

## **Informal Sector in Rural Areas: Socio Demographic Profile of Traditional Food Industry Entrepreneur in Kelantan and Terengganu, Malaysia**

**WAN IBRAHIM WAN AHMAD**

UUM College of Arts and Sciences, Universiti Utara Malaysia  
Malaysia

E-mail: wiwa@uum.edu.my

**ASYRAF HJ. AB. RAHMAN**

Faculty of Social Development, Universiti Malaysia Terengganu  
Malaysia

E-mail: asyraf@umt.edu.my

**ZAINAB ISMAIL**

Faculty of Islamic Studies, Universiti Kebangsaan Malaysia  
Malaysia

E-mail: zainab@ukm.my

### **Abstract**

*This paper analyzes how rural society in the state of Kelantan and Terengganu receives benefit from their involvement in the informal sector. The informal sector constitutes one of the important sources of income for rural society besides their existing traditional agricultural sectors. The main objective of this study is to analyze the involvement of the local people in the informal sector especially in the traditional food industry. Using a convenience sampling technique, a total of 300 traditional food industry entrepreneurs of both states were selected. Results show that the involvement in this sector does not require any special educational background. Most of them only completed their education at Sijil Pelajaran Malaysia level. Its diversity of scope and the time flexibility have attracted rural folks to devote their living in this sector. Data of this study also demonstrates the average age of respondent is 42 and the majority of them aged between 40 to 49 years old. More than half of the respondents receive monthly income RM450.00 and above and they perceived them as sufficient to fulfill their daily needs. The study concludes that the involvement in this traditional food industry is very important for the survival of the rural society in both states.*

**Keywords:** Informal sector; rural folks; food industry

### **Introduction**

Informal sector has become a main theme in academic's landscape of developing countries. The sector has long attracted a great deal of attention from those researchers and policy makers of the developing countries since 1970s when the International Labor Office (ILO) began to pay serious attention to the job creation amongst the poor and needy towards the sector (Junaenah Sulehan 2000). This phenomenon was due to the fact that even though the modern agricultural technology adopted in developing countries may increase labor absorption, but the rapid adoption of the technological innovations in agricultural sector is resulting in the net reductions of agricultural labor use (Jayasuriya and Shand 1986), and as a consequence making non-farm employment as the major source of future well being (Estudillo and Otsuka 1999). A significant number of previous research in informal sectors showed that the majority of women in Asia are involved in this sector (Nelson 1979; Junaenah Sulehan 2000) as well as other sectors like agriculture and traditional food industries (Kaur and Sharma 1991; Unnevehr and Stanford 1985; Sanzidur Rahman 2000).

In Malaysia for instance, women dominate many sectors particularly that related to small business sectors. They actively involved in selling foods and fruits in daily and night markets throughout the country including Sabah and Sarawak (Junaenah Sulehan 2000). As a result, this sector recently has been the subject and agenda of much empirical research. Furthermore, the involvement in this sector especially amongst rural folks, helped majority of those people to get rid of from rural poverty. The consequences of this phenomenon have been of considerable interests in academic writings over the past few decades, including those interested in women working outside their home either on a part-time or a full-time basis. In some countries, rural society as well as informal sector has always been associated with poverty. Today, Asia and the Pacific considered to be the home to two third of the world's poor, and it is estimated that around 70 per cent of the Asia-Pacific region's poor, which is approximately 475 million lives and works in rural areas (United Nations 2007).

Between 2002 and 2004, the number of people living in extreme poverty in the region fell by 82 million (Concepcion 2008). An ESCAP/UNDP/ADB report highlighted the fact that the region has the largest number of people living in extreme poverty in the world (ESCAP/UNDP/ADB 2005). Although there is a substantial empirical literature in social sciences regarding the participation of rural folks in the informal sector in developing countries, but relatively little knowledge is available in Malaysia that can help to explain why some of these rural folks get involved in this informal sector. Rural folks do not usually sit idle, waiting for help from the government. Rather, they adopt numerous strategies to cope with their difficult situations (Narayan et al. 2000).

Malaysian government's effort in assisting those rural folks by providing necessary means of production perhaps will increase their commitment and sufficient incomes in the sector. With the launching of ECER (East Coast Economic Region) programme on October 2007, a number of incentives will be provided to draw investment from local and foreign investors in setting up projects related to the local community. The objective of the project was clearly stated by former Prime Minister Dato Seri Abdullah Ahmad Badawi when he states, 'all these efforts are meant to bring progress to the East Coast Economic Region so that it will be on par with mainstream development' (Bernama, June 11, 2008)

This paper seeks to analyze how rural society that ever since considered being an isolated society from the mainstream of Malaysian national development gains benefit from their involvement in the informal sector. Rural society in this paper refers to a folk society in the state of Kelantan and Terengganu which are considered as amongst undeveloped regions in Malaysia. Primary data discussed in this paper is based on a survey concentrating on *halal* food industry among the traditional food entrepreneurs of both states carried out in the late 2003 and early 2004. The informal sector constitutes one of the important sources of income for rural society besides their existing traditional agricultural sectors. The participation and involvement in this sector neither require for any special educational background nor higher skills. Its diversity of scope and the time flexibility have attracted rural folks to devote their living in this sector.

Many definitions used to refer to the informal sector. In the word of Pandey (1990), the informal sector means unorganized, unregistered and small scale activities. Wallace (1972), in her explanations about the formal and informal sector suggests that the formal sector is based on highly developed social productive forces while the informal sector is vice-versa. In the informal sector, its means and techniques of production are non-capital intensive and owned by those who operate them. This in fact, differentiate the sector from the formal one whilst the latter's means of production are privately owned by a small class, and operated by workers for the benefit of that owning class. A formal sector also involve and promise a regular pattern of working hours and fix certain wages for a particular period of time while an informal sector has uncertain working hours and unfixed wages. In addition, the standard of products of a formal and informal sector also differ with the formal sector having a higher quality while the informal sector does not produce a very high quality of goods to some extents.

According to Keith Hart (1973), there are some differences between formal and informal sector where both are based essentially on that between wage earning and self-employment. However this distinction precludes the possibility of workers being employed by informal sector operators, and is not therefore an adequate basis for analyzing the sector. Furthermore, it does not provide criteria by which the self-employed in the formal sector can be distinguished from those in the informal sector. According to the International Labor Organization (ILO) study in Kenya (1972), the informal sector activities were regarded as an activity having the following criteria's:

- a) Easy entry
- b) Reliance on indigenous resources
- c) Family ownership of enterprises
- d) Small scale of operation
- e) Labor intensive and adapted technology
- f) Skills acquired outside the formal school system and
- g) Unregulated and competitive market

From the above definitions, it will be possible to consider the informal sector as an unorganized sector, considerable freedom of entry both as employee and entrepreneur, rely on indigenous resources, family ownership and operated on a small scale basis. This is contrary to the formal sector where barriers to entry in the form of institutional restriction are crucial. In additions, the informal sector is unregistered and can be in any forms of informally organized activities. The sector is also indigenously owned in terms of the means of production compared to the formal sectors whereby to some extents, foreign owners own the means of productions.

Researches conducted on the informal sectors in developing countries indicate that the sector is very crucial to the economic growth. The majority of population of those countries is involved in this sector. If one goes through cities like Calcutta (India), Jakarta (Indonesia), Bangkok (Thailand), or Kuala Lumpur (Malaysia), one will find that many people are committed to this sector. They operate their business activities alongside the road and streets offering their household products. Other kind of business activities related to the sector also includes trishaw services, barbershops, shoeshine services, tailors and other pavement vendors. In general, these sectors are operated in a small scale and on a part time basis. Among the main objectives why rural people in particular, the entrepreneurs committed to this business activities are to earn extra incomes for their family. For the aged, the activity considered as significant as one of the means to enable them to support their own family. Since the activity operated on a part time basis and in a small scale, it is very much related to the incidence of poverty in certain developing countries.

In conjunction with this phenomena, the sector is still have its strength and role in assisting and providing job opportunity for the poor as well as reducing unemployment problem in the society as a whole. Research regarding *halal* food in the informal foods industry in Kelantan and Terengganu is almost non-existent. At present, there is not a single article on *halal* food discussing socio demographic profiles of the traditional food industry entrepreneurs in both states. The purpose of this paper is to fill this gap in informal foods industry by analyzing and assessing the socio-demographic profile of the traditional food industry entrepreneurs in both states. The paper also discuss types of informal sector existed in Kelantan and Terengganu and how the local community are familiarized with those sectors besides some benefits they perceived from the sectors.

### **Materials and Methods**

The work reported in this paper is part of a study conducted on *halal* food industry among the traditional food entrepreneurs in the state of Kelantan and Terengganu. The main objective of the previous study was to gauge the level of knowledge and understanding of *halal* food amongst the food industry entrepreneur in Kelantan and Terengganu. Relevant to this paper are variables measuring socio-economic status and participation of the respondents in informal activities. The State of Kelantan and Terengganu are very popular for the traditional industries such as batik industry, handy craft and the like. This is due to the fact that both states known to be the cradle of Malay culture, strong religious belief, and commitment to the preservation of their customs, traditions and craft skills over time. The economies of both states are based on agriculture with rice, rubber, tobacco and fruits being main cash crops. In additions, fishing, fish and livestock rearing are also primarily significant.

The study also attempts to analyze the involvement of the local people in the informal sector especially in the traditional food industry. Population of this research was the people living in these two states who actively involved in the food industry. Due to the lack of a comprehensive list of this kind of population in the area, this study employed convenience sampling to identify the target respondents. Using this sampling technique, a total of 300 traditional food industry entrepreneurs of both states were selected. The study employs both quantitative and qualitative methods to collect data. Major data for the quantitative analysis are derived from face-to-face interviews. Data were collected during 90-minute structured interviews conducted in respondents home by four professional interviewers. All interviewers were females and fluent in local dialect. The interview schedule, containing both open and closed-ended questions, covered a wide range of questions regarding demographic, socio-economic, marriage and family background, health, participation in informal activities and knowledge on *halal* food. Data for the qualitative analysis are derived from unstructured interviews, information from key informants, and field observation. An unstructured question used to allow respondents to describe their experiences using their own words.

### **Results and Discussion**

#### **Socio demographic profile of traditional food industry entrepreneurs**

Food industries become another strength in Kelantan and Terengganu where unique and delight cuisine with popular dishes such as *ayam percik*, *nasi kerabu*, *nasi dagang* and *nasi lemak* being indigenous to the area. Stalls selling those foods can be found along every road throughout Kota Bharu and Kuala Terengganu as well as other towns of both states. This scenario is primarily attributed to the habits of the local people to find for outdoor dining at food stall, coupled with the hard working food industries entrepreneurs to increase their income. Despite the wealth of cultural identity and religious strength of its community, these two states surprisingly, considered least developed compared to other states in Malaysia. More than 90 percent of their populations are Malays. Chinese, Indians and Other ethnic groups are not significant in number. The majority of the people in these two states, regardless of their ethnic groups, falls below the national poverty level, and are almost wholly dependent on subsistence farming and informal sector.

Socio demographic profiles of the entrepreneurs of the traditional food industries in Kelantan and Terengganu are summarized in Table 1.

**Table 1:** Distribution Percentage of the Profile of Traditional Food Industry Entrepreneur in Kelantan and Terengganu

Profile Characteristics	Percentage
<b>States</b>	
Kelantan	34.3
Terengganu	65.7
<b>Gender</b>	
Male	20.6
Female	79.4
<b>Age</b>	
19 and below	1.3
20-39	39.4
40-49	50.7
50 and above	26.7
<b>Education</b>	
No Schooling	11.7
Primary School	23.7
SRP	18.3
SPM	34.0
STPM	6.3
Others	6.0
<b>Marriage Status</b>	
Bachelor	13.0
Widow/Widower/	9.0
Married	78.0
<b>Income</b>	
450 and below	44.7
451-750	14.4
751 and above	41.0

In terms of state, the majority of the respondents interviewed are from Terengganu. Although the entrepreneur of traditional food industry in Kelantan as stated in the Table 1 is not as higher as in Terengganu, this scenario does not mean that the sector is not popular in Kelantan. A small number of the entrepreneurs chosen from Kelantan are due to the convenience sampling of the research. Because of time constraint and energy, the entrepreneur from the state of Terengganu is more accessible compared from Kelantan. In terms of age, more than half of the entrepreneurs are at the age of 40 to 50. Data of this study demonstrates that the average age of respondent is 42 and the greatest frequency of the age is 40 to 49 years old. Number of the entrepreneurs aged below 20 and above 50 is small. This implies that a significant portion of the entrepreneur is the middle-aged. In terms of the educational status, most of the entrepreneur has a lower attainment. Though some of the respondents have higher educational background, but most of them completed their education at Sijil Pelajaran Malaysia (SPM) level. Majority of them completed their studies up to SPM level and below. Only a small proportion of them completed STPM and others. Most of the entrepreneurs are married.

In terms of income, more than half of the respondents receive monthly income RM451.00 and above and regarded them as sufficient to fulfill their daily needs. It is obvious to find that the entrepreneurs earn higher income from their traditional foods industry. This figure is contrary to the average income of the rural folks of Malaysia in general whose income is much lower. Thus it is possible to consider that involvement in the traditional food industry is having a good prospect and future. Moreover the sector itself is so fruitful because of its attractive income, which is quite higher for the rural people. The study concludes that the involvement in the informal sector, especially the traditional food industry is very beneficial, worth and important for the survival of the rural society. From the above discussions it can be said that the entrepreneurs in the traditional food industries in Kelantan and Terengganu are categorized as coming from lower socio-economic status. Detailed analysis on their experiences and perception towards their current income suggest that majority of them perceive their income as enough and sufficient for their life. Majority of them also perceive that their involvement in the traditional food industry is very useful.

**Type of informal sector in Kelantan and Terengganu**

Table 2 summarizes the type of informal sector that is the traditional food industry in both two states.

**Table 2:** Distribution Percentage of Traditional Food Industry In Kelantan and Terengganu

Type of Industry	Total	Percentage
Fish cracker ( <i>keropok</i> )	69	23.0
Traditional Malay dessert ( <i>kueh tradisional</i> )	76	25.3
Ketchup ( <i>kicap</i> )	14	4.7
Fish sauce ( <i>budu</i> )	9	3.0
Chilli sauce ( <i>cili sos</i> )	22	7.3
Canned food ( <i>makanan dalam tin</i> )	4	1.3
Mee hoon ( <i>mee hon</i> )	76	25.3
Malay traditional noodles ( <i>laksa</i> )	28	9.3
Rice ( <i>nasi</i> )	139	46.3
Flying bread ( <i>roti canai</i> )	27	9.0
Others ( <i>lain-lain</i> )	34	11.3
Total	300	100.0

The industries are much familiar with local products like fish cracker (*keropok*), traditional delicacies (*akok*) and other delicious foods. From the study, there are 10 types of foods identified as traditional foods such as fish cracker (*keropok*), traditional Malay dessert (*kueh tradisional*), ketchup (*kicap*), fish sauce (*budu*), chilli sauce (*cili sos*), canned food (*makanan dalam tin*), mee hoon (*mee hon*), Malay traditional noodles (*laksa*), rice (*nasi*) and flying bread (*roti canai*). Analysis on these traditional food industries shows that fish cracker (*keropok*), traditional Malay dessert (*kueh tradisional*), mee hoon (*mee hon*) and rice (*nasi*) are products that are so popular among the entrepreneurs to be involved in. From the table, the most famous industry is rice (*nasi*), followed by mee hoon (*mee hon*) as well as traditional Malay dessert (*kueh tradisional*) and fish cracker (*keropok*). Mee hoon (*mee hon*) and rice (*nasi*), especially nasi berlauk, nasi dagang<sup>1</sup> and nasi minyak<sup>2</sup> are the products that easily found at many places in both states. Keropok is another famous products one can find easily especially keropok lekor<sup>3</sup>. In Terengganu, the famous keropok lekor is keropok lekor Losong whose name is derived from name of a village nearby the city center of Kuala Terengganu.

From the observations, traditional food industry in Kelantan and Terengganu has certain distinct characteristics:

1. Mostly the sectors operated on a part time basis. The entrepreneur conducted these activities in a small scale in order to earn some extra incomes. Usually, workers employed to operate this activities are those from their family members.
2. The entrepreneurs involved in the traditional food industry are mostly those from lower educational background. Because of this constrains, they do not have much opportunity to choose for other suitable job and yet opt to involve actively into this sector. To earn a life, they turn to the traditional food industry.
3. Most of the entrepreneur consist of those aged between 40 and 50 year, and already have a family. Although some of the entrepreneurs are those aged below 40, their number is marginal. The entrepreneur aged 60 and above is also significant.
4. In terms of gender, the majority of the entrepreneurs of traditional food industry in Kelantan and Terengganu are females.

**Conclusion and policy implication**

Results of the present study showed that the informal sector constitutes one of the important sources of income for rural society besides their existing traditional agricultural sectors. Malaysian government efforts by introducing a support fund and incentive package to the identified sector in the rural area will help to increase rural folk's commitment towards the existing sector and thus promoting the sector as a trademark of the east coast.

<sup>1</sup> *Nasi Dagang* or literally the 'trader's rice' is said to be the rice eaten by trader on their business journey. *Nasi dagang* is, perhaps the most representing food for Terengganu and Kelantan. The dish is mixes of rice and glutinous rich with coconut milk added once it is cooked. The rice is eaten with tuna curry and light vegetable pickles.

<sup>2</sup> *Nasi minyak* or ghee rice is another typical food for this state. It is normally eaten with vegetable pickles and Chicken, egg or beef curry.

<sup>3</sup> Refers to the long chewy fish cracker.

Those involved in the sector normally are people aged between 40 to 50 years old, whose educational background are low, married, and poor in terms of their income, but yet satisfied with their existing situation. Therefore, the sector considered being so important to those living in rural areas in particular. Their involvement in the sector is to provide them with job experiences and opportunity to work outside the home and enable them to earn some extra income for their family. This experience indicates that rural non-agriculture activities are very crucial to the rural folks if they were to get rid of from rural poverty. Therefore any rural poverty reduction strategies, then must work on program that promote rural non-agriculture employment that can give wider opportunities for the rural folks to earn an extra income for their family.

Apart from the existing initiatives for the sector, it is timely for the government through its agencies to develop small and medium scale industries in rural society to provide additional works to the society to lift up their daily income. Looking to the current income of the majority of the food industry entrepreneurs which was around RM 450.00 during the survey, the finding suggests that majority of the peasant society is still plagued with rural poverty. This phenomenon is much related to their main activity in general which is in agriculture. There is also a belief that peasants' activities only offer low income compared to those of from off-farm activities. Furthermore, their income is determined by prices in the market which is generally quite unstable. Evidence from previous survey conducted by several researchers, as by Huang (1975) in Melaka and Kelantan, Nik Ishak and Hashim (1978) in Negeri Sembilan, as well as by Tan (1982) in Terengganu, demonstrate that the income of the majority of the peasant was low.

In countries where the secondary and tertiary industries have well developed, the income of the majority of peasant society is high. This is particularly true because in those countries the linkages between the primary, secondary and tertiary sectors are closely related. The secondary and tertiary sectors offer alternative works to the peasant society as well. Peasant working primarily in agriculture sector and at certain times they also occupy alternative or additional works to increase their family income. This means that industry should be brought to rural community, thereby, rural community should be industrialized. However, industrial activity that suit to them is small and medium industries. Heavy industry, especially labor intensives industry is not suitable because this industry fail to absolve rural labor force with low level of education. If the government wants to bring heavy industries to this area, small and medium industry should also be developed. Japan for instance, although has developed heavy industries, the number of small and medium industry occupy 95 percent of its industries (Hemmi and Atsumi 1981).

From the above discussions evidence suggests that the increase of the income of rural community is closely related to the changes in the national economic structure which offers wide opportunities for the peasant to gain high income. These opportunities are only possible in off-farm activities. This means an additional work outside the farm should be created in rural communities in order for them to gain an additional income. The majority of peasant in developed countries, such as Japan, the United States of America, as well as Australia, gained their main income from activities outside the agriculture (Adiratma 1986). Peasant in Japan for instance, as reported by G. G. Allen (1981) in his book *The Japanese economy*, gaining 70 percent of their annual income from activities outside the agriculture. In the United States of America the average income of 2.4 million peasant household in 1982 was US\$26 386. From that figure US\$16 430 (62.30 percent) are from activities outside the agriculture (Adiratma 1986).

From the above examples, it is clear that the effort to increase the income level of rural society or of the food industry entrepreneur in particular, could not solely by developing the agricultural sector itself but this effort need to be in conjunction with the changing national economic structure with giving enough flexibility to the economic in secondary and tertiary sector develop in rural community. The food industry entrepreneur involved in the informal sector because of the traditional agriculture sector failed to offer them a good return for their family. Only with the developing of these sector in rural society the rural peasant can use this opportunities to have additional works to earn extra income. Only with this additional works can the peasant society get rid of from the problem of poverty.

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