

## **Education for Informal Sector: Rebuilding Sharing Communities for Small Social Entrepreneurs\***

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### Abstract

It is about a social responsibility program of the Surabaya University, which commits to contribute actively to capacity building for small business communities. The idea of the program is helping to create an environment in which the informal sector community could meaningfully wrestle with their problems and try out their solutions. Prior to the informal sector, it is a mandate for Pusdakota (Center for Urban Community Empowerment) to help small business community through provides incubator with a series of education program in the campus area of the Surabaya University for one-year program. Along with guidelines for a vendor permit to be issued and maintained, social capital building for the group is being looked as a means of stemming the tide of perceived community decline and widespread distrust associated with it.

Keywords: social entrepreneurship, sharing knowledge, and community development.

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Adam Smith got it right, once and for all:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.<sup>1</sup>*

The role of market economy for improving human welfare has long been questioned, particularly while Adam Smith acknowledged the inherent selfishness of economic man in which a market economy worked toward the enlightened self interest and reciprocal altruism (Castagnera, 2003). In the case of informal sector, the competition has used ethnicity or locality alliance to monopolize opportunities and to restrict them to a limited circle of people (Varcin, 2000). The Asian financial crisis has made more extremely competitive and individualistic in informal sector. However, the Pusdakota (Center for Urban Community Empowerment) has a premise that it doesn't seem that every individual market trader engages in competition and makes decisions in accordance with what mainstream economic models suggest. It raising dispute in the managerial level on how the basic theory should be adopted to help community who lives close the campus.

There were some considerations about community development for informal sector. Levenson and Maloney (1998) offer a theoretical framework that informality can be thought of as a decision to participate in societal institutions. Access to mechanisms that ensure property rights, pool risk, or enforce contracts become more important as a firm grows and the entrepreneur will be willing to pay for them through "taxes" in a way that was not the case as a small firm. However, Miguel et al (2002) finds no evidence from Indonesia that social capital promoted industrial development. In a related point, Gertler et al (2001) also find that Indonesian individuals and communities with more social capital do not have better informal insurance against adverse health shocks (as measured by consumption smoothing). It is following challenge for higher education institutions in Indonesia to promote social capital. Along with belief that the University of Surabaya has to go to the people (antagonish), rebuilding sharing community to strengthen social capital among the business community is much more needed, aside of doing research which usually come with recommendation to do another research. It is a mandate for the center.

The paper endeavors to examine the social entrepreneurship society program, which is one of the experiences of the Pusdakota on facilitating community development in Surabaya, Indonesia. Prior to the small informal business, the one-year program provides capacity building program for the poor entrepreneurs, which held in the area of the Surabaya University. Outdoor vendors and activities are a desirable element in the area of Surabaya University, which has potential market around eight thousand students, and such sidewalk merchants are encouraged to joint the program. In order to achieve the goal, strengthened small business, certain guidelines have been established, such as a uniform standard of quality in appearance and operation. These guidelines must be followed for a vendor permit to be issued and maintained. The program activity aims to build sharing community, assist in developing capacity of small entrepreneurship, and rebuild social capital within the communities. If this is so, then the hypothesis might be that, where my neighbor gains at no

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<sup>1</sup> Adam Smith, *The Wealth of Nations* 7 (Wallace Brockway ed., *Encyclopedia Britannica, Inc.* 1952) as quoted by Castagnera (2002).

cost to me, or where we both gain, my natural reaction will be to favor the transaction or system which consistently provides this result. It is a model of community development to answer on how poor can make their institutional setting more conducive to growth and self-reliance on poverty reduction.

### **The Informal Sector in Surabaya**

As a provincial capital of East Java, Surabaya is the second biggest modern city after Jakarta. The industry sector plays the most important role in economic development that contributes around 26.44%, while agriculture contributes only 17% to the GDP (Gross Domestic Product), however, the concentration of industry is found in the industrial estates around the capital of Surabaya. There is a high level of economic activity in Surabaya, and the economy is considered dynamic and robust. There is huge disparity between Surabaya and other areas surrounded, such as Sampang municipality (UNDP 2000 and 2004). Compare to other provincial capital cities, even in outer island such as Ujung Pandang, Denpasar, Palangkaraya, or Manado, the Human Development Index (HDI) of Surabaya is much lower. Those have made the high competition bring ethnicity or locality alliance strategic to gain the opportunities, which mainly dominated by Javanese<sup>2</sup> and Madurese.

As part of informal sector, street vendors have been a hallmark of Surabaya City since the 1998, the financial crisis has devastating their previous job. Thousands people currently make their living selling their wares on streets of the city. Most are immigrants come from rural area. They earn very little money and work under harsh conditions and perform an important service by providing convenient and affordable goods to visitors from all economic backgrounds. They are entrepreneurs who ask for nothing more than the opportunity to earn a decent living on the street. However, informal sector does not always show the economic activities of poor communities, even though the small-scale and informal private sector production has generated employment and income for millions of people. Along with some connection with the bureaucrats, many “elite businesses” even control the informal economic activities, which able to ignore to pay tax. The idea that access to mechanisms that ensure property rights, pool risk, or enforce contracts become more important as a firm grows and the entrepreneur will be willing to pay for them through “taxes” in a way is not the case as an informal sector. Just like de Soto’s argument (1989)<sup>3</sup>, a key factor contributing to poverty in the developing world was the barriers placed by governments in the path of small-scale entrepreneurs. Bureaucrats, either through needless licensing requirements or outright corruption, make setting up a legal business very costly.

Given the fact, the target group seems to be a vague or imprecise concept, which can plausibly be specified in a variety of different ways. It is noted that the university of Surabaya, which is the center coming from, is private institution which belong to Chinese

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<sup>2</sup> *The typical Javanese worldview is based on the essential unity of all existence, in which life itself is a kind of ‘religious’ experience existing in harmony with a universal order. Interpersonal relations are carefully regulated by custom and etiquette to preserve this ordered state. In every culture, there is often distance between ideal behavior and reality. Nevertheless, the concept of harmony in the Javanese community is a core concept, notwithstanding outburst of uncontrolled emotion that may occasionally be displayed (Garry Dean, 2001)*

<sup>3</sup> *Having developed a formal model of the de Soto hypothesis and drawn predictions of firm size distributions from that model, Erickson (2002) found those predictions to not hold empirically. However, he argued that the data set, cover only formal firms, is far from perfect.*

elite business. On the other hand, the neighborhood is Moslem and the most of them are poor migrant worker. Breman (2001) identified that the social fabric within the Surabaya is both looser and more contractual than previously. The finding that industrialization in nearby districts led to reductions in social capital also lends credibility to claims that industrialization can sometimes be socially destructive, and it is possible that these side effects of industrialization in rural communities may have paved the way for recent social unrest in Indonesia. If that so, there was a tension between the center and the communities.

Having a faith that the spirit of entrepreneurship is blossom in small entrepreneurs community<sup>4</sup>, the informal economy is taken into consideration by PUSDAKOTA for its potential as an area of economic growth through its contribution to the level of employment, and to the creation of new markets. The shadow economy responds to the rising economic demands in the society and provides the services and goods to fill in the niche, along with creation earning for the poor.<sup>5</sup> As the mandate of the center, it is expected to select the target group of program more responsive to community needs and strengthen the capabilities of the community to undertake self-initiated development activities. Living up to the poor has been enabling the center to acquire perspective on the society, which may consider the dynamics of core poverty and vulnerability over time. Thereafter, it helps them to establish a mechanism to select the target group, which is the small business who really poor and struggle for building a sharing community. Along with formal and informal information, many small businesses were invited to involve into the program. Initially, there were about 147 vendors interested in the program for each batch, and the center need to choose around 10 vendors.

While many community based development projects are dominated by elites and the targeting of poor communities as well as project quality tends to be markedly worse in more unequal communities<sup>6</sup>, the essential part of strategy building has come from working with communities. Initiative staffs have with them often to try to confirm or refute current information and to search for new information about the specific condition of the target group before involves in the program. In the early stage of the programs, activities focused on consensus building and awareness rising. The outcome of these programs was to bring street vendors in an attempt to revitalize dormant relationships along cultural or community lines and to address ways of moving forward together. In particular, surveys responses to questions about the essentials of life tends distorted or depressed accustomed to their living conditions and have learned to be satisfied with their deprivation and to desire little in order to avoid bitter disappointment.

This community was viewed as being plagued by unemployment, alcoholism, family and sexual violence and child neglect. Typically, community organizer were employed, spent some time "hanging around" and getting to know (and be known by) the community. Some issues targeted by this dialogue included local economy development, environment upgrading, child-minding services, and security. These issues appeared to be genuinely of concern to residents - not a projection by well-meaning workers with their own ideological baggage. The programs generally entailed informal and formal meetings, planning work to be

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<sup>4</sup> *It is quoted from the speech of Mr. Wibisono, the Director of the University of Surabaya, on the graduation day for batch 1st.*

<sup>5</sup> *Despite positive results, Conway (2002) found in the case of Ukraine that the informally negatively effects the formal economy and reinforces the widespread corruption.*

<sup>6</sup> *For more discussion see Mansuri and Rao, 2004.*

undertaken by residents and others, liaison with relevant government agencies and setting up working groups or associations.

The question needed since the ultimate goal is to build sharing community. If that so, a criteria for the potential beneficiary is has already set up their own business. Through participatory assessment, the potential gains from community-driven assessment are large, to track the history of potential beneficiaries. It is important to keep in mind that has the explicit objective of reversing power relations in a manner that creates agency and voice for poor people, allowing them to have more control over development assistance. It has been done by doing reflection tradition on each lunch. Every community organizer in the center keeps sharing their experience as well as reflected the value of experience during lunch, everyday.

*“No need to be rich for being social entrepreneur. Many small businesses have a sense of that rather than the bigger ones”*. Cahyo Suryanto, the Director of PUSDAKOTA, mentioned.

### **Sharing Community: The Legacy**

Working in a group, rather than alone, is a key to success, regardless of whether not the small entrepreneurs have received training and credit. A group of micro entrepreneur who needed initial outside financing to start their business are more inefficient than those relying on their own resources (Pagan, 2001; Seligson, 1996). Although entrepreneurship typically is construed as the act of an individual, in fact it is shaped by the structural positions occupied by individuals as social actors (Dobrev and Barnett (2001). The organizations, formal or informal institution, trigger institution changes that may have been unthinkable at the time within established organizations (Gupta at al, 2003).

Belief that the poor community lead cross-border initiatives can work, the center endeavors to fill the gap on providing public good for the informal business communities. The necessary conditions for effective sharing community in the informal sector include enlisting the cooperation of the beneficiaries and local leaders, relying upon peer monitoring among informal firms. Along with organizing a “work camp” in the poor village of Rungkut, close to the university, in which they lived with the poor urban dweller, listened to their problems, planted gardens, and build a place for gathering, the center is offering regular formal meeting with the beneficiaries as a basic requirement to build commitment before doing the business.

Doing business in the campus area is the most interesting for the beneficiaries, then, the economic value would be challenge for sharing value. One aspect of synergistic social and human capital development that has resonance in communities is the social-historical dimension of learning. Recognition of value system of the target group which identified as ex-migrant worker has bringing initiative to recall their past activities for the community development activities, such as gardening. Just like the community organizers reflection activities during their lunch, the beneficiaries use the concept to reflect upon their own learning, since ‘cangkukan’ was their pass activities in the village. Participants in discussions in daily activity have identified a continuum of priority needs often commencing.

Living at the center’s building called “Pendopo” with around ten other people has been part of the building community process. The beneficiaries really have to learn to communicate and not put their selves first all the time. It’s also wonderful to have a network of people to rely on. They share meals, share information, share knowledge, etc. Those who are interested in joining the program should be intentional about it. Just living with others

doesn't create community. It's definitely worth the work! At the end of the program, there is a graduation day for those who involve during full one year. Aside having training and applying management skill as well as technical on cooking, most of the beneficiaries admitted that they already had saving around seven million rupiah. Once sustainability and self-reliance have become main concern for the program, all vendors must provide proof of daily saving and spend RP10.000 for management fee. On the other hand, PUSDAKOTA provides training on finance, inventory, schedules, and production for them. Of course, it has taken years to earn trust of the community to build the partnership. Social capital may decline because demand falls. If social networks mainly serve an insurance purpose, then as society becomes richer, this need may dissipate. In the first batch of social entrepreneurship, there is shared aim to

*Bangun Kerukunan, Kembangkan Ilmu, dan Lipatkan Rejeki Demi Terwujudnya Komunitas Berbagi.* (Building solidarity, improving skill, and rising income for Sharing Community)

Rather than just doing research, it is a need for community organizer to be encourager. It is someone who 'hangs around' and lives with the community to share their troubles and their community development process. Limited access to knowledge and information prevents the full use and potential growth of intelligence. It is useful to start by observing that both human creations and social constructs. They are designed to explain and meet some of the challenges that individuals or groups face at a particular time and place. They can be used to empower the individual or the group. To build the content of information resources, people will want to work systematically and to involve community members. As human creation, the beneficiaries use knowledge and information to organize their view of history and culture. The ultimate goal of the center is to encourage self-realization or enlightenment of individual and community. This awakening of all is achieved though the selfless sharing of each community members. Every day, there is a meeting at lunch that primarily for sharing their experience. What emerged from discussion with these groups, as well as the community members themselves, was that a way was needed to expand and stabilize the period of transition so people could reconstruct their business as well as the value of lives, which they called as "kawruhan ilmu rejeki".

When the community becomes a tool for human development, community users of information are urged to cultivate and adopt a critical attitude towards the information. By questioning the information source they may evaluate, analysis, and adapt information and knowledge to their own material, political, and social conditions. This regular process of questioning forms the basis of changing and transforming the community (Mchombu, 2004). These local values that shapes the community development model is radically different from the values that shapes the Western capitalist model. Accordingly, these local values give economic development an extremely different flavor, making one realize how "economic development' is so often thought to be concomitant with management skill, which adopted from Western capitalist values. One the other hand, being profitable has been financial objective for private institution, such as the University of Surabaya.

Since it calls for benefit for every activity in the university, some critics are coming from the internal management of the university that the program does not to have taken financial advantage and be able to contribute to financial performance of the university. The decision

to allocate the area to the community for groceries depends on how the center would be able to get authority to sustain the project for grocery. Since the way to get authority depends on personal relationship with other decision maker in the university, thereafter sustainability becomes a big question.

### **Discussion**

The development community was able to facilitate better market access for small entrepreneurs and encourage investment through expanding entrepreneur skill, financial capital as well as social capital to stimulate and build on economic self-reliance. It might be argued that informal sector in Surabaya should have continued to prosper during the economy recovery not for the sake of promotion materialism or profit maximization. It is for the welfare of the people, so the program should not even be labeled as an “economic development” program because it is preeminently an “awakening” program and economic development is only a means toward that end.

However, it is still too early to say that program is successfully. The love and support of the center sustained the community during his time on education process in the captive market. What about after that? We need to take a look at more detail after years on how the community goes hand in hand to achieve their ultimate goal, “building solidarity, improving skill, and rising income for sharing community”. The creation of market has been arguably the important welfare benefit of the small entrants. For the poor, self-helping in creating market institution, even in informal sector, is not a permanent solution for entrepreneurs. It faces a number of natural limits, such as market structure.

The challenge for the belief that the University of Surabaya had to go to the people is to be financial sustainable, while some others are tempted to take a look how it is profitable. Since it calls for benefit for every activity in the university, some critics are coming from the internal management of the university that the program does not to have taken financial advantage and be able to contribute to financial performance of the university. Even though the camp helped the destitute villagers acquire a different perspective of them, the program is deeply dependent on how the center would be able to get authority on accessing the market. Since the way to get authority depends on personal relationship with other decision maker in the institution, thereafter sustainability becomes a big question.

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