

Impacts of the Malaysian Economic Crisis on the Livelihood of Informal Sector Participants*

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Introduction

Malaysia's economic crisis started in July 1997. At the macro level, the economic crisis has affected not only the country's growth rate but its economic performance. Economic growth rate declined from 7.7% in 1997 to -6.7% in 1998, and eventually to just 1% in 1999. The social impact of the economic crisis could be analyzed through unemployment and poverty data. The economic crisis affected employment and business opportunities, increased inflation, and unemployment and poverty rates. Meanwhile, the unemployment rate increased from 2.6% in 1997 to 3.6% in 1998. The number of unemployed also increased from 109,000 in 1997 to 342,000 in 1998.

The economic crisis affected efforts to alleviate poverty. Malaysia's incidence of poverty increased from 6.1% in 1997 to 7% in 1998, with the number of poor households increasing correspondingly from 294,400 in 1997 to 342,500 in 1998. The incidence of hardcore poverty increased from 1.4 percent in 1997 to 1.6 percent in 1998, with the number of poor households

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increasing from 67,300 in 1997 to 78,100 in 1998 (Malaysia, 1999). The crisis has resulted in a very high inflation rate, which reduced the purchasing power of the poor at its lowest level. As a result, the poor consume lower quantity and quality food, their children having a higher risk of dropping out from school and inability to afford basic health services. The quality of public services was also affected with health clinics, hospitals, schools and universities providing lower quality services due to the higher prices of facilities and equipments.

At the micro level, the economic crisis brought about currency depreciation and price increase, which affected the household's real income, savings and expenditures. A contraction in economic growth usually entails fall in the demand for labor, and hence, higher unemployment, underemployment, retrenchment, business failures, wage cuts, shorter working hours and fewer employee benefits. Household savings and assets are also expected to diminish. The impact of the crisis is expected to hit harder on the poor, the vulnerable and the low-income groups in both the rural and urban sectors, such as factory workers, unskilled laborers, construction workers, smallholders, agricultural workers and fishermen. In Malaysia, the majority of informal sector participants are in the lower-income category, making them vulnerable to economic uncertainties.

The aim of this paper is to analyze the impact of the financial crisis on informal sector participants. This paper is written based on a survey of 746 households involved in the informal sector. The study was conducted between 1999 and 2000 and covers informal sector participants in the urban and rural areas. These households were randomly selected from five states in Malaysia. These states were selected purposively based on their location. The study focuses on low-income households. For analysis purposes, this study defined low-income households as those who earned a monthly income of RM1,500 or less. This study recognizes that there are various definitions of informal sectors. However, in this paper, the informal sector is narrowly defined according to the type and legal status of the activities. Informal sector activities include petty trading, carpentry, direct selling and home-based production.

This article is divided into three sections. The first part contains a brief discussion of the conceptual framework used in this discussion. It conceptualizes the impact of the financial crisis on the livelihood of the informal sector participation. The second

part of the paper discusses in detail the impact of the financial crisis on informal sector participants. The discussion is based on empirical analysis of the impact of the crisis on household income, expenditure, credit and saving of informal sector participants. The last section discusses some policy implications.

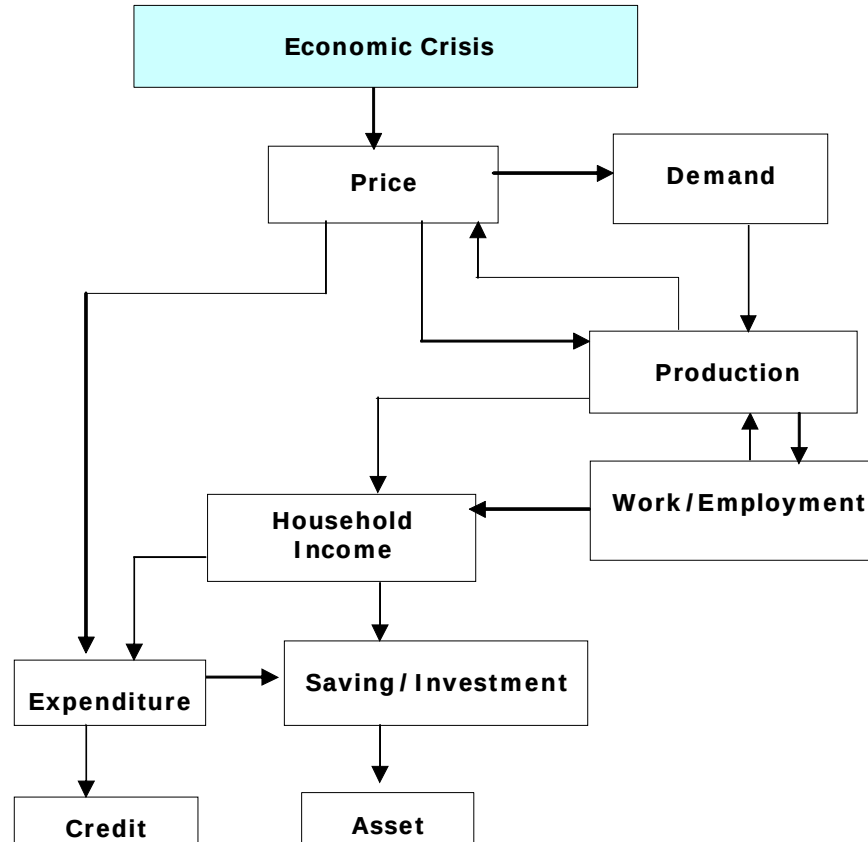
The Economic Crisis and Household Economy – A Conceptual Framework

Before discussing the impact of the crisis on informal sector participants, it is necessary to give a brief definition of the informal sector. Peattie (1989) and Bromley (1990) defined this sector as an economic activity that takes place outside the formal norms of economic transactions established by the state and formal business practices but which is not clearly illegal in itself. Others defined this sector based on its size, legal status, and capital requirement.

1. Size: the sector includes only the self-employed and micro-enterprises having no more than 20 (or ten) workers;
2. Legal informality: the informal sector includes non-licensed enterprises. Being unlicensed and unregistered, they seldom comply with legal obligations concerning safety, taxes, labor law, etc.
3. Limited capital: physical capital and human capital per worker are always low or even insignificant

Some of the major characteristics of the informal sectors are ease of entry or exit, low capital requirement, low skill requirement, their being easy to operate, having single owner/operator, and use of unpaid family workers. One of the important characteristics of the informal sector is its ease of entry and exit. Due to these characteristics, many join the informal sector during periods of economic hardships. Some enter out of necessity. Others do so out of choice. The implication of the economic crisis on informal sector participants is summarized in Figure 1.

Figure 1: A conceptual framework of the implication of the economic crisis on household economy



Generally, there are two opposing views regarding the impact of the crisis on informal sector participants. The common view is that the economic crisis has a negative impact on the livelihood of informal sector participants. According to this view, price increase lowered the real wages of those still employed and reduced business profits. The economic crisis had resulted in the increase in prices of goods, especially imported goods, as the Malaysian ringgit came under pressure in the latter part of 1997. The ringgit fell from RM2.47 to RM4.88 per one US dollar in January 1988. Due to the depreciation of the exchange rate, inflation increased to 5.3% (Bank Negara Malaysia, 1997). The price increase had an impact on the informal sector participants' production cost and daily expenditures. As producers and service providers, informal

sector participants had to adopt various coping strategies to minimize cost and maximize profit.

The increase in the cost of production will require the informal sector to do some adjustments in their business activities such as by increasing the price of food sold or by reducing the number of workers and increasing the number of unpaid family workers. At the same time informal sector participants experience changes in the demand for their products. The increase in the price of goods sold might decrease the demand of the goods which eventually will decrease their sales volume and this has a direct impact on household income. Decrease in sales and revenue will decrease the household income of the informal sector participants. Meanwhile, households experience an increase in expenditure. However, this eventually will decrease the net income of the household (Shahadan, Berma, & Zaidi, 2000). Being low-income households, the decrease in the income will tremendously affect their livelihood. There will be a decrease in savings and investments or, worse, the household may be compelled to incur loans.

On the other hand, there are some who argue that an economic crisis would have a positive impact on informal sector participants. According to this view, the demand for informal sector products and services would not be affected by the crisis. In fact, the price increases during the economic crisis would force households to seek cheaper alternatives. To minimize the cost of production, medium and large-scale enterprises subcontract their work to the informal sector. Local studies (Arifin, 1994; Idris, et.al, 1996) show that subcontracting of work to housewives is commonly practiced by textile manufacturers. Furthermore, price increases would force many households to cheaper substitutes. Many of these cheaper substitutes are produced by informal sector participants (Madeline & Faridah, 1994). As such, the demand for products from the informal sector will increase and will have a positive impact on profits and household income.

The following section analyses the impact of the financial crisis on informal sector participants based on empirical data.

Implication of economic crisis on households' economy: Empirical analysis

This paper analyses the impact of the financial crisis on household income and expenditure of participants in the informal sector. This section begins with a profile of the household involved in informal sector activities. It gives a general impression of the participants in terms of their place of residence, educational achievement, gender, income and expenditure level, and household savings.

1. Household Profile

Of total respondents, 98 household head (13.0%) entered the informal sector after being retrenched from their previous jobs. They entered the informal sector out of necessity. Interestingly, 60% claimed they quit their previous job and took up informal sector activities. In other words they participated in informal sector activities out of choice rather than necessity. The majority of those who participated in the informal sector were previously employed in manufacturing and construction sector. It is evident that the crisis had a strong impact on these two sectors. In fact, the macro data provided by the National Economic Action Council (1998) indicated that the majority of those retrenched during the economic crisis were from the manufacturing and construction sectors.

About 61% of the households who participated in the informal sector are from rural areas while the remaining 39% are from urban areas. About 68% stayed in traditional-type houses, 12.8% stayed in low cost terraced houses, and 11.1% stayed in long houses. Ninety percent of the household head are male and the remaining 10 percent are female. Majority (66%) are above 40 years old. In terms of educational level, 12.2% do not have any formal education, 36.2% has primary education, and 28.8% has education up to lower secondary school. The remaining 22.9% has education up to upper secondary school.

2. Household Income

The experience of crisis-hit countries shows that economic crises have greater impact on household income. One of the immediate impacts of the crisis is the reduction in household income as

prices increase. Reduction in household income is also due to a decrease in the number of employed household members. The number of unemployed increased from 109,000 in 1997 to 342,000 in 1998. In 1998, more than 83,000 workers were retrenched, resulting in an increase in the number of newly unemployed. Many of those who were retrenched did not receive sufficient compensation and this has a profound effect on their household income. The problem of income reduction is not only prevalent among those who were retrenched from formal sectors, but also among those in the informal sectors. Many studies in the past argued that the informal sector serve as a sector of last resort (see Peattie, 1987; Bromley, 1990). Previous studies in Latin America show that many shifted into the informal sector during times of crisis because of the ease of entry and exit and its low capital requirement. The survey results show that 55.9% of respondents in the informal sectors experienced income changes during the economic crisis (Table 1). Table 1 shows that new-entrants are affected more compared to those who have long been in the informal sector. Many of the recent entrants joined the informal sector in less than five years, making them more vulnerable to economic changes. Unlike those who have long been in the informal sector, these newcomers have neither enough experience to adjust easily to the business cycle nor the necessary skills to mitigate the impact of the economic crisis. The survey results also show that a higher percentage of full-time participants experienced income changes compared to those who participated in the informal sector on a part-time basis.

Data in Table 2 show the extent of income changes. There is evidence of huge income changes experienced by informal sector participants during the crisis (between 1996 and 1998). The crisis does not appear to have any negative impact on household income. Majority of informal sector participants experienced income decrease between 1996 and 1998. The impact on household income, however, did not last long as shown by the increase in income from 1998 to 2000. The survey results suggest that the informal sector participants experienced a V-shaped income pattern during the 4-year period.

Table 1. Distribution of respondents according to income affected by the crisis

Items	Category	Income Affected due to The Economic Crisis				Total		Chi-square statistic (sig.)
		Not Affected		Affected		No.	%	
		No.	%	No.	%			
Entrants to the informal sector	Long-time participants	297	45.8	351	54.2	648	100.0	5.999* (0.014)
	New entrants	32	32.7	66	67.3	98	100.0	
Total		329	44.1	417	55.9	746	100.0	
Status of participation in the informal sector	part time	244	47.3	272	52.7	516	100.0	6.887* (0.009)
	full time	85	37.0	145	63.0	230	100.0	
Total		329	44.1	417	55.9	746	100.0	
Place of residence	Rural	198	43.5	257	56.5	455	100.0	.162 (0.687)
	Urban	131	45.0	160	55.0	291	100.0	
Total		329	44.1	417	55.9	746	100.0	

Source: Survey 2000

Note: *Statistically significant at $\alpha=0.05$

The income of the head of the household represents a major proportion of household income. As demonstrated by Table 3, heads of household contribute about half of total household income. Any changes to their employment status are bound to affect total household income. Aside from the income of the head of the household, income from other family members also contribute significantly to household income. In crisis, many households release 'unemployed' or economically inactive family members, particularly women and children, to seek employment. By allowing more family members, the number of working family members increases. This will have a positive impact on total household income. Some families even withdraw their children from schools and force them to seek temporary or permanent employment. Not only will they reduce household and education expenditure, they will also increase the number of income-earners in the family. Income from part-time employment only contributes.

Table 2. Average household monthly income by region, status and entry to the informal sector

Characteristics	Average Monthly Household Income (RM) for the Year			t-statistics Income Difference between A-B	t-statistics Income Difference between B-C
	1996 (A)	1998 (B)	2000 (C)		
Urban Informal Sector	1448.31	1371.28	1616.07	5.244*	-19.441*
Rural Informal Sector	1105.60	1084.99	1218.49	1.355	-12.136*
Full-time Participant	1717.57	1,581.71	1,913.78	3.027*	-7.849*
Part-time Participant	1105.20	1,059.40	1,228.44	2.721*	-10.625*
New entrant	1,640.06	1,551.12	1,903.97	1.004	-4.113*
Long-time Participant	1,241.66	1,170.42	1,369.53	4.437*	-13.311

Source: Survey 1999

Note: Dependent Variable is the difference of the income between 1998 and 1996

*Statistically significant at $\alpha=0.05$

minimally to total household income. However, in times of crisis, part-time employment is a source of income.

Table 3. Average monthly household income of informal sector participants by time period and source of income

Source of Income	Average Monthly Household Income (RM) for Year:			t-statistics Income Difference between A-B	t-statistics Income Difference between B-C
	1996 (A)	1998 (B)	2000 (C)		
Main occupation of household head	658.75	571.22	657.73	7.870*	-7.906*
Main occupation of other household members	351.80	370.64	473.76	2.115*	-10.022*
Part-time occupation	49.36	54.72	54.65	-1.755**	-5.048*
Transfer payment	78.15	66.49	82.13	-2.00*	4.502
Other sources	158.09	156.84	160.41	.223	-1.006
Total	1293.99	1220.43	1439.74	4.058*	-12.698*

Source: Survey 2000

Note: *Statistically significant at $\alpha=0.05$ **Statistically significant at $\alpha=0.05$

Table 4. Determining factors that affect household income during the economic crisis

Independent Variables	All Participants	Full-time participants	Part-time participants	Urban Participants	Rural Participants
(Constant)	54.023 (1.724)**	87.457 (.752)	33.383 (.929)	-20.636 (-.275)	47.980 (1.302)
Income difference with head of household from main occupation	-0.05602 (-1.510)	-.105 (-1.912)*	0.0210 (.361)	-0.0654 (-1.259)	-0.02464 (-.389)
Income differences from supplementary employment	.337 (1.806)	.572 (1.640)**	.163 (.722)	.635 (2.075)*	0.03128 (.130)
Increase in input cost	-45.949 (-1.319)	-139.739 (-1.653)*	-34.544 (-.933)	-49.049 (-.708)	-49.179 (-1.288)
Limited opportunities in obtaining credit/loan	-12.558 (-.330)	97.430 (1.235)	-65.299 (-1.505)***	-14.981 (-.210)	-17.446 (-.397)
Reducing workers	73.768 (1.469)***	104.569 (1.163)	-18.219 (-.274)	83.740 (1.014)	18.800 (.257)
Increase unpaid family workers	-69.245 (-1.890)**	-30.537 (-.388)	-77.149 (-1.897)*	-56.442 (-.811)	-64.901 (-1.559)***
Difficulty in obtaining input	26.266 (0.537)	18.310 (.213)	11.022 (.227)	87.361 (1.148)	-34.357 (-.691)
Demand (%)	-0.009832 (-0.007)	.862 (.285)	.225 (.144)	-.477 (-.182)	.504 (.317)
Profit (%)	-.497 (-.402)	-.251 (-.082)	-.421 (-.326)	-.423 (-.153)	-.349 (-.276)
Employment status in the informal sector	-.983 (-.020)			-34.164 (-.463)	73.018 (.943)
Place of residence	-82.656 (-2,052)*	-113.542 (-1.296)	-67.041 (-1.455)***		
New entrant to the informal sector	46.554 (.778)	51.017 (.681)		69.019 (.857)	-53.812 (-.431)

Source: Survey 1999

Note: Dependent Variable is the difference in income between 1998 and 1996

* Statistically significant at $\alpha=0.05$

** Statistically significant at $\alpha=0.10$

*** Statistically significant at $\alpha=0.15$
(t-statistics)

There are various factors which determine change in household income during economic crises. According to Table 4, there are three major factors that determine household income for all informal sector participants. The factors are: reduction in workers, unpaid family workers, and place of residence.

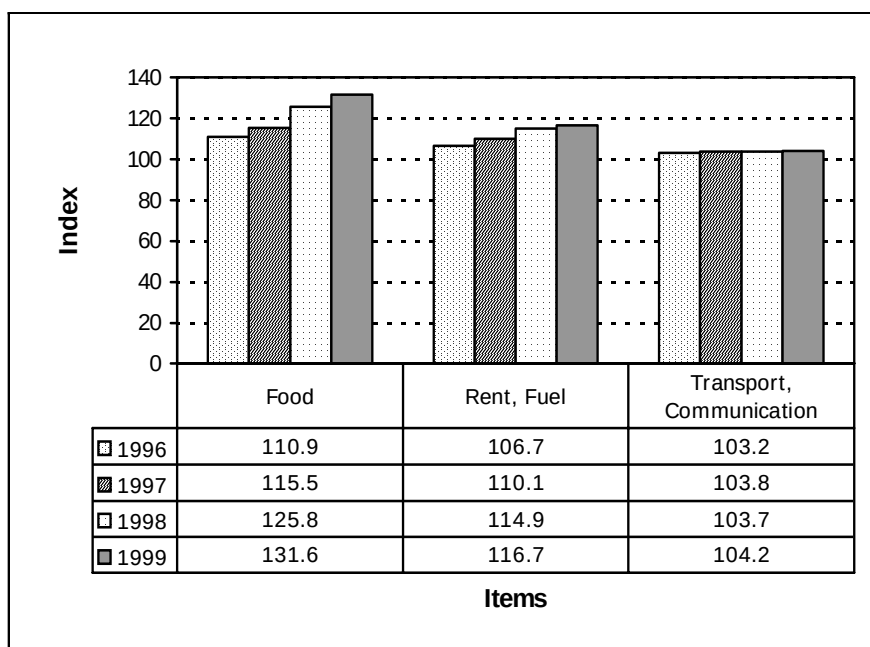
One way for the participants to increase household income is by reducing the number of its employed workers. By reducing the number of workers, they can reduce variable cost and the expenditures incurred. Increase in unpaid family workers appears to have a negative impact on household income. As such, it is better for family members to seek employment elsewhere rather than to work as unpaid family members. As unpaid family members, they may replace non-family workers, thus reducing expenditure. However, their participation as unpaid family workers prevents them from making any significant income contribution to household income. To increase family income, it is better for them to seek waged employment. Place of residence also has a significant influence on income. Those who live in the urban areas are more likely to experience income reduction compared to those from rural areas.

An analysis of the status of participation in the informal sector reveals that there is a significant difference in the factors determining the household income of full-time and part-time participants. In the case of full-time participants, the income of the household head, the differences in supplementary income, and the increase in input cost are all factors determining household income changes. For those working part-time in the informal sector, factors determining their household income changes include limited opportunities in obtaining loans increase by unpaid family workers as well as their place of residence. Income from supplementary income is important to full-time workers, suggesting that income from informal sector activities is insufficient to cover household expenditure. They have to perform multiple economic activities as a means to cope with increasing cost of living and income reduction. In the case of part-time workers, the availability of loans has a significant influence on their household income. The place of residence also influences household income. Among urban participants, there is no significant factor determining household income changes. However, among rural participants the number of unpaid family workers has negative impact on household income during economic crises.

2. Household Expenditure

In times of crisis, not only do households experience income decrease but they also experience expenditure decrease. One of the immediate impacts of a crisis is price increase. At the macro level, Malaysia experienced rapid increase in food items. Chart 1 shows there had been a dramatic increase in the consumer price index for food. The consumer price index for food increased from 110.9 before the crisis, to 125.8 during its peak (1998), to 131.6 in 1999. The consumer price for rent and fuel also increased but to a rate relatively lower compared to that of food. The price of transport did not change much, from 103.2 in 1996 to 103.7 in 1998, to 104.2 in 1999.

**Chart 1. Malaysia's Consumer Price Index (CPI)
for selected items, 1996-1999**



Source: Malaysia (2000), Social Statistics

Among informal sector participants, one can say that majority (62.6%) experienced expenditure increase as a result of the financial crisis (Table 5). The incidence of expenditure changes is higher for urban informal sector workers and new entrants.

Also, a higher percentage of part-time workers also experienced expenditure change. Studies conducted in Thailand and Indonesia show that the crisis had a greater impact on people living in the urban areas due to falling labor demand and rising cost of urban living. Unlike their rural counterparts, the urban participants have to spend more on household expenditures because of the relatively higher cost of living in urban areas.

Table 5. Distribution of informal sector participants and expenditure changes

Items	Category	Expenditure Affected due to The Economic Crisis				Total		Chi-square statistic (sig.)
		Not Affected		Affected				
		No.	%	No.	%	No.	%	
Residential Area	Rural	166	36.5	289	63.5	455	100.0	.418
	Urban	113	38.8	178	61.2	291	100.0	(.518)
Employment Status	Part-time	187	36.2	329	63.8	516	100.0	.961
	Full time	92	40.0	138	60.0	230	100.0	(.327)
Entrants to the informal sector	Long-time participant	244	37.7	404	62.3	648	100.0	.137
	New entrants	35	35.7	63	64.3	98	100.0	(.711)
Total		279	37.4	467	62.6	746	100.0	

Table 6 indicates the average expenditure of informal sector participants. Statistics show that only those working in part-time employment experienced expenditure changes between 1996 and 1998. Between 1998 and 2000, there is a significant difference in expenditures felt by those working in rural areas, those engaged in part-time employment in the informal sector, and new entrants to the informal sector.

Table 7 summarizes the types of expenditures and the percentage distribution of informal sector participants experiencing expenditure changes for each item. Survey results indicate that 47.2% of informal sector participants experienced increase in food expenditure from 1997/1998 (crisis period) to 1999/2000 (post-crisis), while 39.8% experienced expenditure increase between the crisis period and the period prior to the crisis.

Table 6. Average household monthly expenditure by region, status and entry to the informal sector

Items	Average Monthly Household Expenditure (RM) for the			t-statistics Income Difference between A-B	t-statistics Income Difference between B-C
	1996 (A)	1998 (B)	2000 (C)		
Urban	925.53	898.11	915.12	.235	-.351
Rural	569.52	571.32	646.06	-.225	-2.329*
Full-time	1,050.65	969.54	1,010.22	.560	-.688
Part Time	555.84	578.11	635.93	-1.508***	-1.851**
New entrant	954.91	1,062.18	1,027.18	-.789	.254
New entrant	671.17	643.84	709.53	.563	-2.597**
Total	708.39	698.79	751.33	.210	-1.859**

Source: Survey 1999

Note: Dependent Variable is the difference in income between 1998 and 1996

*Statistically significant at $\alpha=0.05$

Table 7. Percentage distribution of informal sector participants experiencing expenditure changes, 1996 – 2000

Types of Expenditure	Expenditure Changes Between 'Crisis' and 'Post-Crisis' Period*			Expenditure Changes Between 'Pre-Crisis' and 'Crisis' Period*		
	Increase	Decrease	Unchanged	Increase	Decrease	Unchanged
Food	47.2	16.4	36.4	39.8	23.0	37.2
Clothing	25.2	14.2	60.6	19.6	21.1	59.3
Transportation	21.1	7.4	71.5	15.9	13.9	70.2
Health	9.4	6.6	84.0	11.1	6.8	82.1
Entertainment/ Touring	8.2	4.6	87.2	3.7	8.5	87.8
Education/ Schooling	28.9	7.1	64.0	23.9	9.6	66.5
House	1.5	.5	98.0	1.5	1.1	97.4
Utilities/ telephones	17.7	5.1	77.2	14.4	9.3	76.4

Notes: 'Pre-crisis' period refers to 1996

'Crisis' period refers to 1997-1998

'Post-crisis' period refers to 1999-2000

It is evident that the price of food increased sharply from 1997 to 2000 suggesting that the crisis did not leave an immediate impact in terms of food expenditure. The results in Table 7 clearly indicate that the majority of informal sector participants did not experience any changes in their non-food food items such as clothing, entertainment, housing, utilities, health and transportation. It is common for individuals to reduce their expenditures or to postpone their purchase of less important items such as clothing and entertainment during times of economic uncertainties. Postponement of purchase is one of the coping strategies commonly adopted by crisis-hit communities, particularly the poor, to mitigate the impact of economic uncertainties.

3. Savings

Economic crisis is known to have a negative impact on household savings. During hard times, households (particularly the poor) are forced to withdraw their savings to finance daily expenses and to enable smooth consumption. A study was also conducted as to the impact of the crisis on household savings. Table 8 reveals that a small percentage of informal sector participants admit their savings were affected by the crisis.

Table 8. Effect of Crisis On Informal Sector Participants' Saving

Characteristic	Impact of Economic Crisis on Saving					
	Not Affected		Affected		Unrelated	
	No.	%	No.	%	No.	%
Rural	201	44.2	128	28.1	126	27.7
Urban	161	55.3	94	32.3	36	12.4
Part-time	251	48.6	128	24.8	137	26.6
Full-time	111	48.3	94	40.9	25	10.9
Long-time participant	321	49.5	175	27.0	152	23.5
New Entrants	41	41.8	47	48.0	10	10.2
Total	362	48.5	222	29.8	162	21.7

Compared to long-time participants in the informal sector, a relatively higher percentage of new entrants claimed their savings were affected by the crisis. As new entrants, many of them had to rely on personal savings to finance their household and business expenditures. Those who have long been involved in the sector have better networks upon which they resort to in times of need. These social networks provide important sources of information on loan facilities and other economic opportunities. Without sufficient social networks, new entrants are limited to personal resources and family members for financial assistance.

In this study we have identified six major factors commonly cited by informal sector participants as major determinants of their household savings. Table 9 shows that 53.2% of respondents claim increase in expenditure as one of the major factors influencing household savings. Generally, there is a positive relationship between savings and household income; higher income denotes higher rate of household savings. During crisis, many households face income reduction and expenditure increase brought by rising prices. Aside from expenditure increase, the next factor influencing household savings is income reduction. As shown in Table 9, about 15.8% of respondents believe that a reduction in their household income has negative impact on their savings.

To ease economic hardships and make ends meet, households adopt various coping strategies. Some of the most common strategies are income diversification, expenditure reduction, and savings withdrawal, seeking assistance from the government, and obtaining loans from formal financial institutions or informal moneylenders. Typically, informal sector participants obtain loans to finance their additional capital and expand their business. In this study, only a small percentage (8.3%) of informal sector participants obtained loans during the crisis (Table 10). Many studies show that informal sector producers face serious difficulties surviving and improving their economic activities due to various marketing, financial and labor constraints. As informal sector participants, many of them are 'invisible,' that is, they are unlicensed. Their informal status often prevents them from accessing formal financial institutions. Financial institutions are often reluctant to extend financial services and loans to these informal sector participants because they do not have the necessary credentials. Their problem is further compounded during a crisis when many financial institutions become overtly stringent in loan approvals and repayment.

Table 9. Major factors influencing the reduction of household savings by informal sector participants

Item	Major Factors Affecting Household Saving						
	Income decrease	Expenditure increase	Capital turnover	School Expenditure	Low interest rate	Less saving	Others
Rural	18 (14.1%)	69 (53.9%)	11 (8.6%)	11 (8.6%)	4 (3.1%)	11 (8.6%)	4 (3.1%)
Urban	17 (18.1%)	49 (52.1%)	7 (7.4%)	4 (4.3%)	-	10 (10.6%)	7 (7.4%)
Part-time	17 (13.1%)	73 (56.2%)	8 (6.2%)	9 (6.9%)	4 (3.1%)	14 (10.8%)	5 (3.8%)
Full-timer	18 (19.6%)	45 (48.9%)	10 (10.9%)	6 (6.5%)	-	7 (7.6%)	6 (6.5%)
Long-time participant	25 (14.4%)	95 (54.6%)	13 (7.5%)	14 (8.0%)	4 (2.3%)	16 (9.2%)	7 (4.0%)
New-comer	10 (20.8%)	23 (47.9%)	5 (10.4%)	1 (2.1%)	-	5 (10.4%)	4 (8.3%)
Total	35 (15.8%)	118 (53.2%)	18 (8.1%)	15 (6.8%)	4 (1.8%)	21 (9.5%)	11 (5.0%)

A relatively higher percentage of urban informal sector participants obtained loans during the crisis compared to those from the rural areas. Full-time informal sector participants appear to have had better chances of having their loans approved compared to those employed part-time. Table 10 shows that 13.1% of full-time participants managed to obtain loans during the crisis compared to 6.2% of part-time participants. New-entrants in the informal sector appear to have had higher chances of incurring loans compared to those who have long been in the sector. As earlier mentioned, the new entrants have limited social network. Unlike those who have long been in this sector, they have yet to establish or strengthen their social networks. Lacking such, new entrants are compelled to resort to personal resources or formal institutions for support.

Despite the presence of finance companies, cooperatives and government agencies, many informal sector participants resorted to banks for loans. It appears that banks have the ability to attract informal sector participants compared with other

Table 10. Frequencies of households obtaining loans during the economic crisis

Items	Obtaining Loans or Credit During Crisis				Total	
	Obtained		Did not Obtain			
	No.	%	No.	%	No.	%
Rural	419	92.1	36	7.9	455	100.0
Urban	264	91.0	26	9.0	290	100.0
Part time	484	93.8	32	6.2	516	100.0
Full time	199	86.9	30	13.1	229	100.0
Long-time participant	600	92.7	47	7.3	647	100.0
New entrant	83	84.7	15	15.3	98	100.0
Total	683	91.7	62	8.3	745	100.0

institutions. Of those who obtained loans during the crisis, 35.5% obtained their loans from banks, 21% from personal sources and government agencies, 12.9% from finance companies, 8.1% from cooperatives, and 1.6% from employers (Table 11).

During the crisis, the government also played an important role by assisting small-scale producers. The Malaysian Government introduced micro-credit schemes managed by *Amanah Ikhtiar Malaysia* and *Tabung Usahawan Kecil* to provide funding facilities and financial assistance to petty traders and hawkers in urban areas and dirt poor families. Government assistance may not have been sufficient, but it did help ease the problems faced by informal sector participants during the crisis.

It is evident that informal sector participants and their activities have a large demand for safe and convenient deposit services. This demand reflects the importance of savings for these informal sector participants and their micro enterprises for a variety of reasons. Usually, they need to save for emergencies, investment, consumption, social obligations, education of their children, and for daily expenditures.

Table 11. Informal sector participants by sources of loans

Items	Source of Loan												Total
	Bank		Finance Company		Employer		Personal		Cooperative		Government Agency		
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
Rural	14	38.9	-	-	1	2.8	8	22.2	5	13.9	8	22.2	36
Urban	8	30.8	8	30.8			5	19.2			5	19.2	26
Part time	16	50.0	1	3.1	1	3.1	7	21.9	2	6.3	5	15.6	32
Full time	6	20.0	7	23.3			6	20.0	3	10.0	8	26.7	30
Long-time participant	19	40.4	5	10.6	1	2.1	9	19.1	4	8.5	9	19.1	47
New entrant	3	20.0	3	20.0			4	26.7	1	6.7	4	26.7	15
Total	22	35.5	8	12.9	1	1.6	13	21.0	5	8.1	13	21.0	62

Among those who obtained loans during the crisis, 35% did so to purchase assets, 26.7% for business capital, 21.7% to finance children's education, and 8.3% for daily expenditures. It is evident that the majority of informal sector participants obtained loans to purchase non-productive assets such as consumer products. However, 26.7% obtained loans to finance their business capital. During the economic crisis, many informal sector participants faced declining profits, which prevented them from surviving, let alone developing into bigger businesses. The intensity of the crisis is best indicated by the fact that 8.3% of informal sector participants had to obtain loans to finance daily expenditures. The percentage of respondents citing this reason may be small but the data reveals a deeper problem. The data shows that there are individuals who had to resort to borrowing to survive daily during the economic crisis.

The results show that informal producers faced difficulties accessing financial institutions and this prevented many of them from obtaining huge loans. For those who managed to gain access to financial institutions, meanwhile, the amount they were allowed to borrow was limited. One of the main criteria by which financial institutions approve loans is the financial strength of the borrowers. Financial institutions usually require collateral before they approve

a loan. But unlike medium and large-scale producers in the formal sector, those in the informal sector neither have strong financial backing nor collateral to guarantee their loans. Furthermore, their loans are particularly small because of the nature of their business activities, which tend to be small in scale and require small capital.

Conclusion and Recommendation

The 1997 financial crisis has several impacts on the informal sector. While no accurate statistics are available as to the growth and levels of participation in the informal sector during the period, experience by other countries show that the sector grew rapidly during the crisis. This growth is illustrated in the expansion of communities of informal street traders (hawkers), as well as in the surge of home-based production and a small number of increasingly formalized ventures located at fixed business premises such as small-scale manufacturers. The slow expansion rate posted by the formal economy reduced labor absorption of new work seekers. During the crisis, many were forced to seek employment in the informal sector. Some of these new entrants were functioning in the informal economy "out of necessity rather than choice." The weakness in Malaysia's formal economy during the crisis meant that much of the growth occurring in the informal economy had been a result of supply-push rather than demand-pull. During the financial crisis, a lot of the expansion taking place in the informal sector was brought about by individuals searching out informal activities to sustain themselves rather than a consequence of the need for new enterprises to fill observed market demands.

This study shows that financial crises affect informal sector participants. One of the direct impacts of a financial crisis on households is reduction in income. A crisis also has an impact on labor demand. Many are forced to retrench. In the formal sector, on the other hand, the impact of retrenchment can be cushioned by compensation. Those with pension benefits are relatively more secure compared to those without such benefits. Others less fortunate have little choice but to seek new employment opportunities. Many shift to the informal sector during times of economic crisis. The informal sector, however, does not guarantee its participants immunity from rising prices, falling demand and income instability. Many of them experience income and expenditure changes during the crisis. The financial crisis also has some influence on savings and loans. Survey results indicate that a

relatively large percentage of informal sector participants use informal savings arrangements suggesting their demand for savings facilities. The amount they could borrow, however, is relatively small. The study reveals not only that a good number of informal sector participants borrow money but that many do save. This experience shows that the supply of such services creates its own demand.

It has been observed that new entrants who participate in informal sector activities due to an economic crisis continue to engage in these activities even after the crisis. This is a reflection of the continuous demand for informal businesses which provide cheaper goods and services. As the country's economy improves, the participants receive higher income from the informal sector compared to their previous jobs before the crisis. This motivates them to remain in the sector.

In the event of an economic crisis there are areas for policy intervention. Based on the issues discussed, it is pertinent to focus on policies which can address the impact of the crisis on household income and expenditures. The first policy area focuses on economic expansion. Increase in income can only be achieved if the economy or new market opportunities are expanding. Of critical importance is the opening of new potential market opportunities. One way to do this is to foster greater business linkages between medium, large scale, and small scale enterprises, including emerging informal enterprises. The government has introduced various programs through the Ministry of Entrepreneurship Development to promote linkages between these enterprises but the success rate remains to be minimal. Large and formal enterprises lack a culture of cooperation with informal enterprises.

The second area focuses on the structural constraints confronting informal participants and preventing them from maximizing income. This policy area addresses the problems faced by informal sector participants such as financial concerns, marketing, and labor. It relates to services support. Local studies (Shahadan, 1999; BCIC, 2000) show that when publicly provided infrastructure is deficient, informal entrepreneurs may be forced to undertake significant expenditures to substitute or compensate for these shortcomings. Relevant authorities need to make business activities sustainable by providing sufficient infrastructures and reliable services. In addition, they should provide easy access to suitable work premises to informal sector participants. My previous study (1999)

shows that survivalist informal enterprises need well-located permanent markets. The responsibility of addressing these needs for infrastructural improvements often fall on the *Majlis Perbandaran*, municipal councils or local government. There is a need to plan for more periodic markets to provide access to selling spaces by informal sector participants, particularly the relatively immobile home-based enterprises.

In this study, improved access to finances and credits is of major concern. Access to loans which will be used as working capital is a priority issue. The formal finance system in Malaysia, however, is quite reluctant to develop informal enterprises. As a result, majority of informal entrepreneurs rely on personal savings, loans from family or friends, or informal credit sources. Despite the establishment of *Tabung Usahawan Kecil* and the micro-credit programs managed by *Amanah Ikhtiar Malaysia*, it is clear that the shortage of financial support for new entrants and emerging entrepreneurs in the informal sector remains an unresolved issue. The nature and scale of existing finance support institutions in the country is inadequate to match the needs of informal sector participants in the microenterprise economy. For women entrepreneurs in particular, special intervention by support groups or organizations of women entrepreneurs appears essential.

A third policy intervention focus relates to education and training for entrepreneurship and the imperative to improve human capital and access to finance capital for the successful development of the informal sector. In an era of globalization and heightened competition, there is a need for informal entrepreneurs to be "smart," that is, to have the necessary entrepreneurial skills to compete. Many of the participants in the informal sectors are women. The educational standards of the majority of entrepreneurs are often low, thus, undermining their ability to adapt and compete.

It is evident that three different levels of intervention exist: micro, sectoral, and local government. The micro-level focuses on the kind of support needs the government can provide to enhance the capacity of the informal economy. This involves supply-side interventions to improve the human resource base for entrepreneurship, to assist with expanding the access of informal entrepreneurs to finance and credit, and to augment the often-weak infrastructural base. The sectoral level policy addresses the performance of informal enterprises in particular sectors. It attempts to confront the question of inadequate market opportunities and to foster stronger inter-enterprise networks of

cooperation. Finally, at the local government level the policy attempts to improve local institutional structures and economic development interventions towards the informal economy. All these policies aim to improve the economy and the general business environment. By doing so, they also minimize the impact of the financial crisis on the informal sector.

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