My enterprise depends on the order, how I can find consumers like submitting proposals to supermarkets, schools, offices. If there are less consumer, I contact my friends asking for orders or brokers I know, if there is an order than I give 10% for the brokers.” (interview with Bagyo-Printing Service in 27 June 2014, 14.00)

Competition

Same type of HBE, with same commodity or service and market area, in the same neighborhood leads to rivalry between the operators. Within the competition, HBE with less competitiveness is threatened.

“For me, location, competition, consumer’s affordability, and government’s aid are very important because the location of my enterprise is less strategic because it is located in a settlement area and narrow alley makes it difficult for consumers to come. Mostly, it is only my neighbors who buy. I still depend very much on the government’s aid like raskin and PNPM Mandiri, because I initiated this enterprise by taking loan from that program.” (interview with Sunarsih-Warung owner, 12 June 2014, 15.02).

Location and Profitability

Apart from the fact that some HBE flourish in an area with less accessibility, many HBE operators find that accessibility is an important factor for their enterprises to grow.

“It is clear that location is important for selling fuel and phone credit, if it is not located in the main street’s side, there must be less buyers because there are less consumers

inside of a settlement.” (interview with Leha-Fuel and phone credit seller in 27 June 2014 13.00)

Maps of the four sub-districts observed below implies the dispersion of HBE with neighborhood-scale market. The location of HBE influences the market as is shown in the maps. Most of the HBEs with low scope of consumers are located within the settlement area and are not alongside the main road. In average, inter-neighborhood scale HBEs gain Rp55.000,00, with the range of Rp5.000-Rp200.000,00 per week. In contrast to that, city-scale HBE and province-scale HBE gain averagely Rp121.000,00 per week and Rp133.000,00 per week, respectively.

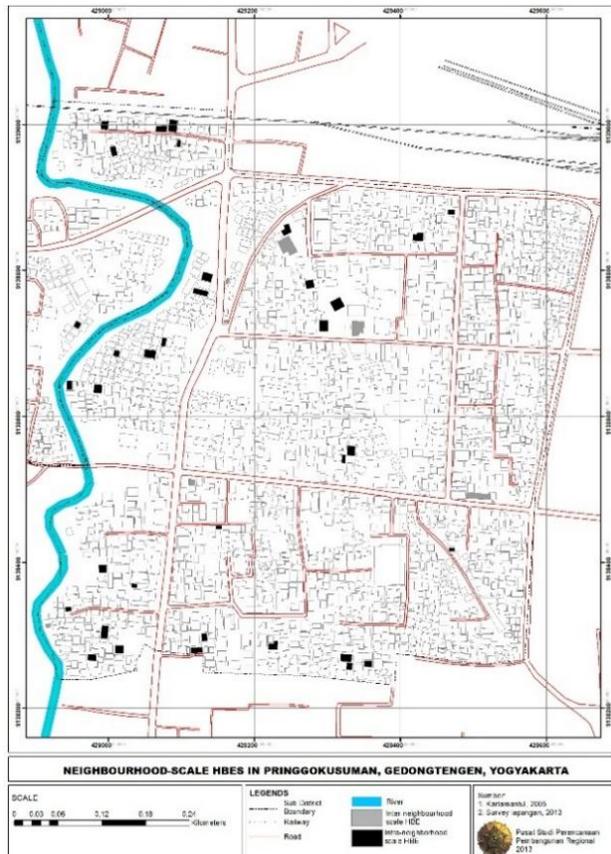


Fig.3. Neighborhood-scale HBE in Pringgokusuman (Source: Analysis, 2014)

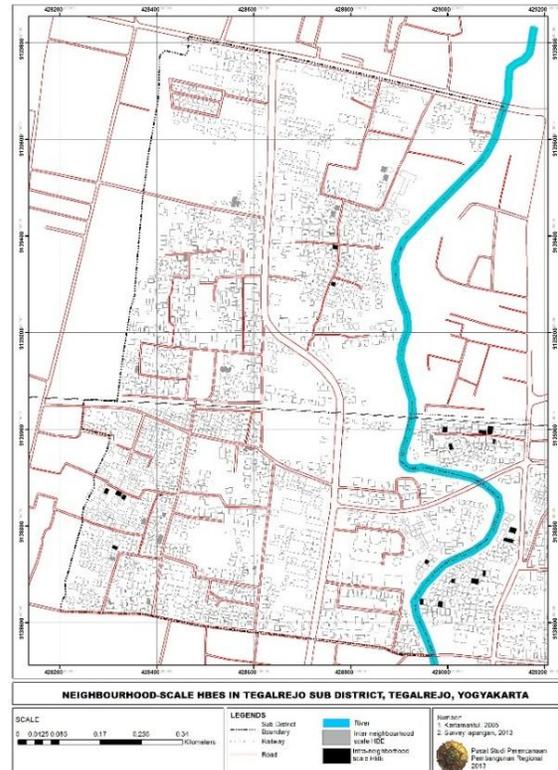


Fig.4. Neighborhood-scale HBE in Tegalrejo (Source: Analysis, 2014)

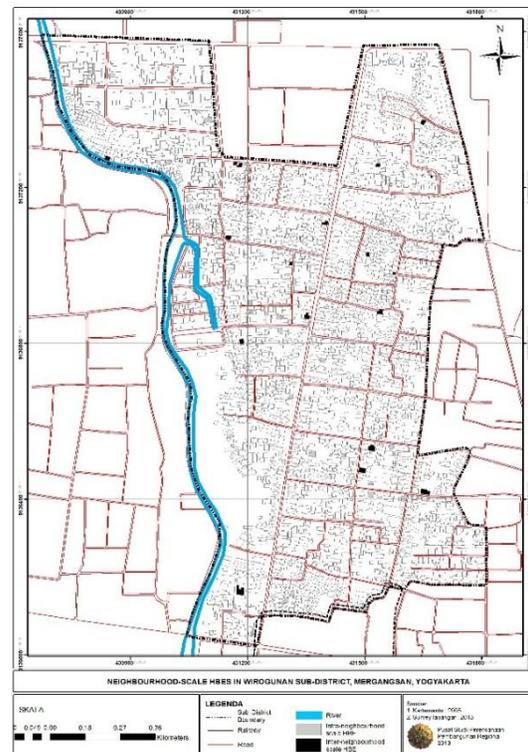


Fig.5. Neighborhood-scale HBE in Wirogunan (Source: Analysis, 2014)

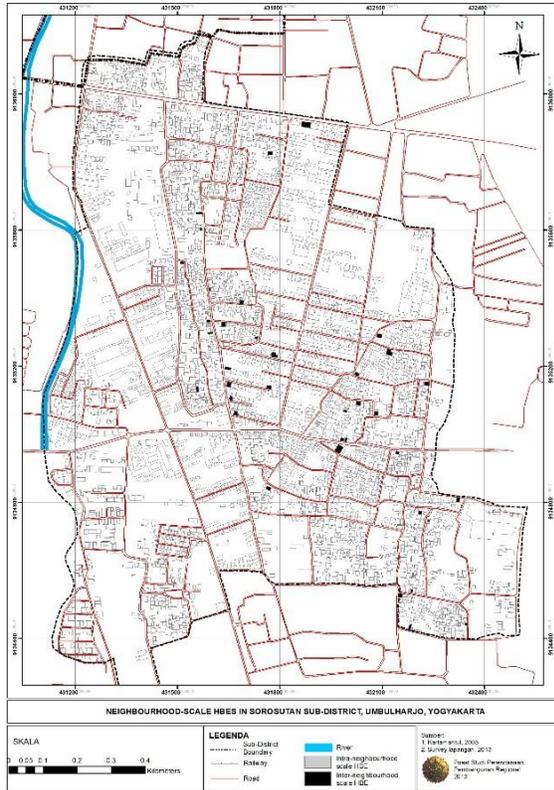


Fig. 6. Neighborhood-scale HBE in Sorosutan
(Source: Analysis, 2014)

Dependency to Government's Assistance

In relation to the aspirations for HBE to thrive, government's affirmative action in providing block grant or facilitation is expected by HBE operators, particularly those in poverty. Meanwhile, the distribution of assistance and wrong target of the aid may cause social conflict in the end. That expectation of HBE operators is contrary to the fact that not only is that the government assistance often provided to incorrect beneficiaries, but also the assistance is still limited, first, in terms of the scope, second, in the terms of amount.

"There are many grants with wrong target, like me, I should have got the aid to expand this motorcycle salon, but because I have no relations with the people at the sub district's authority it is difficult if I want to take the loan." (Bambang Sutikno-Motorcycle Repair Shop, 16 June 2014, 10.45)

Technology

The usage of technology nowadays has expanded the definition of physical space to virtual space. Nevertheless, it is rarely acquired that poor HBEs use technology i.e. internet as a mean of networking

or marketing. Triggering the usage of technology for the business of the poor people has been a challenge. Not only is that lack of familiarity in using technology, but also the motivation of households to expand the business through technology is less. One of the rational could be because the market of small-scale enterprise like HBE is in the range of neighborhoods, thus it needs rarely technology to market the product or service. One simple form of technology usage is requesting phone credit through phone or SMS to the vendor. Nevertheless, eventually it involves direct contact of vendor and customer for the payment. Another possible form of technology application is, for example for vegetable vendors, by collecting the phone number of the customers, thus customers can request certain commodity to buy and vendors can be more effective in spending the money.

IV. Discussion

This study has implied that both national and local government provides assistance for informal business, including HBE, particularly the poor ones. It can be considered as a form of support disregarding the unregistered and unmonitored existence of HBE and other informal businesses. This effort is shown through the policies and programs implemented where government assists not only financially, but also technically by building a network as an attempt to build an independent community through collective action. However, it is still limited that only 490 groups or 6700 enterprises have benefitted from the programs. The number of HBE is projected 2-3 times bigger than that the existing beneficiaries. It is potential, however, depending only on the government assistance will not improve poor HBEs without any significant change in the way the business is operated.

HBE operators expect to develop their enterprise beyond the existing condition, while with that scale of business and marketing HBE can only support the local neighborhood. The goal of government in giving the aid was to strengthen the livelihood of poor households by triggering micro business, thus the aid distributed to the community is not sufficient initiate bigger enterprise, unless the operators can manage to revolve the assisting fund provided to develop the enterprises, but how?

Initiating a group of small and micro enterprises for a micro credit group could be one of the options. Learning from Garment Bank, or Kali Jawi Association in Yogyakarta, community development fund can be started with a regular collective saving. The fund is then revolved through loan mechanism with very low interest for the development of the

group. This strategy can be initiated even without the assistance of the government, or it can be cooperated with the stimulation fund from the government.

Secondly, innovation is required thus HBE can always deal with the future challenge. As mentioned before, with seven HBE in a neighborhood of 50 households, there is a tough competition to capture the consumers. If one HBE is well developed, others declined simultaneously because there is a preference from consumer, i.e. complete commodity, competitive price, or better quality of commodity. It is a *zero-sum game* in the neighborhood, considering market in physical perspective. It could be different if space is not determined only as a physical entity, but also a virtual entity. Even a micro scale HBE will be able to capture further market if technologies are applied. The use of telephone, for instance, enables consumers to inquire certain commodities so that vendors will have most of their commodities sold. Not only in terms of technology application, is innovation also necessary to cope with the market's dynamics i.e. the buyer's preference and type of commodities.

It is unalienable that networking leads to a more competitive and solid HBEs in urban area. Both micro credit group or technology application require a networking, i.e. to consumers, to other HBE, or to other parties including government. It functions in, first, creating wider market of the enterprise, and second, encouraging competition so that each of the member will innovate simultaneously. This networking form, in the greater area, should involve the government so that it can be coordinated with the strategic plan of the government.

No matter how positive we see the prospect of poor HBE to thrive in the future, that the government encourages, in a way, and some strategies may be applied to the enterprises, in other way, it cannot be neglected that some problems need more individual solution rather than a collective action. For instance, the fact that inheritance or discontinuity of the enterprise due to the loss of a family member implies that not everybody, in the family, has the capability to manage the enterprise. Elder HBE operators may have no willingness to innovate or even capability to manage the enterprise anymore. Even young and active HBE does not always have a capability to revolve the income or persist the existence of HBE when there comes another priority. In this sense, despite of being a source of income, HBE poses the risk to overburden the poor household due to the high difficulties and cost in operating the business. However, in general, sufficient motivation and skill

will eliminate the possibility that they will decline in the income and performance.

V. Conclusion

Micro informal economic activity, particularly operated by poor households, will have to deal with challenges to prosper in the future. In this case, poor home-based enterprise, which is associated with the family and house where it is located, has internal and external challenge to manage the business as a mean to alleviate poverty. Household and shelter condition, relatively low income, and age of operator and business are among the internal factors influencing the performance of HBE. Meanwhile, limited buyers, networking, competition, location and profitability, and dependency to government's assistance challenge the existence of HBE from the external environment. On the other hand, local government enacts in the poverty alleviation policies and programs to encourage the development of poor HBE although the extent of the assistance is yet sufficient. Eventually, several strategies, as micro credit group initiation, innovation including technology, and networking are recommended to poor HBE and other related stakeholders in order to revive HBE as a mean to improve the livelihood of the poor.

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