

Social Activities Effect on Household Enterprise: A Descriptive Analysis Form East Indonesia

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Keywords: Informal Financial Market, Rotating Saving and Credit Association, Expenditure, Income, IFLS EAST.

Abstract: This research aims to explore empirically east Indonesian household enterprise on social activities and financial wealth. We explore various indicators for example if individual have borrowed money from financial institution, the number of community activities that they follow, joining rotating saving and credit association, and their income from non-farm and farm business. This research uses IFLS (Indonesian Family Life Survey) East that has wide range information on financial inclusion indicators and other socio-economics variables that are not provided by other almost-similar-type database in East Indonesia. We use descriptive statistic and ordinary least square to estimate how social activities affected on household income and expenditure. The findings that household who joining rotating saving and credit association will have higher expenditure and lower income. Most of Indonesian people joining social activities that related on their expenditure and income. More over this research lead people to know how to make informal financial market more efficient than before.

1 INTRODUCTION

Economy crisis that hit Indonesia in the middle of 1997 and 2008 proved that micro and small enterprises have proven as a self-sufficient business who have a strong resistance. The data show that. Data shows the number of micro and small entrepreneurs 55,206,444 units that absorb 101,722,458 workers (Kementerian Koperasi dan Usaha Kecil dan Menengah, 2015).

The definition of micro business is a business that has assets or net assets of up to Rp. 50 million, excluding land or buildings for business premises and an annual sales turnover of up to Rp. 300 million (Pemerintah Republik Indonesia, 2008). Usually these micro-businesses are looking for a living and are not export-oriented. Generally small and medium micro business operators are households. This business is carried out jointly by all household members. The income earned will be used to finance all household needs.

Household enterprise in this paper consists of two types of households, the first is a household that manages a business either independently or working. The two agricultural households that process the land then sell the produce. The household works independently to fulfill their daily needs.

Unfortunately sometimes the household enterprise has a low income so they have difficulty accessing capital. This difficulty can be seen in their way to gain financial access.

Financial access not only include primary savings mobilization units with little or no lending; primary lending units that are hardly involved in savings mobilization. Further SOFIA (Survey on Financial Inclusion and Access) found that limited access to financial services has been identified as one of the key constraints to people's participation in economic activity in eastern Indonesia. That's why in Indonesia arises a lot of informal finance. This informal finance is not related to banking.

The Eastern Indonesian Household Life Aspect Survey (SAKERTI TIMUR or SAKERTIM) or also known as the Indonesian Family Life Survey East (IFLS East) conducted in 7 provinces in Eastern Indonesia including: East Nusa Tenggara, East Kalimantan, Southeast Sulawesi, Maluku, Maluku North, West Papua and Papua. By using this household data in East Indonesia. This study wants to describe the effect of social activities undertaken by households on income. This household income is devoted to households that have businesses both agricultural and non-agricultural. This research consists of introduction, theoretical foundation, methodology, discussion and closing.

2 LITERATURE REVIEW

When associated with income, consumption is the portion of income spent on consumption needs. Whereas savings are the portion of income that is saved or not spent. Therefore, income is equal to consumption and savings. This concept does not only apply to households but to households that have businesses. To increase income, it is necessary to increase capital and access to obtain better finance than before.

Limited access to financial services has been identified as one of the key constraints to people's participation in economic activity for many living in eastern Indonesia who are in rural areas, small farmers, and micro to medium household enterprises (SOFIA et al., 2017).

According to Abebe, et.al. (Abebe, Tekle, & Mano, 2018), promoting savings is important to enterprise development because one way of building adequate capital to overcome credit constraints and withstand transitory business shocks, a safer option for storing wealth than keeping money at home, creating a relationship with formal financial institutions, the cost of internal financing of investment through savings is often much lower than the cost of accessing credit and help in cases of emergencies.

In Ethiopia (Abebe et al., 2018), we found that entrepreneurs who received only the financial literacy training did not significantly increase saving. They conducted a randomized controlled trial with 426 samples of operating micro-entrepreneurs in Addis Ababa. Microentrepreneurs do not know the importance of internally accumulating financial resources and they also lack the necessary financial or it is difficult to keep it up over the course of their business operations. Because many household enterprises have difficulty accessing formal finance, they make certain associations. These include savings, lending to members of associations or groups such as: savings collectors and money keepers, commercial lenders (money lenders), friends, family and non-commercial lenders, self-help financial groups that include different levels of savings and credit rotating ones and licensed cooperative societies or unions (State, 2013).

These are the group of informal finance as the Rotating Savings and Credit Association (ROSCAS, Arisan in Bahasa). They are the most basic forms of savings and credit arrangements including regular fixed amounts of contributions to a common pool of funds by members in turn. Orders of receiving the amounts are decided by negotiation, lottery or any

other agreements. Sometimes this method can be called a lottery saving.

State, et.al (2013) Found that the informal finance sector has considerable experience and knowledge about dealing with small business borrowers and that their performance in relation to financing small business has been positive especially in Asia and Latin America. Using A multi-stage sampling technique to obtain information from 240 respondents. Then the data is analyzed using descriptive and inferential statistics. Informal sources of credit have been known to gain preferences from micro and small-scale entrepreneurs. Informal financial markets have been recognized as an engine of rural and urban development.

3 ANALYSIS MODEL

3.1 Data and Method

3.1.1 Data

This paper uses IFLS East. IFLS East is a survey that has been conducted in 2012. This survey cover in 7 provinces in Eastern Indonesia including: East Nusa Tenggara, East Kalimantan, Southeast Sulawesi, Maluku, Maluku North, West Papua and Papua. Information in individual and household data levels cover all socio-economic information, such as education, occupation, religion, health, marriage, active in the community and so forth. Furthermore, at the community level we can obtain information about the condition of infrastructure, socio-economic conditions, and various social programs in the community including the existence of financial facilities that exist in every village.

In this study, we combine information of individual, household, and community levels. The purpose is to obtain a comprehensive picture of household who being enterprise both in farm and non-farm business and their demographic, socio-economic and community characteristics. According to that, we have 2310 households. More detail explanation about our sample can be found in Appendix.

3.1.2 Method

Descriptive statistics is used to get first description and to compare average of each variable. For instance, we compare the percentage of household who have join community activities, rotating saving and credit association and their income or

expenditure. The results are tabulated by using STATA 14 and then transferred to the Microsoft Excel 2016.

For control variables, we combine some variables from individual and household levels. For individual characteristics, we consider age, gender, education level, and marital status as control variables. While for household characteristics, we consider household members, and household's location. Lastly, community characteristic will be represented by the number of community activities and urban or rural area. Then the formulate econometric specifications as follows:

Financial Enterprise

$$Y_i = \beta_0 + \beta_1 Xd_i + \beta_2 Xh_i + \beta_3 Xc_i + \beta_4 Xk + \beta_5 Xa \quad (1)$$

Where Y in the first model are the nominal amount of income or expenditure in household. Then Xd_i are demographic characteristics (education, age, gender, and marital status), Xh_i is household characteristics (education level of head household and the number of household's member), Xc_i is community characteristics (urban/rural), Xk is number of community activities that household join, and Xa is household join in rotating saving and credit association. This research applies cross-section data analysis.

3.1.3 Result and Analysis

Before performing regression analysis, it is important to look at descriptive statistics that enables us to see common features. For this research we found 2,310 households who lives in the sample province. In our study we tried to combine households that have farming businesses and households that have non-farm businesses. Further on figure 1. is 63.4% of the respondents are farmers who have cultivated land. This means that more than half of farmers in Indonesia have land to be cultivated either by planting rice or other food crops.

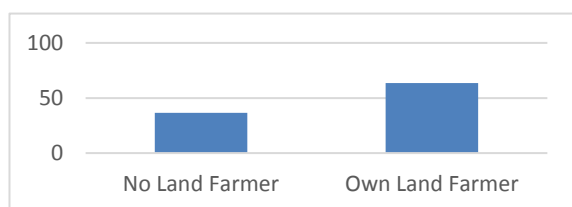


Figure 1: Percentage Of Responden Who Are Being Farmer and Having Land.

Besides farmers we also observe households that have a businesses or we called them household enterprises. Small businesses run are generally small business and intended to make a living. This household business is usually carried out by household members or all family members or helping other families with kinship. In Figure 2, 40.83% of households have a business. Coverage of household enterprise that are run generally are micro-small and medium businesses.

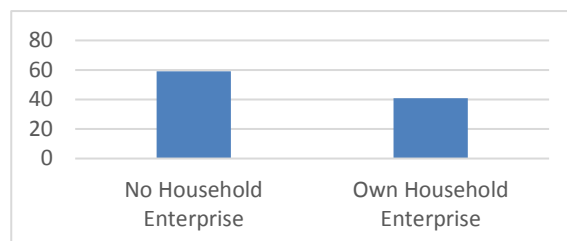


Figure 2: Percentage Of Who Being Household Enterprise.

Then about their social activities. Most of East Indonesian people love to join social activities. This fact can be proved on figure3, there are only 6.97% who aren't join any social activities. This ini meant more than 93% respondent joint minimal one social activities.

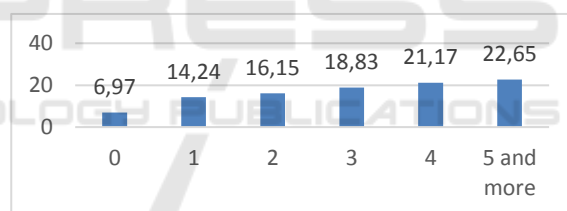


Figure 3: Percentage Of Number Social Activities That Followed By Household.

Further if we see figure 4, its only 32.94% of household in East Indonesia who are joining rotating saving and credit association or arisan. Social activities that most they are joining can be community meeting, cooperatives, village saving and loans, PNPM Madani, and women activities (PKK). the more social activities will have an impact on the reduced time to work.

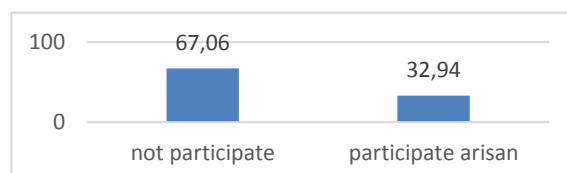


Figure 4: Percentage of Household who Joining Arisan.

As shown in appendix, we know that 45% of responden were living in urban area. Further if we see in figure 5, we can find out that the respondent was on the seven province of east Indonesia. And the biggest respondent are comming from West Nusa Tenggara and South East Sulawesi, 16% of total respondent. More over 42% of the sample are joining community activites that related to finance. 47% said that they join arisan or rotating saving and credit association. And the average money that they contribute about 343.190.9 rupiah in month.

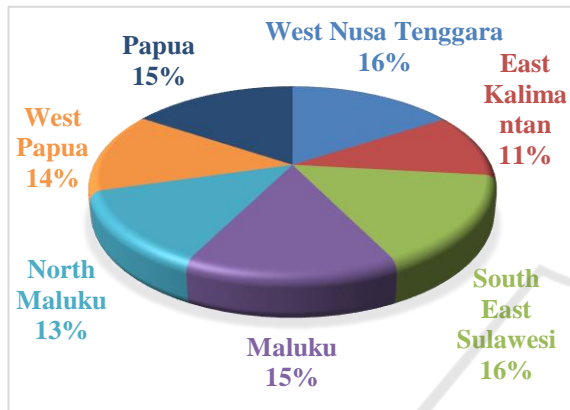


Figure 5: Percentase Of Household Location Distribution.

For financial numbers, we found that the average total income is 24.300.000 rupiah in year. Meanwhile for non farm business enterprise 8.623.800 rupiah in month and 5.836.482 rupiah for farm business enterprise.

As explained before, we have two variables. Each interest variable will have three difference types of regression and each type will be distinguished by the type of enterprise, which is farm or non- farm. To test those regression we use Ftest for overall variables and T-test for every variables.

For income variable we found that age has negative impact on farm income. This is mean that if the farmer geting older they got lower income as the decrease of their power. Join arisan or rotating saving and credit association has negatif impact specially on farming. Its the same case for household who has loan that has negative impact on income.

The otherwise for expenditure, age, education, and join arisan or rotating saving and credit association has positive impact on expenditure. Its mean they get older their spending is getting bigger. Household who has higher education mean spend more money than other. And who join rotating saving and credit association its mean more money to spend. But household size has negative impact in expenditure.

4 CONCLUSIONS

This research attempts to explain how social activities determinant East Indonesia income and expenditure. Together with all the variable gender, age, eduvation, marital status, household size, house location, join arisan, ever having loan and being farm or entrepreneur are affect on household income or expenditure. We found that social activities has negative impact specially in income. Its show that social activities not a good way to collect capital for household enterprise.

Because of the inaccessibility of formal institutions, household entreprise arrange themselves to start business with resources from their self. Other possible mechanisms, maybe we need to put some social cultural factor that could explain East Indonesian Income and Expenditure, require further research

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APPENDIX

Descriptive Statistic

Variable	Description	Obs	Mean	Std. Dev.	Min	Max
hhid12		0				
pid12		2,310	1	0	1	1
pidlink		0				
age	age	2,310	44.18095	13.09813	17	105
sex	gender 1=male	2,310	0.831602	0.374301	0	1
marstat	marital status	2,310	2.090043	0.378774	1	3
educ	years in school	2,310	7.642857	4.595098	0	18
hhsz	household member	2,310	4.221645	2.046717	1	16
lnpce	log per capita expenditure	2,310	13.48855	0.802055	10.98917	16.10149
pce	per capita expenditure	2,310	999970.9	952227	59229.16	9835334
urban	=1 urban	2,310	0.286147	0.452057	0	1
trrel	religions	2,297	1.836308	0.966885	1	5
trgm	=1 moslem	2,310	0.54329	0.49823	0	1
hos_stat	=1 house ownership	2,310	0.764935	0.424131	0	1
kegiatan	number of community activities	2,310	3.122078	1.760396	0	9
keg_keu	number of community activities that related to finance activities	2,310	0.954978	0.852814	0	4
ca_fin	1 = community activities that related to finance activities	2,310	0.663204	0.472717	0	1
arpart	=1 join arisan	2,310	0.329437	0.470111	0	1
artype	arisan type	761	1.390276	0.751392	1	8
arattd	arisan in year	760	15.65	16.46007	0	144
aravrg	arisan in month	760	1.630263	1.377929	0	12
arcon1	arisan contribution in year	758	1944914	4,118.290	8000	54,000,000
arcon2	arisan contribution in month	758	162076.2	343.190.9	666.6667	4,500,000
arrec1	arisan receive in year	761	1769616	4156741	0	50,000,000
arrec2	arisan receive in month	761	147468	346395.1	0	4,166,667
income	total income	2,310	24,300,000	44,800,000	15000	772,000,000
inc_labor	labor income	2,310	9,680,017	20,800,000	0	173,000,000
inc_other	other income	2,310	194,361.5	2,212.642	0	52,000,000
inc_nfarm	non farm business income	2,310	8,623,800	37,900,000	0	772,000,000
inc_farm	farm business income	2,310	5,836,482	11,100,000	0	86,200,000
own	=1 own business	2,310	0.408225	0.491612	0	1
petani	=1 own land and farmer	2,310	0.634199	0.481758	0	1

Income as dependent variable

	(1) pendapatan	(2) inc_farm	(3) inc_nfarm
age	-33995.4621 (63701.1089)	-60657.6497*** (18240.4239)	21436.6841 (61079.4576)
sex	-1095811.5620 (4314354.6069)	1170550.1974 (611220.7596)	-2608242.5378 (4347781.7993)
educ	68455.0822 (244881.9196)	-1524.9096 (68203.3437)	56056.9765 (235265.9682)
marstat	-1666741.2313 (4560501.4111)	912500.9310 (715045.2357)	-2921284.5885 (4577974.4343)
hhsize	-227124.7812 (416756.8085)	-131915.5998 (114917.2182)	-37874.7302 (406653.1027)
urban	-1151019.7199 (2058358.7091)	490947.5287 (524304.6548)	-1459708.5419 (1969800.6544)
arpart	-2671144.6908 (1493025.7529)	-1183540.3107* (466807.5912)	-1763874.5267 (1465285.9700)
lever	952625.9470 (2858993.4064)	-1387749.0339** (500724.0466)	2406430.0891 (2833040.9997)
own	17787819.1504*** (1845396.8136)		20782562.9824*** (1904093.0392)
petani	-2286921.7622 (1751161.9937)	4047816.1860*** (449347.0344)	
_cons	16049948.7196 (13376087.3109)	4092108.7815* (2044517.1419)	7841332.0274 (13108406.2593)
Number of observations	2310.0000	2310.0000	2310.0000
Number of groups			

Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Ln PCE as dependent variable

	(1) lnpce	(2) lnpce	(3) lnpce
age	0.0025* (0.0011)	0.0024* (0.0011)	0.0024* (0.0011)
sex	0.0401 (0.0418)	0.0395 (0.0418)	0.0371 (0.0418)
educ	0.0402*** (0.0035)	0.0402*** (0.0035)	0.0401*** (0.0035)
marstat	-0.0163 (0.0425)	-0.0171 (0.0426)	-0.0194 (0.0425)
hhsize	-0.1761*** (0.0077)	-0.1758*** (0.0077)	-0.1755*** (0.0077)
urban	0.4019*** (0.0318)	0.4051*** (0.0317)	0.4047*** (0.0318)

	(1) lnpce	(2) lnpce	(3) lnpce
arpart	0.1079*** (0.0301)	0.1082*** (0.0300)	0.1058*** (0.0300)
lever	0.0788* (0.0382)	0.0786* (0.0382)	0.0792* (0.0382)
own	0.0379 (0.0278)		0.0461 (0.0274)
petani	-0.0486 (0.0279)	-0.0553* (0.0276)	
_cons	13.6689*** (0.1202)	13.6902*** (0.1193)	13.6445*** (0.1192)
Number of observations	2310.0000	2310.0000	2310.0000
Number of groups			

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ 