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**CONTRIBUTION OF INFORMAL STREET VENDORS  
TO LOCAL GOVERNMENT REVENUE DURING  
POST-COVID 19 PANDEMIC**

<sup>1</sup>Norlaila Abdullah Chik, <sup>2</sup>Ahmad Zubir Ibrahim,  
<sup>3</sup>Nur'Jila Mohammad, <sup>4</sup>Siti Syuhadah Mohamad &  
<sup>5</sup>Zuriana Zahrin

School of Government, College of Law,  
Government and International Studies,  
Universiti Utara Malaysia, Malaysia

<sup>1</sup>Corresponding author: [nrlaila@uum.edu.my](mailto:nrlaila@uum.edu.my)

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**ABSTRACT**

This paper discusses the contribution of informal street vendors to local government revenue generation during the COVID-19 pandemic. Informal street vendors usually develop businesses to sell something and earn an income. They not only generate their income but also generate revenue for the local government. The main objective of local governments is to maintain and improve their efficiency. Therefore, this study aims to understand how informal street vendors contribute to the revenue of Kubang Pasu municipal in the short term, especially after the COVID-19 pandemic. The study covers 50 street vendors in Kubang Pasu. The results of the study show that there are only two (2) independent variables that affect the dependent variable. First, the relationship between affordable licenses and Kubang

Pasu Municipal's revenue shows a positive (0.301) and significant (0.019) relationship at a 0.050 level of significance, which means that the more affordable licenses issued, the higher the Kubang Pasu municipal revenue. Second, the relationship between the current post-pandemic business situation and Kubang Pasu municipal's revenue shows a positive (0.541) and significant (0.058) relationship at the 0.10 level of significance, which means that the more accessible the business situation is in the post-pandemic period, the higher Kubang Pasu Municipal's revenue will be. The newly developed revenue source will secure local government revenues in the long term and avoid budget deficits. Kubang Pasu Municipal needs to create new revenue sources, as they are still among the local governments with low revenue sources compared to local governments in other states.

**Keywords:** Informal Street Vendors, Local Government Revenue, Post-COVID 19 Pandemic, Licenses, Business Situation.

## INTRODUCTION

The COVID-19 pandemic has had a widespread impact on people worldwide, including Malaysia. Many Malaysians are affected by job losses or wage cuts due to business closures and reduced economic activity. This resulted in an increase in the unemployment rate to 5.8 per cent in 2020. Many affected residents took the opportunity to do business on the streets to continue living. There are street vendors who have a license and those who do not. In this critical time, the local government also experienced decreased income. One of the incomes obtained by the local government is from small vendors through licenses, rents, and fines. The local government controls street vendors because they need a legal license. However, state and local laws vary, leading to different licensing and enforcement practices. Some Malaysian Street vendors operate without a license. This informality can hinder local government tax collection, urban planning, and health and safety compliance. To acquire an affordable license, informal street vendors must pay a lease fee to the local government. These lease fees provide revenue to the local government, which can fund services and development in the area.

By choosing the right location, informal street vendors can avoid conflicts with other businesses operating nearby. They seek areas

separate from established businesses or shops, reducing direct competition and respecting the existence of other businesses in the area. Informal street vendors who choose their locations carefully can contribute to the local community by meeting its needs. In applying for a license, informal street vendors agree to abide by the rules set by the local government. They recognize the importance of maintaining operating hours, disposing of garbage, keeping business premises clean, and complying with safety regulations. They are willing to cooperate with the local government. Informal street vendors can help meet the community's needs by providing essential needs such as food, drink, clothing, etc. During an endemic, access to formal businesses may be limited, and street vendors may be an important source of daily needs. Informal street vendors contribute to local economic recovery by continuing their business during the endemic. They create sustainable economic activity and help maintain income streams, financial stability, and social well-being at the local level. Most local authorities in Malaysia continue to need help to increase their income through various approaches. The local government's reliance on tax revenue needs to be increased to raise income to provide various facilities and high-quality services to the community. Consequently, the local government needs to find other alternatives so that the income is greater than the expenditure, including Kubang Pasu Municipal.

**Figure 1**

*Income and Expenditure of the Local Government in each District of the State of Kedah (RM million)*

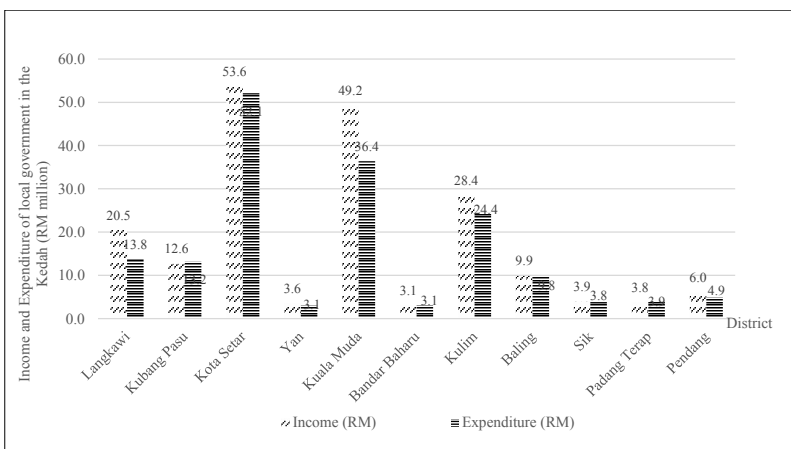


Figure 1 shows the income and expenditure of the local government for eleven districts in Kedah. The Kota Setar district is the district that earns the most income in the state of Kedah, followed by the Kuala Muda district and then the Kulim district. However, the scope of this study looks at Kubang Pasu district because this district has a high potential to generate new income in addition to depending on tax collection. From Figure 1, the income and expenses obtained for the Kubang Pasu district costs exceed income. This situation is difficult because there is no surplus and even a shortage. This situation may cause the local government to be unable to implement development programs that can improve the community's quality of life in Kubang Pasu. In addition, Bukit Kayu Hitam City has been recognized as an e-commerce and logistics hub in the north of the country. The e-commerce platform will involve importing and exporting goods through the Malaysia-Thailand border entry road. This platform complements the Special Border Economic Zone (SBEZ) and the Kedah Science & Technology Park (KSTP) developed in Bukit Kayu Hitam in line with the Kedah Development Plan 2035. The planned and implemented development within these five years will provide opportunities for the community to enjoy the development. Even the Kubang Pasu Municipal can also take the opportunity to generate new income. One source of income for the local government comes from street vendors through licensing and rentals. Despite the relatively modest returns, it can still serve as an additional revenue stream for the local government, particularly in the post-COVID period. Therefore, this study may help identify the contribution of informal street vendors to local government revenue during the post-COVID 19 Pandemic.

## **LITERATURE REVIEW**

Jones (2007) argues that cities must focus on the long-term needs of businesses or residents because technology and the environment impact society. In general, one of the main goals of municipalities is to maintain and improve their efficiency. This requires municipalities to meet the needs and interests of residents. Municipalities collect fines, taxes, and other fees (Larson et al., 2007). Scholars and practitioners alike wonder about what constitutes acceptable local government funding. Not a particular mixed-income model, say Ebel and Vaillancourt (2004). The fiscal theory of federalism supports the

federal government's role in economic growth and wealth distribution (Musgrave, 1959). The system is said to be rigid.

According to the idea of local financial matching, finances must match responsibilities and duties. Organizational management is necessary for smooth urban planning. An excellent public sector meets local needs (Andrews & Shah, 2003). It must maintain the quality of service while expanding the use of technology to provide long-term and higher profits that the central government entrusts the delivery of public services to local governments. Housing, education, water supply, rehabilitation of sewerage systems, waste management, and public transport are new demands for most developing countries (De Vera & Kim, 2003). All business services are not free. The local governments consider the informal sector, particularly the cost of the service delivered by the municipality to be equal to the cost of the service provided by the municipality (Jones, 2007) and vendors, a possible tax target due to its visibility (Rachmawati, 2014). Because street sellers' reliance on locally accessible resources will be much improved with better tax collection and management, the informal sector significantly contributes to the local economy (Purwanto, 2018). Street vendors are among the most important players in informal sector economic activities. In cities, towns, and villages worldwide, millions earn their living wholly or partly by selling a wide range of goods on the streets, sidewalks, and other public spaces. However, in most countries of the world, street vending persists and probably has expanded even where local regulations seek to ban or restrict it. It represents a feature, except in societies where gender norms restrict women's mobility and where women account for a major share of street vendors (Adhikari, 2011). Indonesian labour market conditions showed that most labourers work in the informal sector, with low education and skills. Even the informal sector can be a container for human resource development, where the workforce that needs to be trained (unskilled) can improve their skills before entering the formal sector (Harahap, 2017).

Street vendors are among the most important players in informal sector economic activities. In cities, towns, and villages worldwide, millions earn their living wholly or partly by selling a wide range of goods on the streets, sidewalks, and other public spaces (Adhikari, 2011). Rachmawati (2014) analyses how local governments should

tax the informal sector to boost revenue. The result is that the informal sector contributes significantly to the economy within a locality because street vendors' reliance on locally available resources will be greatly improved with better tax collection and management. On a large scale, this will impact the increasing financial capacity of local governments. Rahmi (2013) examines the effects of intensification and extensification on the raising of PAD and the effect of PAD on financial independence. Sample selection uses the total sampling method; there are 80 respondent local governments in Padang.

Findings revealed that taxing the informal sector would boost revenue generation and positively impact the economic development of developing countries. The researchers, therefore, recommended: effective tax monitoring and auditing of the informal sector operators; enhanced capacity building of staff of the Revenue Authorities; immediate establishment of revenue courts to try offenders where necessary; reduction of multiple taxes, etc., as some of the steps to be taken to ensure compliance with tax payments by informal sector operators. According to Obara and Nangih (2017), street vendors are one of the most important players in informal sector economic activities. Millions of people earn their living wholly or partly in cities, towns, and villages worldwide by selling a wide range of goods on the streets, sidewalks, and other public spaces (Adhikari, 2011).

In Asian cities, street vendors account for a slightly lower share of informal employment. For example, city-level data for Hanoi and Ho Chi Minh City, Vietnam, show that street vendors form 11 per cent of total non-agricultural informal employment, with a higher share among women than men (Roever & Skinner, 2016). Even when the national economy suffers a setback due to the recession, the informal sector (street vendors) can survive without burdening the national economy, so the community's economy is still running. This role has been going on for a long time in society's development and economic development dynamics. The informal sector, as an alternative sector for migrants, can contribute to urban development (Harahap, 2017). Informal vendors operating in the open were indicated to be the most vulnerable to environmental hazards, particularly those operating from unprotected informal buildings, stalls, or workplaces that are not adequately weatherproofed (Sepadi & Nkosi, 2023).

As street vendors have been emerging as a significant part of the informal sector activities in the urban areas of Nepal, this study

aims to identify the income impact of the street vendors through literacy level, labour supply, and investment. The mission's report acknowledges street trade as an important component of the informal sector. However, it does emphasize that the visibility of street activities tends to neglect other segments of the informal sector, like manufacturing. Nepal's informal sector activities are extensive (38.4% of GDP). Some of the important literature on informal sector studies is presented here. A concept of the informal economy may be more helpful in advocating for these vulnerable groups of women. They have identified two broad components of the informal economy: non-wage employment and wage employment (Adhikari, 2011).

Globally, taxation is the best way for governments to raise revenue. 75 per cent of workers are employed in the informal sector. 40 per cent of the GDP of low-income countries is informal, according to the World Bank (Farrell, 2004). Despite their significant contribution to the economies of developing countries, they are the least taxed (Patrick, 2011). Taxing the booming informal sector holds out the hope of generating additional revenue to compensate for the shortfall in tax revenues, but this is not without problems, according to Njeru (2012). Anuradha and Ayee (2009) said that the question of how to tax the informal sector remains urgent. Njeru (2012) added that there seems to be a consensus that African governments and their tax authorities need to work around the clock to bring the informal sector into the tax bracket, as efforts by governments to broaden the tax base will significantly increase revenues leading to less dependence on donor funds, and in cases where governments are forced to increase taxes on essential commodities. Tax is a government levy on the income of individuals and legal entities (Abdulali, 2012).

Taxes are used to maintain law and order, provide infrastructure, health, and education for citizens, and control the economy. Taxes are any mandatory payments made by individuals or organizations to the government that do not directly benefit the payer. This result is consistent with a priori expectations, as it was assumed that effective tax administration of the informal economy would lead to an increase in revenue, as observed in Lagos after implementing various strategies such as the presumptive tax. There is a significant relationship between the informal sector in Nigeria and tax revenue generation (Ogundajo et al., 2019). Findings revealed that taxing the informal sector would boost revenue generation and positively impact

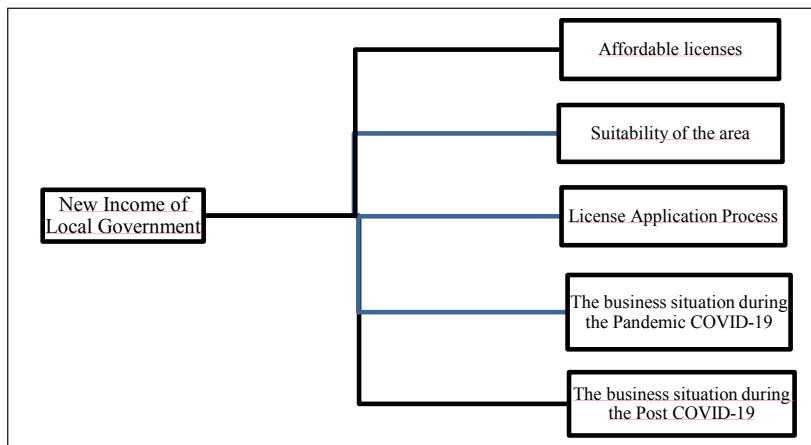
the economic development of developing countries (Obara & Nangih, 2017).

## Research Model

The dependent variable in this study is Kubang Pasu Municipal's new income and the independent variables are i) Affordable License ii) Area Suitability iii) License Application Method iv) Business Situation during the pandemic and v) Business Situation during the Post Covid 19 as shown in Figure 2.

**Figure 2**

### *Research Model*



- i) Affordable License: This variable pertains to the cost and accessibility of obtaining a license for street vending activities within Kubang Pasu Municipal. It explores how the affordability of licenses may impact the municipal's new income.
- ii) Area Suitability: This variable examines the appropriateness and suitability of different locations within Kubang Pasu for street vending activities. It explores how the choice of location may influence the municipal's new income.
- iii) License Application Method: This variable focuses on the process and method involved in applying for licenses for street vending. It investigates how the efficiency and ease of the application method may impact the municipal's new income.



- iv) Business Situation during the Pandemic: This variable considers the overall condition and performance of street vendors' businesses during the pandemic. It aims to understand how the business situation during the pandemic may correlate with Kubang Pasu Municipal's new income.
- v) Business Situation during the Post-COVID-19 Period: Similar to the previous variable, this one explores the overall condition and performance of street vendors' businesses, but specifically in the post-COVID-19 period. It aims to understand how the business situation during this period may correlate with Kubang Pasu Municipal's new income.

These variables collectively contribute to the investigation of factors influencing the new income of Kubang Pasu Municipal, providing insights into the dynamics between licensing, location, application processes, and the business environment during both the pandemic and the post-COVID-19 period.

## **METHODOLOGY**

### **Research Design**

This study is exploratory research to investigate a problem that needs to be clearly defined. It is conducted to understand the problem better but does not yield convincing results. In such an investigation, the researcher starts with a general idea and uses this investigation to identify questions on which to focus future research. An important aspect is that the researcher should be prepared to change direction as new data or insights emerge. Such an investigation is usually conducted when the problem is at an early stage. It is often referred to as the grounded theory approach or interpretive research because it answers questions such as what, why, and how. Therefore, the questionnaire distribution method is used as an instrument in this research. The results of this study are based on the data obtained through a questionnaire distributed to 50 street vendors in the Kubang Pasu Municipal. The questionnaire results are analysed in a description attached to the table according to the suitability of the data description. Preparing the research design connects the research objectives with the research results. The study design in this research is to use a purposive sampling method. The purposive sampling method is used because purposive sampling is the most effective type

of non-probability sampling when studying a specific cultural area with an expert. Purposive sampling can also be used in qualitative and quantitative research techniques.

### **Sampling Methods: Types and Methods of Selection**

The sampling method used in this study is Purposive Sampling. In this method, each element of the population under study has an equal chance of being selected. In this method, the number of elements needed as a sample is randomly selected from a list of elements included in the population or sampling frame. The selected sample should have the same characteristics as the population. In this way, the quality of the responses should be maintained, as this is an important element to control the accuracy of the responses obtained and to facilitate a successful study process. In this study, the Pearson correlation analysis method was chosen. Pearson correlation is used to determine if a relationship exists between two variables, i.e., the independent variable and the dependent scaled variable. Pearson correlation assumes that the data are normally distributed. The data analysis in this study is done using SPSS statistical package.

### **Measurement Instruments and Data Collection Methods**

The respondents were street vendors in the Kubang Pasu district. Peddlers also participated in this study, totalling 55 respondents. A questionnaire was given to each respondent. The questionnaire is divided into two parts: The first is related to the respondent's profile, and the second is related to the contribution of street vendors to the Kubang Pasu Municipality. The questionnaire is filled in the form of closed questions. The questions are structured, and the respondents must only answer based on the given scale. In this study, the questionnaire was divided into several parts, namely:

#### ***Part A: Demographic information of the respondents***

This section contains some information about respondents' backgrounds, including gender, age, number of family members, status, marital status, academic level, and reasons. The questions in Part A were modified based on questions closely related to respondent information. This section is one of the most important questions in the study because it symbolizes a person's status or background.

### ***Part B: Affordable licenses***

Part B consists of questions related to affordable licenses for hawkers. The questions aim to determine the extent to which affordable licenses are made available to hawkers. The selected response scale consists of “strongly disagree” (STS), “strongly disagree” (TS), “somewhat agree” (SS), “agree” (S), and “strongly agree” (SS).

### ***Part C: Suitability of the area***

Part C consists of questions related to the suitability of the business area for peddlers. Questions related to the area’s suitability include whether hawkers tend to operate their business on the roadside compared to the space provided by the Kubang Pasu local government. The response scale chosen consists of “strongly disagree” (STS), “strongly disagree” (TS), “somewhat agree” (SS), “agree” (S), and “strongly agree” (SS).

### ***Part D: License application process***

Part D consists of questions related to the method of applying for licenses by peddlers. This section asked this question to find out how easy it is for peddlers to apply for a license. The response scale selected consists of “strongly disagree” (STS), “strongly disagree” (TS), “somewhat agree” (SS), “agree” (S), and “strongly agree” (SS).

### ***Part E: Business situation during the post COVID-19***

Part E consists of questions about the business situation during the COVID-19 pandemic. This part was created to see this distributor’s business situation after the COVID-19 pandemic. The selected response scale consists of “do not agree at all” (STS), “do not agree” (TS), “agree to some extent” (SS), “agree” (S), and “agree” (SS).

## **RESULT AND DISCUSSION**

This study conducted a descriptive analysis of the demographic profiles of informal street vendors in Kubang Pasu Municipal. The demographics are explained using frequency (*f*) and percentage (%), which includes race, age, gender, marital status, Education Level, Business Type, Working Experience before the Pandemic, and Income per month as shown in Table 1. The race information represented 45

(97.8%) respondents are Malay and only one (0.4%) Others. According to marital status, respondents' data is categorized into three: married, single or unmarried, and widowed. Most of the respondents involved in this study are married, with 169 (64.5%) respondents. In addition, the respondent's status in the family is either as a husband or as a wife. A study was conducted in Changlun and Jitra.

**Table1**

*Background of Respondents*

<b>Demographic</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Race</b>		
Malay	45	97.8
Others	1	2.2
<b>Age</b>		
21 - 30 years	19	41.3
31 - 40 years	13	28.3
41 - 50 years	8	17.4
51 - 60 years	5	10.9
60 years and above	1	2.2
<b>Gender</b>		
Male	22	47.8
Female	24	52.2
<b>Marital Status</b>		
Married	30	65.2
Bachelor	15	32.6
Widowed	1	2.2
<b>Business Type</b>		
<i>Food truck</i>	3	6.5
Watch	1	2.2
Food and beverage	36	78.3
Apparel	6	13
<b>Education Level</b>		
No school	1	2.2
LCE	4	8.7
MCE	22	47.8
Primary school	1	2.2
Higher Certificate (STPM)	5	10.9

(continued)

<b>Demographic</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Working Experience Before the Pandemic</b>		
Public	1	2.2
Private	12	26.3
No	33	71.7
<b>Income per month</b>		
Average income (RM)	40	800
Side income (RM)	0	2000

*Source:* Survey

The demographic analysis found that the Malays are active as vendors, representing 97.8 per cent. The identified age stage was between 21 and 40 years, of which 41.3 per cent were between the ages of 21 and 30. It was found that there was no significant difference between male and female vendors. Both sexes showed almost the exact percentages, namely 47.8 per cent for male vendors and 52.2 per cent for female vendors. The study found that the married group showed a high percentage, namely as much as 65.2 per cent, compared to the single group, which was only 32.6 per cent.

Furthermore, the types of food sold were food and beverages, which represented 78.3 per cent, followed by clothing, which accounted for 13 per cent. Types of food, such as 'food trucks, only get 6.5 per cent. Food and beverage vendors are popular with most sellers. A total of 47.8 per cent vendors have an SPM education stage. It recorded the highest scores. In addition, as many as 28.3 per cent vendors have an educational level from a college or university. The study's findings also show that most vendors need work experience. It represents 71.7 per cent compared to experience working in the private sector, as much as 12 per cent. A total of 97.8 per cent agreed they had a high demand for being involved in commerce. The study also found that vendors have an average drinking income of between RM40.00 and a maximum of RM800.00.

### **Factors Affecting Kubang Pasu Municipality Income**

This section aims to analyse the relationship between the independent variable and the dependent variable, whether negative or positive, based on the value of the coefficient (beta) by using the ordinary least squares (OLS) method for regression. The analysis of this section is also to determine the degree of strength of the relationship based on its significant value. There are three (3) relationship strengths, namely < 0.10 (90%), 0.050 (95%), and 0.010 (99%).

**Table 2**

*Test of Tolerance and Variance Inflation Factor (VIF)*

<b>Factor</b>	<b>Tolerance</b>	<b>Variance Inflation Factor (VIF)</b>
Affordable licenses	0.765	1.308
Suitability of the area	0.490	2.039
License Application Process	0.302	3.310
The business situation during the Pandemic Covid 19	0.376	2.657
The business situation during the Endemic Covid 19	0.407	2.454

In the study, the dependent variable is the net income of Kubang Pasu Municipality. Meanwhile, there are five (5) independent variables: license affordability, area suitability, application method, and business situation during and after the pandemic. Table 2 shows that the tolerance and variance inflation factor (VIF) are below  $< 1.00$  and  $< 10$ , which means there is no overlap between the independent variables. Table 20 shows that the value of R-squared is 0.444, which means that 44.4 per cent of the independent variables can explain the dependent variable. Anova test shows that the value of the F-test is 6.394 and significant at 0.00, which means that the model is built according to the available data.

**Table 3**

*Factors Affecting Kubang Pasu Municipality's New Income*

<b>Factors</b>	<b>Coefficient (beta)</b>	<b>Standard Error</b>	<b>T Score</b>	<b>Significance</b>
The relationship between the affordable license and the new income of Kubang Pasu municipality	0.301	0.123	2.450	0.019
The relationship between area suitability and new income Kubang Pasu municipality	-0.294	0.185	-1.584	0.121

(continued)

<b>Factors</b>	<b>Coefficient (beta)</b>	<b>Standard Error</b>	<b>T Score</b>	<b>Significance</b>
The relationship between the application method and the new income of Kubang Pasu municipality	0.366	0.247	1.479	0.147
The relationship between the business situation during the pandemic and the new income of Kubang Pasu municipality	-0.349	0.221	-1.579	0.122
The relationship between the post-pandemic business situation and the new income of Kubang Pasu municipality	0.541	0.196	2.762	0.009
Constant	1.291	0.662	1.951	0.058
Anova: F test			6.394	
Anova: Significant			0.000	
R Square			0.444	
Adjusted R Square			0.375	

The relationship analysis showed that only two (2) independent variables affect the dependent variable. First, the relationship between affordable licenses and Kubang Pasu Municipality's new income shows a positive (0.301) and significant (0.019) relationship at a significance level of 0.050, meaning that the higher the affordable license, the higher Kubang Pasu Municipality's new income. Second, the relationship between the current business situation after the pandemic and the net income of Kubang Pasu Municipality shows a positive (0.541) and significant (0.058) relationship at the significance level of 0.10, which means that the more accessible the business situation during the post-pandemic period, the higher the new income of Kubang Pasu municipal. Then, three (3) independent variables do not affect the dependent variable, namely, area suitability, application method, and business situation during the pandemic. Significant values above  $> 0.100$  evidence this for each independent variable, which are 0.121, 0.147, and 0.122, respectively.

## CONCLUSION

This study identified the factors contributing to Kubang Pasu Municipality's new income as a local government. Local

government's new source of income will reduce their dependence on license collection. The new source of income obtained guarantees local government revenue in the long term and avoids budget deficits. The local government in Kubang Pasu needs to generate new income because they still have a low source of income compared to local governments in other states. If this situation is not handled immediately, the development of the community may be affected. Therefore, Kubang Pasu Municipality, facing a low-income stage, does not benefit from rapid development and hinders long-term economic growth.

Then, all the vendors investigated agreed that they knew about Kubang Pasu Municipal. 84.8 per cent vendors also have a valid trade license, compared to only 15.2 per cent who do not have a valid trade license. Furthermore, the trade that is run needs to be seasoned. This means they consistently try to carry out trading activities. 95.7 per cent vendors had a good experience with Kubang Pasu Municipality. This explains that Kubang Pasu Municipal has a good relationship with the vendors. Furthermore, the data reliability test also showed that the respondent understood the research questions. The factors of the ability to afford licenses, the suitability of the area, the business situation during the pandemic, the business situation during the endemic period, and Kubang Pasu Municipal's new income show a reliability score exceeding 0.7.

Furthermore, the following analysis concerns the factors affecting Kubang Pasu Municipal's new income. It was found that two licensees freely affected Kubang Pasu Municipal's new income, namely that the first factor was an affordability license. Ownership of licenses shows a significant coefficient (0.301) at the 0.05 per cent understanding level in influencing Kubang Pasu municipal's new income. The second factor is the post-pandemic trade situation. The post-pandemic trade situation factor shows a significant coefficient (0.541) at the 0.01 per cent significance level in influencing Kubang Pasu Municipal's new income. The results of the qualitative data analysis found that, firstly, the seller did not experience difficulties applying for a trade license. Second, the street vendors think customers' parking problems impact their business. This is because only a few customers know about the coupon system introduced by Kubang Pasu Municipal. Therefore, Kubang Pasu Municipal needs to research a more suitable approach, especially for seller benefits, customer convenience, and



the possibility of attracting local and foreign tourists from Kubang Pasu.

Moreover, the street vendors thought they were more interested in commerce at the night market site than on the premises. This is because the night market is the foundation for other traders and many people; it gives them the freedom to do business, and traders do not have to pay rent if they are not operating. Therefore, Kubang Pasu Municipal needs to refine the implemented trading system to achieve a 'win-win' situation between traders and Kubang Pasu Municipal.

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