

Determining the Challenges and Opportunities of Covid-19 to the Underground Economy

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— *Review of* —
**Integrative
Business &
Economics**
— *Research* —

ABSTRACT

The coronavirus disease 2019 (Covid-19) has limited the economic activities in Indonesia especially the country's night entertainment sector. The development of the entertainment sector is an indicator of the increase in underground economic activities. The underground economy contains both legal and illegal activities that are not detected by state finances. However, many people's welfare is highly dependent on the entertainment sector. This study analyzes the impact of COVID-19 on the underground economy and identifies challenges and opportunities to underground economic activities at the practitioners' welfare level. This study used a qualitative method based on the Phenomenon Approach. The results suggest that the Covid-19 pandemic has dramatically lowered the practitioners' incomes by 65 percent. There are some strategies for improving the financial planning skills for workers especially freelancer workers.

Keywords: Underground economy; night entertainment business; COVID-19; social welfare.

1. INTRODUCTION

The world is currently battling with the Covid-19 pandemic, including Indonesia. Up to September 2020, there have been no indications of the decline in Covid-19 cases. Based on the data, the Positive cases of COVID-19 is increasing every month in Indonesia. From March to September 2020, there are 221,523 cases, and it continues to grow around 2,500 up to 3,200 patients each day (Covid-19 Handling Task Force,

2020). Moreover, Covid-19 issues in Indonesia are the worst compared to other ASEAN countries. Indonesia is ranked 23 in the World (World Health Organization, worldmeters.info, 2020). The massive growth in Covid-19 cases has a significant impact on all countries. Malaysia and Saudi Arabia are experiencing an economic slowdown. Malaysia has projected to contract by 3.1 percent of its economic activities (Worldbank.org 2020), while Saudi Arabia was locked in an oil price war with Russia even before the Covid-19 related economic downturn (en.qantara.de 2020).

The Indonesian Government is implementing various policies to prevent the downturn, starting with the existence of large-scale Social Restrictions (LSSR) as a regulation that emerged by the Minister of Health of the Republic of Indonesia Number 9 of 2020 since April 2020. However, this policy is not significant enough to stop the spreading of Covid-19. Furthermore, while the spreading is getting worse, Jakarta, as Indonesia's capital, carries out the second part of the LSSR policy on September 14, 2020 (Regulation of the Governor of DKI Jakarta Number 88 of 2020). Inherently, the implementation of the LSSR and the existence of lockdowns policy in several areas have made the country's industry restless.

In general, the impact of Covid-19 has created negative economic growth in the second quarter of 2020 by 5.32 percent (Indonesian Statistic, 2020). Moreover, the implementation of the LSSR, lockdown, and physical distancing affected people hesitant to travel, impacting the tourism and entertainment industry. Foreign tourism number shrinkage by 64.64 percent from January-July 2020, followed by the decline in the hospitality and transportation sectors (Indonesian Statistics, 2020). As a consequence, many workers experienced income reduction, especially in the informal sector.

Workers in the informal sector are widely known for their economic gain-and-loss, especially those engaged in underground economy activities. However, underground economy activities are harming economic growth, such as the loss of state taxes (Gamal and Dahalan, 2015). Most of the belowground economic activities are illegal, covered by a company, avoiding tax payments, and trading contraband (Nchor and Konderla, 2016). On the other hand, these economic activities have high demand job seekers, especially those with low education levels but with substantial results. The job seekers that the formal academy not absorbed will aim the entertainment industry that offers various freelance jobs, such as karaoke venues, discotheques, bars, night clubs, and massage parlors throughout Indonesia.

Therefore, from tightening health protocols to prohibiting the entertainment industry's operating, various government policies affect both the business and workers sectors. Henceforth, the purpose of this study is to analyze how these workers survive, examine opportunities and challenges from underground economic activities during the Covid-19 pandemic.

2. LITERATURE REVIEW

2.1 Underground Economy

There are various economic philosophers regarding the definition of underground

economics. In substance, the underground economy is an activity of producing and selling legal goods and services. Nevertheless, it has not been registered in tax records, does not uphold labor regulations, and is not included in the social security system (Chotim 2010). In another opinion, the underground economy is associated as an opposite condition of work and formal economy, characterized as a systematic economic activity, and naturally expanding with the national and world economic evolution (Williams, 2006). In the conventional modernist view, there has never been an underground economy sector that has become the basis of economic activity that can spur, expand, and have the ability to promote the changes and economic growth in a country.

From these fundamental differences, Kiani, Ahmed, Zaman (2014) categorized economic activities in a structural approach into two major groups: the formal economy and the informal economy (underground economy). Feige (1997) writes about various forms of underground economic activity. First, the illegal economy is defined as the total income generated by economic activities that violate the legal status of legal forms of trade. Second, Unreported economy, which is defined as activities that violate reports of fiscal regulations, tax evasion, and fraudulent benefits to government agencies for statistics. Third, an unrecorded economy is an activity that avoids institutional conventions that specify the requirements needed to report income to government agencies for statistics. The final form of the underground economy is the informal economy, which avoids costs and does not require work contracts, loans, and social security.

In further, Lippert and Walker (1997) and Morales (2011) made several classifications of underground economy activities in monetary and non-monetary transactions, which describe in Table 1.

Table 1. Classification Based on Type of *Underground Economy* Activity

Activity Categories	Monetary Transactions	Non-Monetary Transactions
Illegal Activity	Trade-in stolen goods, produce or sell illegal drugs, prostitution, gambling, fraud, etc.	Exchange of illegal drugs, stolen goods, smuggling, producing, or farming illegal drugs for own use, theft for own use.

Legal Activity	Tax evasion means unreported income and assets for legal goods and services.	Tax evasion in giving employees a cut in benefits	Tax evasion through the legal exchange of goods and services	Tax evasion includes all unrecorded work and assistance.
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Source: *Lippert and Worker (1997); Morales (2011)*

2.2 The purpose behind the underground Economy activity □

There is a complicated reason behind the performing of underground economic activities, such as the need for all financial activities, both legal and non-legal, fewer options, or unsatisfied with available options. The opportunity motive is formed by choosing to carry out these economic activities (Maritz, 2004). In general, people who are barely motivated by needs tend to have lower aspirations than those who are motivated by opportunity. The reason is that people triggered by conditions tend to rely on their daily economic viability hardly, and this will positively affect their business aspirations. This situation forced these people to find a solution to less promising opportunities or the nearest available survival option, such as the underground economy. Some results show that people can be motivated to carry out economic activities with the dynamics of needs and opportunities (Giacomin, Janssen, Guyot, & Lohest, 2011; Williams, 2008). The perpetrator in the underground economy state that this activity is the only way to survive and generate additional income while having the freedom to do business and fill gaps in the market becomes the other reason (Rustiadi and Ahmad, 2019).

There are three causal factors driven by the growth and expansion of underground economy work (Williams, 2006 in Chotim, 2010). First, external pressure in the form of discrimination, economic restructuring, and unemployment. Second, almost 50% of independent workers tried to explore their personal goals and forming a new work identity. The last is because most of the respondents used the underground economy to structure their transformation careers process.

3. METHODOLOGY

This research is using a qualitative method with a phenomenological approach (phenomenology). The analysis uses a qualitative method to study the underground economic activist's reason while doing their action. Whereas the phenomenological

approach used to explore personal life experiences and describe how others could understand their personal and social aspects (Hanurawan, 2012). There are three stages used in this approach, namely:

1. The research question formulation

The questions are formulated as open-ended and explorative questions, focused on exploring the participants' views, understanding, and making sense in a particular context in their life. The phenomenon under study is often concerned with current problems, emotional issues, and dilemmas or problems that involve lifelong reflection (Shinebourne, 2011). The research questions posed include the economic dimension, the human dimension, the socio-cultural dimension, the protection dimension, and the opportunities and challenges to enter underground economic activities. This section is open and exploratory questions.

2. Selection of participants

Participants are selected through the relevant group approach, personal contact, and using the snowball system. Selected total participants are 30, consist of 26 employees from upper, middle, and lower classes, while the last four are entrepreneurs with different types of business.

3. Data Collection methods

Depth interviews were used as data collection methods by the researchers with participants from different locations. Besides, personal relations also build up to deepen the information needed, so the participants will not be intimidated as a research object.

4. ANALYSIS RESULT

4.1 The Impact of Covid-19 on The Underground Economic Sector

The underground economy in Indonesia is dramatically increased year by year. Based on Samuda's research (2016), the underground economy's number from 2001 to 2013 doubled from 26 percent to 35 percent. It is confirmed that the average number of the underground economy in Indonesia was IDR 94,141.25 billion in its period. It is 8.33 percent of Indonesia's Gross Domestic Product (GDP) for each quarter. Only in 2009, the number of the underground economy was decline. If we examine it further, there was a global financial crisis in 2008-2009, which started from the United States financial crisis. Moreover, underground economic activities are very vulnerable, influenced by external conditions.

In this paper, we specifically write about the night entertainment sector in the underground economy. In Indonesia, there is Ramadhan month. The night entertainment during this month has to close due to government regulation. Then, the business owner will prepare themselves. However, this condition is different from what

happened in 2020, where the Covid-19 pandemic began to emerge in early March 2020 in Indonesia. This pandemic spread massively that in April 2020, the Indonesian Government imposed a Large Social Scale Restriction. All businesses closed, especially the entertainment industry. Nowadays, positive cases of Covid-19 in Indonesia are still increasing every day. Until September 13, 2020, the number of confirmed positive cases of Covid-19 in Indonesia has reached 218,382 people. Also, Indonesia has the most cases of Covid-19 in ASIA. Meanwhile, at the world level, Indonesia is in the 23rd position of the number of confirmed positive cases of Covid-19.

The massive extent of this pandemic has also caused Indonesia's economic growth to decline to 5.32 percent in the second quarter of 2020, indicating that the industry in Indonesia is experiencing a downturn (Indonesian Statistics, 2020). Until the third quarter of 2020, there were three times that Indonesia's night entertainment industry was shrunk. First, in April 2020, the Indonesian Government implemented the first Large Social Scale Restriction. Second, in June 2020, where the Government asks the citizen to stay at home. The last one is in September 2020, DKI Jakarta will re-enforce a Large Social Scale Restriction.

The researcher conducts interviews with entertainment business owners. Their average income significantly declines by nearly 70 percent. It is due to the closed policy from the Government. To cover variable costs such as maintenance of business premises, salaries for employees, or security guards, the owner usually only opens for premium customers. However, it has to be with rigorous health protocols.

Another finding is that this entertainment business's activities are legal and illegal due to its proportion of 60 percent and 40 percent. Even though the illegal activities only 40 percent of this portion, the profits are much greater. The Covid-19 pandemic has caused a drastic turn down in legal activities; indisputably, it also affects the recording of tax payments that must be paid to the state.

Afterward, employees' impact in the entertainment business is that many returns to their hometowns, especially for employees who are not permanent. Usually, non-permanent employees or freelancers work in several places. Before the COVID-19 pandemic, these freelancers earned more income from permanent workers because they could work for hourly wages. So that for freelancer employees, it is relatively easy to move places. However, when the Covid-19 pandemic took place, not many customers needed their services. Also, the business owner uses only a permanent employee because permanent employees are sufficient. This circumstance is different from normal conditions where many guests come, and then usually, the business owner will add freelancers.

Moreover, the freelancers are looking for other opportunities by offering their services through social media. Due to the custom, when they are used to facing annual problems such as low customers in Ramadan, they are used to saving, so they still have enough to cover their basic needs. According to freelance employees' statements, many people want to enter this business. Jobseeker in this field is increasing due to many unemployed in the formal sector. It makes worker competition in the entertainment business more robust than before.

4.2 Labor Conditions in Underground Economic Activities

Workers involved in the underground economy have marginal characteristics and are separate from the society in which they live because the underground economy activities are considered impractical and problematic. They entered the underground economy to survive because the state neglected these minorities. In other words, external agents excluded them (Atkinson, 2002). From this study, most of the workers who enter the underground economy have low education.

It is supported by the proportion of informal non-agricultural sector workers in Indonesia with the highest number of elementary school graduates in 2019. The minimum number of elementary school graduates is 65.61 percent, junior high school graduates are 53.49 percent, general high school graduates are 38.26 percent, vocational high school graduates are 30.45 percent, and 19.26 percent of Diploma graduates, and 11.63 percent of undergraduates (Indonesian Statistics, 2020). This data indicates that the labor force that enters this activity is more of those who do not absorb informal work. Furthermore, it can be identified as the driving factors of labor that enter the entertainment sector, namely:

- a) The necessities of life and responsibilities to the family

Economic welfare is always a strong reason for someone to take shortcuts. Having a disadvantaged background and the desire to live a decent life make these workers dare go to other areas and join as workers in the nightlife business.

- b) Low education level, making it challenging to accept formal jobs

Based on the research results, of all the participants who were the research object, 20 percent of participants graduated from elementary school, 35 percent graduated from junior high school, 40 percent graduated from high school, and the rest are college-level graduates. The majority of education is at the junior and senior high school levels. There are reasons why they cannot continue to a higher education level, one of which is the challenging family economic welfare and the lack of parental education to advance their children's high education. Also, there is a perception of the children that working is better than school.

- c) Jobs that looks easy but has a large income

Most workers who first enter these types of business initially think that it does not have the requirement to possess advanced knowledge yet could earn a large income as long as the service provided is acceptable to the consumers. Therefore, the workers' secret in this sector has a beauty standard because that is their essential asset. For high-class freelancers, every 3 hours, they earn IDR 750,000. For the middle-class every 3 hours, they get a fee of IDR 450,000, and low-class freelancers every 3 hours get a payment of 250.0000. Of course, this amount of income will be difficult to obtain if they work in the formal sector with low education.

- d) Environmental Influences

The environment is an external factor that currently affects a lot of a person's mindset and actions. Based on interviews, 70 percent of freelancers in the entertainment business enter this field because of a friend's invitation. They just joined their friends, then tried it for the first time to have fun, and finally continued because they already felt a large amount of money this work has earned them. Although their income is quite large, they do not have a Tax ID Number or report their income to the state tax agency. Even from their Identity Card, their work status is self-employed.

e) Seeking for an Established Partner

The driving factor for these employees to stay in business is their hope of finding a stable partner. It is indicated that most of their customers are customers who have an enormous amount of money. Undoubtedly, people who have an average income will not be on such establishment much or spend their time coming to the nightlife business.

Of all freelancer workers, 90 percent of them come from outside the region. For example, from District A, they will become freelancers in City A, while from City A, they tend to become freelancers in City B, which is undoubtedly more significant than their home city. It phenomenon indicates that the workers do not want their work status to be known by their families and even the general public. Their reason is that there is still a norm in society that working in the night entertainment sector is considered low or unethical. Even though many also become permanent employees, such as administrative employees.

Although these freelancers' income is relatively high, their income cannot be saved or invested. It is because the expenses of these employees are also exceptionally high. Of their 100 percent income, 50 percent is for self-care to compete with others, 10 percent for food needs, 20 percent for protection guarantees, 10 percent for giving to their families, and the rest for savings. From the proportion of this expenditure, the portion for guaranteed protection is relatively high. It is because freelancers do not get guaranteed protection from the company in the event of violence or accidents at work, in contrast to permanent employees. There are three differences in being a permanent employee and freelancer in this entertainment business, in more detail, can be seen in Table 2. below.

Table 2. The Difference Between Permanent Employees and Freelancers in The Night Entertainment Business

Item	Permanent Employees	Freelancers
Income	Fixed income	Income is earned after they work according to their working hours.
Protection	Able to get protection at work in the event of violence and accidents at work	Does not have the right to protection from the company.
Employment contract	Clear and official	Some are clear, and some are without a work contract, only informal confirmation.

Source: Analysis results, 2020

Opportunities and Challenges for The Underground Economy During the Covid-19 Pandemic

Changes in the economy and people's behavior have changed all the economy's lines and the underground economic sector in the night entertainment business. The entertainment business character, which tends to gather large numbers of people, seems to be more complicated by health protocols and government policies in handling Covid-19. Underground economic activity has involved many parties in its implementation. Then there are opportunities and challenges to continue its existence.

Identification of Opportunities and Challenges of underground economic activities is divided into two perspectives: the employers' perspective and the second from workers (employees) involved in underground economic activities. In more detail, it can be described in the table below:

a. The Entrepreneur's Point of View

Table 3. Opportunities and Challenges of Underground Economy Entrepreneurs During The Covid-19 Pandemic

Opportunities	Challenges
1) The abundant supply of goods and services is due to the decline in the formal sector economy. 2) There is no operation from the Government because it looks closed. 3) Condition-able tax payments 4) Not many people can enter and become new competitors in this sector.	1) Their business is threatened in the sense of declining turnover because many customers in the nightlife world are guarding themselves to assemble and follow government recommendations. 2) Maintain the supply chain of goods with mutual trust so as not to divulge secrets to official government agencies 3) Increasing competition for human resources because during the Covid-19 many human resources wanted to enter this sector.

Source: Analysis results, 2020

b. The perspective of the workforce involved

These opportunities and challenges make the entertainment business innovate in providing services to customers. This innovation is by tightening the COVID-19 protocol and regulating the subscribers' number to carry out physical distancing. Not only that, the company even implements strict Standard Operating Procedures for workers who serve customers directly. It is to attract customers to remain loyal and make customers safe to continue to enjoy this business.

Table 4. Opportunities and Challenges Workforce Involved in Underground Economic Activities During the Covid-19 Pandemic

Opportunities	Challenges
1) Get extra revenue due to good customer loyalty. 2) Work system that can be adjusted working hours 3) Getting a life partner who is well off from an economic perspective 4) It does not require a high education; it is enough to look attractive and have high intentions.	1) Maintain the confidentiality of their real identity 2) Tight competition between workers and each other in acquiring customers causes conflicts in the internal environment. 3) Maintain customer loyalty to continue using their services. 4) Increase self-protection from internal and external hazards because the company does not cover it much.

Source: Analysis results, 2020

5. CONCLUSION

Based on the results of the analysis, there are three conclusions, namely:

1. The impact of Covid-19 is also felt by people involved in underground economic activities, especially in the night entertainment business. It has an impact on reducing operating income by 65 percent.
2. Entrepreneurs apply the COVID-19 protocol and enforce strict SOPs in providing services to customers to take opportunities and overcome existing challenges.
3. Employee protection guarantees are a high cost for employers as well as for freelance employees.

Suggestions that can be given from the existence of an economic underground, namely:

- 1) For entrepreneurs, it is better if strict SOPs are enforced not only in the presence of Covid-19 but for the sake of maintaining customer loyalty.
- 2) It is better for workers if their income can be saved more because the age of working in this sector is minimal. Financial planning skills are needed in the long term.
- 3) For the Government, it is better if the Government continues to carry out routine operations even though it is Covid-19 but with strict health protocols not to lose much tax revenue.

ACKNOWLEDGEMENTS

This work was supported by the PNB research grant of Universitas Negeri Malang Under Contract in 2020.

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