



Ridwan Muzir / SMERU



VILLAGE FUND SPENDING¹

The issuance of Law No. 6/2014 on Villages (Village Law) has raised new hope for the betterment of villagers' lives. The recognition of a number of authorities that fall under the village government, those that are based on origin rights as well as local scale (scope), has brought about a new development strategy. If previously villages were development loci, now they are development subjects. Such recognition was followed by a policy for fund transfers in the form of Village Funds (VF, sourced from the national budget-APBN) and Village Fund Allocation (ADD, sourced from the *kabupaten* level of regional budget-APBD).

The amount of transferred VF continues to increase. First, there was an increase from Rp20.7 trillion in 2015 to Rp46.9 trillion in 2016 to Rp60 trillion in 2017. Starting in 2016, basic allocation for every village was available for as much as Rp565.640 million and in 2017, the amount rose

¹ The article is a summary of the case study report "Tracing the Benefits of Village Fund Spending" written by Palmira Permata Bachtiar, Asep Kurniawan, Gema Satria Mayang Sedyadi, Rendy Adriyan Diningrat, Ruhmaniyati, dan Ulfah Alifia,

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The SMERU Research Institute is an independent institution for research and policy studies which professionally and proactively provides accurate and timely information as well as objective analysis on various socioeconomic and poverty issues considered most urgent and relevant for the people of Indonesia.

With the challenges facing Indonesian society in poverty reduction, social protection, improvement in social sector, development in democratization processes, and the implementation of decentralization and regional autonomy, there continues to be a pressing need for independent studies of the kind that SMERU has been providing.

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Dear Readers,

We begin this edition with the results of SMERU and LSP-WB¹'s monitoring of the Village Fund (VF) and Village Fund Allocation (ADD) spending. Since 2015, SMERU carried out a three-year monitoring of ten villages in Sumatra, Java, and Nusa Tenggara. This is considered important because in 2016 the government disbursed 47 trillion rupiahs of VF, and two years later the figure rose almost 1.5-fold. In addition, the amount of ADD continued to increase.

So far, the use of VF and ADD has been focused on physical development. However, the people have not felt any impact on their income. The reason for this is that much of the funds were spent outside the village. Meanwhile, the amount of funds spent on empowerment tends to be small due to the difficulty of distributing it equally. The policy of fair distribution has rendered the marginalized community untouched.

At the end of 2016, SMERU, with the support of KOMPAK and National Development Planning Agency (Bappenas), did a study on Sustainable Livelihood (P2B). The study was carried out in ten villages/*kelurahan* across Java, Sulawesi, and Nusa Tenggara. P2B aimed to reduce poverty through a pentagonal asset approach, comprising human resource, social, financial/ economic, natural, and physical infrastructure assets. In many villages/*kelurahan*, the pentagonal asset condition is sufficient to maintain welfare, but not to improve it. In this respect, the government holds a key role in increasing or inhibiting the decline of the five assets.

SMERU also analyzed poverty reduction by using the 1997 Indonesia Family Life Survey (Sakerti) as the baseline. Our researchers used the multinomial logit model estimation on the 2007–2014 data set to see the important factors related to the probability of rural workers leaving the agricultural sector.

The result shows that poverty in the village has declined, yet the economic gap between the city and the village widened. The cause for the widening gap was that the majority of the rural poor worked in the agricultural sector. Another finding points out that the proportion of the rural poor decreased, but the proportion of poor community in agriculture did not change. According to the authors, the key to tackling this issue is education and agricultural mechanization.

The optimism of a village head for improved welfare through the implementation of the Village Law ends this edition. In the past, he wrote, the village was just a target location for programs from the upper level and often the programs did not suit the needs of the village. Now, the village has been given the authority and budget, serving as the village's capital as well as the power for its development. In order for the authority to make any impact on welfare, the village head suggested, among others, that the village should set up a database, create a larger room for participation, and establish cooperation with various stakeholders.

We hope you enjoy this edition.

Syaikh Usman

Editor

¹ Local Solutions to Poverty-World Bank

to Rp720.442 million.² Meanwhile, the amount of ADD transferred was Rp33.835 trillion (2015) and Rp35.455 trillion (2016).³ In line with the aim of village development mandated by the Village Law, it is important to analyze such a large amount of public funds in terms of the impact on welfare and quality of life as well as on poverty reduction.

In light of this, SMERU collaborated with Local Solution for Poverty=World Bank (LSP-WB)⁴ to carry out a case study titled “Tracing the Benefits of Village Fund Spending” from March 2017 to July 2017. The study started by tracing the VF and then it gathered further information on the use of village budget (APB Desa) in ten villages in three provinces, namely Jambi, Central Java, and East Nusa Tenggara in the Village Fiscal Year 2015–2016. This study aims to (i) investigate the benefits of APB Desa, including VF, and (ii) look at the factors affecting the differences in benefit distribution.

Physical Development: Perception on Benefits and Flow of Funds

Most of APB Desa is spent on physical development. The study areas still view basic infrastructure as the main problem to be resolved through VF. VF spending so far has been executed in a way that does not trigger social jealousy among the regions. For that reason, village governments tend to accommodate suggestions coming from every *dusun* (administrative area within a village) which are almost always about physical development. Apart from that, physical development planning is much easier because the majority of villages already have experiences in making a budget plan (RAB) through the National Program for Community Empowerment (PNPM).

At the same time, most villagers, both elites and nonelites, share the perception that development must have tangible results. They use physical development as the main indicator in assessing the leadership of the village heads. Aside from that, villagers tend to perceive that physical development has positive impact if it can support a diverse range of community activities.

In terms of physical development, in general villagers feel that there are economic advantages especially in terms of efficiency and economic added value. Despite its limitations, efficiency can be seen in road constructions, especially village and farm-to-market roads as well as bridges, which have cut travel time with no additional cost. The same goes with clean water and sanitation facilities, which have significantly reduced distance and travel time because the beneficiaries can access them in their own houses. One thing to note is that neighborhood road

construction projects mainly receive little funding so they are not done efficiently.

On the other hand, economic value added is evident in the increase of the prices of land along the way of newly built or renovated roads and gabions. This generates profit for the land owners. However, the impact on productivity has yet to be seen. The constructions of irrigation canals, gabion (such as in Banyumas), and farm-to-market roads (such as in Ngada, Batanghari, and Merangin) have not been there for a year and have not been tested during the dry season. There is also limited budget for such projects.

Furthermore, physical development has also generated noneconomic benefits. With neighborhood road and footpath reconstructions residents can now interact more conveniently. In addition, they feel that there are improvements in the cleanliness, health, tidiness, and scenery of the villages. Other constructions such as Islamic schools, kindergartens, integrated health service posts (*posyandu*), and security posts (*poskamling*) are considered to provide convenience (for studying, health check, and neighborhood watch) and boost participation (increasing the motivation to study and enthusiasm to go to the *posyandu*).

In the case of flow of funds for physical development, there are both incoming and outgoing transfers. The fund going into a village is in the form of wages. The amount of daily wage is determined by a decree of the head of the *kabupaten* (*bupati*) about the standard price, which is usually below market wage rate. Meanwhile, the flow of fund going out of the village is commonly spent on building equipment and materials. They are usually purchased in the neighboring village or *kecamatan* (subdistrict), not from the city. Buying building equipment and materials from the city is as a last resort when no hardware stores are available in the pertaining village.

” VF spending so far has been executed in a way that does not trigger social jealousy among the regions. For that reason, village governments tend to accommodate suggestions coming from every *dusun* (administrative area within a village) which are almost always about physical development. ”

² <http://www.djpk.depkeu.go.id/wp-content/uploads/2016/11/Rincian-Alokasi-Dana-Desa-TA-2017-Upload.pdf>

³ <http://www.djpk.depkeu.go.id/wp-content/uploads/2016/11/Paparan-Kemenkeu.pdf>

⁴ LSP-WB: Local Solutions to Poverty-World Bank.

Community Empowerment: Perception on Benefits and Flow of Funds

Empowerment activities held from 2015 to 2016 were only a handful. The activities were in the form of procurement of goods, often followed by training to optimize assistance. Some villages even do not plan activities for capacity building.

The lack of proposed empowerment activities were due to the following reasons. First of all, from the perspective of village government, planning for empowerment activities is much more complex than that for development activities. Unlike RAB for development activities, village governments are still not used to designing RAB for empowerment activities. Secondly, empowerment is often perceived as assistance, such as the procurement of plant seeds, younglings, or farming tools. Since the assistance programs are always provided by the regional government, village governments feel that it is not necessary to allocate budget for this purpose. Thirdly, the villages that are capable of including empowerment activities in their budget face difficulties in getting instructors or speakers. Those villages also face difficulties in getting affordable training equipment and materials, such as affordable sewing threads, fabrics, and notebooks.

Unlike physical development which are tangible benefits, the economic benefits of empowerment activities have not yet been felt by the community. Apart from the difficulty to measure the benefits in a short period of time, the absence of follow-up activities also reduces the benefits of empowerment activities. This is evident particularly in capacity building activities.

Empowerment activities are generally viewed as having less impact than physical development. Footpaths, farm-to-market roads, bridges, and gabions can be used by villagers in general. On the contrary, empowerment activities are only enjoyed by some, that is the training

participants who are usually members of the Family Welfare and Empowerment (PKK) or Youth Organization (Karang Taruna), who are also the ones proposing the activities. However, there are some activities that are highly well-received. Operational assistance, such as the assistance for *posyandu*, was rated high because it was considered to be advantageous for many.

The spending flow of empowerment activities depends on their types. In terms of the procurement of goods, the purchased goods are generally not available in the villages. As a result, most of the funds flow out of the villages. As for the operational assistance, most of the funds circulate inside the villages and are given to community organizations. The budget for capacity building mainly circulates within the villages for petty cash, meals, as well as training materials and tools. The training instructors are generally outsiders, meaning the fund used for paying them goes out of the villages.

No Special Policies for the Poor

At present, the attention of village governments are still on the development of basic facilities/infrastructure which results can be felt by all villagers. However, activities specifically targeted at the poor, including women, are not yet apparent. There are several reasons for the lack of policies concerning the poor.

Firstly, village governments consider the socioeconomic disparity among the residents as not being very high. There are concerns that if policies were specifically targeted at a certain group of people, they will trigger social jealousy among the villagers. Thus, in every development activity, village governments tend to make the opportunity to obtain assistance available to all. Secondly, if there are poor people in a village, there have been assistances provided by the central government, such as the rice for the poor (Rastra), social welfare cards (Smart Indonesia Card-KIP and Healthy Indonesia

The focus of village governments are still on basic facilities/ infrastructure which benefits all villagers. Activities targeting at the poor, including women, are not yet apparent.



Asmowati/ SMERU

Card-KIS), hence village governments feel there is no need to spare some budget for affirmative activities. Thirdly, the criterion “beneficial for many” in determining the priorities in turn has led to the failure to accommodate the interests of the poor. Although often proposed, the needs of the poor have not gained much support during village consultative meetings because they do not represent the interests of the majority at the meetings. Suggestions intended for the poor are always outvoted. The criterion seems to be also the cause for the lack of empowerment activities compared with physical development.

Currently, the activities for the poor heavily rely on the village heads’ leadership. Villages which leaders support affirmative policies are commonly able to allocate special activities for the poor, such as home repair or improved latrines. In the future, there needs to be effort to significantly increase the poor’s participation in village budget planning. Their real involvement is important to ensure that the VF is used for affirmative activities.

Revamping the Planning and Policymaking Process

This study recommends improving the following:

1. Revamping village development must start from planning, meaning that the process must involve the interests of the poor. Since the elite domination in village consultative meetings is inevitable, it is more important to make sure that the interests of the poor are accommodated in the decisions. Accordingly, the elites present in the forum have to voice out the needs of the poor. In this case, the facilitation process must be carried out up to the subvillage level, namely *dusun*, RT/RW (unit of local administration/neighborhood unit), and LKD (village community institutions) as a medium for the elites to collect aspirations of the poor people they represent.
2. In addition, the quality of the planning must be improved. In terms of substance, the “creative block” syndrome must be addressed so that villages are able to design integrated and innovative development plans in line with the villages’ potentials. Therefore, the supravillage governments needs to provide technical guidance and assistance to improve the technocratic capacity of the village governments. Such capacity enables village governments to determine their development goals and narrow them down into measurable annual achievements.

The role of supravillage governments is important to boost the facilitation capacity of village facilitators. Having facilitation skill should be the minimum standard for village facilitators. The central government needs to improve the facilitation skill of the facilitators. After that, if there is no improvement, the facilitators should be replaced.

In the planning process, indicators used to determine whether an activity is to be conducted because of its “urgency” or because it is “beneficial for the many,” in fact have neglected the interests of the poor. Thus, the central government needs to add another indicator for determining priority activities. That indicator must firmly state, for example, “specifically aimed at the poor” or “empowering the poor.” Such policy can help the village governments formulate affirmative policies for the poor.

3. In terms of regional development, it is necessary to consider the increasing demand for goods, especially building materials, as a consequence of the increase of VF. Most of the VF flows to the nearest village/ *kecamatan*, not to the city. This situation serves as an opportunity for local players to collaborate in developing rural areas. The collaboration can be in logistics services, from procurement process, storage/ warehousing, to transportation; this includes raw materials, intermediate goods, and finished goods.

Consequently, villages need to be facilitated to work together to map out development plans for rural areas, including identifying business clusters. In this context, connectivity and potential for intervillage cooperation tend to transcend administrative boundaries. Therefore, regulations governing intervillage cooperation need to be made more flexible, unlimited by administrative units so that the cooperation among villages in different *kabupaten* can be established based on interconnectedness. ■

” Empowerment activities are generally viewed as having less impact than physical development. ”



Dinar Prasetyo/ SMERU

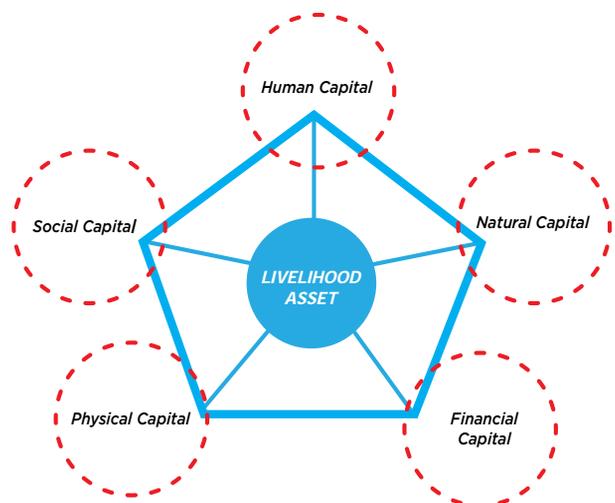
SUPPORTING AND INHIBITING FACTORS IN DEVELOPING SUSTAINABLE LIVELIHOODS¹

Sustainable Livelihood Development (P2B) is one of the strategies used by the Indonesian government to accelerate poverty reduction that is slowing down. The policies stipulated in the 2015–2019 National Medium-term Development Plan (RPJMN) are geared towards the empowerment of the poor to improve their lives in a sustainable manner. The approach is relatively comprehensive in its effort to improve five elements of the asset pentagon which have been pivotal in the development of livelihood and welfare, namely: (i) human resources, (ii) natural resources, (iii) financial assets, (iv) physical assets, and (v) social assets (Figure 1).

In implementing the P2B, the government developed several programs, such as the Program for Increasing Family Welfare through Community Empowerment (PKKPM), Joint Business Group (KUBE), Joint Business Group=Family of Hope Program (KUBE-PKH), and the development of cooperatives. The government has also encouraged the establishment of village-level economic organizations, such as village-owned enterprise (BUM Desa).

Although P2B holds a very strategic policy role for poverty reduction, its development and implementation face many obstacles. This is due to the fact that developing sustainable livelihood involves many market actors and

government bodies across sectors. Therefore, The SMERU Research Institute in cooperation with the Community and Service Collaboration for Welfare (KOMPAK) and the National Development Planning Agency (Bappenas), conducted a study to identify the roles of the actors and the key factors supporting or inhibiting the establishment of a conducive environment for P2B acceleration.



Picture 1. Pentagonal Asset

Source: DFID, 1999

¹ This article is a summary of SMERU's report titled "Faktor Pendukung dan Penghambat Upaya Pengembangan Penghidupan Berkelanjutan: Sintesa Studi Kasus 10 Desa di Kabupaten Pacitan, Bantaeng, dan Lombok Utara" [Supporting and Inhibiting Factors in Developing Sustainable Livelihoods: Synthesis of Case Studies of 10 Villages in Kabupaten Pacitan, Bantaeng, and Lombok Utara] (2018), by M. Sulton Mawardi, Ana Rosidha Tamysis, Ruhmaniyati, Budiani, and Widajanti Isdijoso.

The lessons learned from this study serve as important inputs for conceptualizing, strategizing, and implementing P2B. The study used a qualitative approach and was conducted from November 2016 to January 2017 in ten villages/*kelurahan* in Kabupaten Pacitan (East Java), Kabupaten Bantaeng (South Sulawesi), and Kabupaten Lombok Utara (West Nusa Tenggara).

Overview of Livelihoods in Sample Areas

The livelihoods of most of the communities in these sample areas are related to the agricultural, animal husbandry, and fisheries sector. In 2015, the sector contributed significantly to the gross regional domestic product (GRDP) in the three *kabupaten*, which ranged from 30%–34.2%. The sector also absorbed the most workforce, reaching 51.78%–57.32%.

In the sample villages/*kelurahan*, the main livelihoods of the welfare groups also fall into agriculture, animal husbandry, and fisheries. Around 67–91% of the population work as farmers, fishers, and stockbreeders. They are generally employed in this sector because their family has been doing the same work for generations or they have not

found other alternatives. In a small proportion, there are some who work in home industry, and others who are nonagricultural workers or traders. However, these various sources of income have not been able to improve the community's welfare. According to the 2015 Poverty and Livelihood Map of Indonesia (SMERU, 2015), the poverty rate in most of the sample villages/*kelurahan* ranged from 10.84%–31.97%.

Sustainable Livelihood Policies and Programs

One of the actors bearing an important role in people's livelihoods is the government. Through its policies, the government can affect the dynamics of the asset pentagon by both reducing the barriers and creating or adding livelihood support.

In some sample villages/*kelurahan*, there are programs related to P2B rolled out by the central, provincial, and *kabupaten*-level government aiming at poor communities. Examples of the *kabupaten*-level government's programs are those in Kabupaten Pacitan and Kabupaten Bantaeng (see Table 1). Unfortunately, not all programs have effectively improved the people's livelihoods.

Table 1. Livelihood Development Programs in Sample Villages/*Kelurahan*

KABUPATEN	PROGRAM NAME ^a	ORGANIZER	P2B COMPONENTS ^b			
			1	2	3	4
PACITAN	PKKPM	Central Government	✓	✓	✓	✓
	Jalin Matra	Provincial Government	✓	✓		
	Grindulu Mapan	<i>Kabupaten</i> -level Government	✓	✓		
	KUBE Mandiri	<i>Kabupaten</i> -level Government	✓	✓		✓
	Posdaya	Community and Damandiri Foundation	✓			✓
LOMBOK UTARA	PKPT	Central Government	✓	✓	✓	
	PKKPM	Central Government	✓	✓	✓	✓
	KUBE-PKH	Central Government	✓	✓		✓
	KUBE	Central Government	✓	✓		✓
	IMACS	NGO	✓	✓		
BANTAENG	Upsus Panjale	Central Government	✓	✓	✓	
	KUBE-City	Central Government	✓	✓	✓	
	High-Yielding Hybrid Corn Technology Presentation	<i>Kabupaten</i> -level Government	✓	✓		
	KUBE-Village Funds	Village Government		✓		
	Cacao Farmers Assistance	NGO-Rainforest Alliance	✓		✓	

Source: Primary field data

Abbreviations/acronyms: Jalin Matra (A Recourse toward Self-sufficiency and Welfare); Grindulu Mapan (Integrated Movement for the Prosperity of Pacitan People); PKPT (Coastal Region Development); Upsus Panjale (Special Efforts to Increase Production of Rice, Maize, and Soybean).

P2B Components: (1) Human resource assets (work/business assistance, capacity building for the beneficiaries), (2) Economic assets (capital assistance), (3) Infrastructure assets (infrastructure support for livelihood improvement), (4) Social assets (group activities, etc.)

In the capture fisheries subsector, the fishing grounds are getting further away from the shore. Fishers can only sail near the shore, resulting in low fish catch.



Dinar Prasetyo/ SMERU

The reasons for this include (i) the identification of people's real necessities was not accurate, (ii) less than optimal assistance provided by program organizers and the tendency to put administrative matters above outcomes, (iii) the cycle of the programs follows the fiscal year cycle without taking the real condition and sustainability aspects into account, and (iv) absence of synergy among the programs.

Apart from the government, nongovernmental organizations can also influence people's livelihoods through a variety of programs (see Table 1). The activities found in the field include the Family Empowerment Post (Posdaya) conducted by Yayasan Damandiri in Kabupaten Pacitan, Cacao Farmers Assistance Program conducted by Rainforest Alliance in Bantaeng, and Indonesia Marine and Climate Support (IMACS) conducted by USAID. The nongovernmental P2B programs have shown better results than the governmental ones. The better results was due to the identification of people's real needs prior to the implementation of the programs, not to mention that the programs tend to be small-scale, hence relatively easier to manage.

There are also livelihood improvement actors at the community level. In Pacitan, for instance, a chicken farmer successfully assisted many farmers and encouraged them to pursue similar businesses. A similar case is also found in Lombok Utara for honey-bee farming.

Conditions and Dynamics of People's Livelihoods

In general, the asset pentagon aspects in the sample areas are not sufficient enough to support improvement of welfare. However, some aspects of livelihoods have

supported the communities to maintain their level of welfare. Based on the asset pentagon analysis, there are some aspects supporting and inhibiting community's livelihoods.

a. Human Resources

The average quality of human resources is low. Therefore, human resource capacity building programs are crucial to support livelihoods. In the agriculture, animal husbandry, and fisheries sector for example, the communities need a boost in production or cultivation capacity. They also need access to information as well as facilitation to input and output markets to expand their limited economic network.² In the tourism sector, people need communication and customer service skills.

b. Natural Resources

Natural resources are both a supporting and inhibiting factor to people's livelihoods. In the agricultural sector, communities in the villages/*kelurahan* with hilly topography can generally only plant rice/corn once a year with low productivity level because there is no technical irrigation system. On the other hand, farmers in fertile lowlands with technical irrigation can achieve better results, so the land becomes a contributing factor to their livelihoods.

In the capture fisheries subsector, the fishing grounds are getting further away from the shore. Small boats and inadequate fishing gears are unable to reach those grounds. They can only sail near the shore, resulting in low fish catch. Therefore, they are forced to work odd jobs as farm laborers or other types of unskilled laborers.

² Input market (factor market) is a market where agricultural products, land, labor, as well as capital goods are bought and sold. Output market (product market) is where finished goods are bought and sold.

The climate change in the past few years has become an obstacle for workers in the agricultural and fisheries sector, as well as home industries which rely on local raw materials. In addition, these workers have never been trained to mitigate or reduce the risk of the volatile weather. On the other hand, the natural potential in some of the villages serve as a factor that provides significant support to people's businesses, especially for those in home industry who strive for higher quantity and quality of production to make sure that eventually their products are well-known. Some examples include the availability of quality clay for brick producers (in one of the study areas in Pacitan) or the abundance of bamboo plants to support the handicraft businesses (spread across the study areas in Pacitan and Lombok Utara).

In tourism, the natural resources at the beach and the sea are "selling objects" for snorkeling/diving. In Pacitan and Bantaeng, this sector has yet to be the push factor in people's economic empowerment because their tourist attractions are still being developed, they have not caught visitors' attention. Meanwhile, in Lombok Utara, tourism sector has flourished and some people have taken advantage of it as their source of income. Unfortunately, since tourist visits are seasonal, the people are still dependent on other livelihoods such as farming, fishing, or crafting.

c. Financial/Economic Assets

All types of livelihoods in the sample villages/*kelurahan* have their own limitations in terms of ownership and access to capital. In general, people rely on their own money. Meanwhile, formal financial institutions that have been available in the subdistrict capitals can only be accessed by the rich or collateral owners. Therefore, livelihood support programs need to include capital assistance as a component. However, after developing beach tourism for the past few years, the managers of one of the *dusun* in the study's village (Kabupaten Pacitan), also came up with the initiative to establish a tourism cooperative for the benefit of the stakeholders involved in the development of tourism businesses (merchants on the beach, tourist beach managers, etc.) This became the beginning for the people in the surrounding areas to easily access capital.

d. Physical Infrastructure

The types of physical infrastructure needed by the communities are roads and public transportation to provide access to input and output markets. In regards to the market access, our sources shared different perspectives on the presence of intermediary traders at the village level. On the one hand, those traders are considered a hindrance because they buy products from farmers/producers for a price lower than the market price. On the other hand, their presence helps farmers save transport costs and not bear the risk of products being damaged during transportation, and/or unsaleable products.

e. Social Capital

At the village/*kelurahan* level, the communities are mainly still tight-knit. The practice of *gotong royong* or *gugur gunung*, both meaning working together for a common goal, still exists, such as when cultivating the land. Social relationships also manifest in the economic sector, such as in land leasing or profit sharing and in input-output supply chain. Their relationships are usually permanent and informal. However, such social network makes it impossible for significant development of economic activities considering the small scale of their businesses. The social network of village communities with communities outside the village is usually limited, implicating on the minimal access of market actors beyond the village.

Conclusion

The agricultural sector, which is the source of income for the majority of the people in sample villages/*kelurahan*, is inadequate to provide sufficient income for the poor and vulnerable communities. Livelihoods outside this sector have not been optimally developed and mostly are still marginal. Meanwhile, other alternatives have not been explored. However, in relation to the asset pentagon there are some cases of best practices for enabling the asset accumulation of impoverished communities.

” The agricultural sector, which is the source of income for the majority of the people in sample villages/*kelurahan*, is inadequate to provide sufficient income for the poor and vulnerable communities. ”

These various good practices show the importance of comprehensive and continuous support in relation to access to input market, production process, and marketing. Thus, a comprehensive assistance is needed as a holistic intermediary process that will enable all assets of poor communities to improve their welfare. Aside from that, there needs to be active participation of and consistent support from relevant stakeholders (government, business sector, NGOs, and general public). The entire effort needs to be coordinated so that they may become a series of solid efforts. ■



Gema Mulyang Satriar, SMERU

STRUCTURAL TRANSFORMATION AND THE RELEASE OF LABOR FROM AGRICULTURE¹

This paper aims to investigate the lagging employment transformation from the agricultural to nonagricultural sector despite the rapid sectoral shift in output terms. Using the Indonesia Family Life Survey (IFLS), we were able to follow the same households over a long period to uncover the dynamics of employment and livelihoods in Indonesian households. Furthermore, this paper focuses on understanding the pull and push factors in the release of workers from rural farm activities.

Structural transformation (Lewis, 1954) refers to the structural changes of an economy as it develops from a low- to a high-income level. Over the long run, significant yet unbalanced structural transformation was evident in the Indonesian economy. From 1967 to 2014, the share of agriculture in GDP had fallen by 38.1 percentage points or about 74% of its share in 1967. Meanwhile, during the same period, the employment share fell by only 50%. Consequently, the GDP to employment ratio in the agricultural sector experienced a greater decline than in the nonagricultural sector.

Data suggests that rural poverty indeed declined quite rapidly. However, the gap between rural and urban poverty rates widened. This cannot be separated from the fact that a large share of poor people in rural areas work mostly in agriculture. The share of poor people in rural areas has significantly declined, but the share of poor people in agriculture has not changed as much. Previous studies on poverty reduction in Indonesia, such as Suryahadi et al. (2012) and Suryahadi and Hadiwidjaja (2011), suggest the importance of employment transformation to reduce poverty.

Data and Methodology

This study uses IFLS2, specifically the 1997 survey, as the baseline. The data enabled the researchers to conduct a 17-year observation. Furthermore, the study employed multinomial logit estimation, using a more recent period dataset from 2007–2014, to find important factors that increase the probability of workers moving out of rural agriculture.

¹ This article is a summary of a research paper titled "Structural Transformation and the Release of Labor from Agriculture" by Asep Suryahadi, Joseph Natanel Marshan, and Veto Tyas Indrio and has been published in *Enhancing Productivity Through Quality Jobs* (Asian Development Bank, 2018).

Long-Term Patterns of Structural Transformation in the Main Sector of Employment

Our findings show that about 35.4% of individuals who started working in rural agriculture have remained in the same field for 17 years. This portion may increase if we exclude those who are out of the labor market. We also find that among those who started their career in rural farm sector, only around 12% of them were able to move out to urban areas. This percentage is much lower than those who started in rural nonfarm sector. This suggests limited options for people who from the start worked in rural agriculture to move out to urban sectors.

One possible explanation for this phenomenon is the lower productivity and smaller initial capital of those working in rural farm than those working in other rural sectors. People working in rural agriculture are also less likely to shift to rural services compared with those working in rural industry. Again, this depicts how people who started in rural agriculture have limited opportunities even within rural areas.

On the other hand, most of the people who from the start worked in the urban economic sector stayed in urban areas during the 17-year period. Almost half of the people who started working in urban services stayed in the same sector. Furthermore, the majority of those who started in urban agriculture and industry chose to move to services.

Characteristics of Workers Who Switched Main Jobs

In terms of welfare, we found that poor people who from the beginning worked in rural industry and rural services were more likely to move to urban industry and urban services than those who were not poor. On the other hand, those who did not start out poor when they worked in the urban industry and urban services tended to stay there. This indicates that being in the industry or services sector presents more opportunities to switch to more productive sectors rather than starting from rural agriculture. The situation somehow gives us a hint about how difficult and perhaps costly it is for people in rural farm sector to move to more productive sectors. In other words, should there be a transformation pathway in the labor market, people who started in rural agriculture might take a longer and perhaps costly path than those who did not start at that sector.

Looking at gender, women were likely to stay in rural farm compared with men. Around 18% of women had to opt out of the labor market and take up domestic responsibilities. This is not unique to agriculture, this fact is also found in rural services and industry. This finding supports studies that have found stagnation in female labor participation in Indonesia (Schaner and Das, 2016).

In relation to education, our findings also indicate that the higher the educational attainment, the higher the probability to move to other sectors and migrate to urban areas. This is true even for those who started working in rural farm sector, indicated by the fact that higher educational attainment led to a lower proportion of people who stayed in that sector. The probability of moving to urban industry or services tends to be higher for those who have a higher educational level if they originally worked in rural industry or services.

Employment Transformation Patterns Among Younger Workers

The labor market structure has changed dramatically for the younger cohort in Indonesia. The younger workers have better access to nonagricultural sectors and choose mostly the urban services sector as their first place of employment. This confirms previous findings by Allen (2016) that the younger generation migrates to urban areas, leaving their older counterparts in the traditional sector. This could worsen productivity in agriculture, not only in terms of productivity per worker but also technological adaptation. It means that traditional rural farm activities remain a large part of the economy.

However, there are no major differences in migration patterns from rural to urban area between the younger and older cohorts. Once starting in rural agriculture, only 14% of these young workers were able to move out to urban sectors. This implies that there is no speedier path for those who started in rural farm sector to move to urban sectors, both for younger and older workers.

” Data suggests that rural poverty indeed declined quite rapidly. However, the gap between rural and urban poverty rates widened. This cannot be separated from the fact that a large share of poor people in rural areas work mostly in agriculture. ”

Determinants of Structural Transformation in Employment

To obtain results that are more relevant to the current situation, this study covers more recent data spanning from 2007 to 2014. Our multinomial logit estimation results bring some insights about what the pull and push factors affecting the probability of rural farm workers converting to other sectors.

From the perspective of individual attributes, age and educational attainment have significant effects, while gender and marital status are only partly significant in regard to the probability of rural farm workers moving to rural nonfarm and urban nonfarm activities. Older workers are less likely to move to nonfarm sectors in both rural and urban areas, but they are more likely to move to the urban farm sector. Male rural farm workers are less likely to move to the rural nonfarm sector than their female counterparts, but gender is rendered insignificant regarding the probability of switching to urban jobs.

In rural economies, education does not matter much to the probability of moving to rural nonfarm sector. However, higher educational attainment increases the probability of moving to urban areas, but only for those with a senior high school (SMA) degree. Completing such level of education has a significant positive effect on the probability of moving to urban nonfarm activities. This indicates that, while basic education remains important, a higher educational level is needed to move into the urban economy.

Doing nonagricultural activities does not appear to be a significant factor in helping farmers shift to the nonagricultural sector. According to previous studies, however, the role of income from a second job can evolve from supporting basic necessities to financing human capital investment in the longer term (Booth, 2002). Unfortunately, this may not be observable in our analysis, which spans only seven years.

From the household perspective, land ownership has a strong influence on holding farmers in rural areas compared with those who do not own land, although land ownership also increases the chances of moving to rural nonfarm sector. Since owning land provides higher returns than farm activities, it increases the probability of seeking employment in nonfarm activities without necessarily leaving rural areas.

Meanwhile, farmers who grow horticultural crops are less likely to move to nonfarm sectors in both rural and urban areas compared with those who grow other types of crops. Horticultural crops tend to generate greater market incentives and encourage the use of modern technology that boosts productivity. Therefore, it can be inferred that these farmers are better off staying in the agricultural sector.

The government's agricultural mechanization policy, through providing two-wheeled tractors, has a positive correlation with the possibility of moving out of rural farm sector. There are two mechanisms to this. Agricultural mechanization increases the capital-labor ratio and productivity of rural farm activities, while at the same time reduces the demand for labor.

The situation somehow gives us a hint about how difficult and perhaps costly it is for people in rural agriculture to move to more productive sectors.



Rendy Adhyan Dhinigrati/ SMERU

Looking at the regional factors, plantation expansion and farmers' terms of trade at the provincial level are two significant factors inducing people to stay in rural areas. However, the two variables have positive and statistically significant coefficients to support the transition to nonagricultural activities in rural areas. This points to the importance of the link between improving conditions in the agricultural sector and the rural economy in general by providing more economic opportunities in rural areas.

Conclusion

Structural transformation in Indonesia has been characterized by faster output than employment shifts from agriculture to industry and services. As a result, the output-employment ratio in the agricultural sector has relatively fallen compared with other sectors. The findings from the long-term employment transformation matrix (1997–2014) in this study confirm that people who started work in the rural farm sector have a lower probability of moving to other sectors, especially those located in urban areas. In addition, despite the continuing new entries of younger people into the labor market, the dynamics of employment transformation have not changed considerably over the past two decades.

Further analysis provides insightful implications for policies. First, educational expansion in rural areas up to the senior-high-school level is the key policy which will give opportunities for individual to move out from agriculture. Second, a policy to invest more in agricultural

mechanization will increase the productivity of the rural farm sector and reduce demand for labor. This policy should be followed by promoting more productive horticultural crops to avoid unemployment as an undesirable impact of mechanization. Finally, a policy for more investments in rural areas to diversify their economies will create more opportunities for rural farm workers to take up side jobs, which will then increase their probability of shifting to the nonfarm sector. ■

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“ People who started work in the rural farm sector have a lower probability of moving to other sectors, especially those located in urban areas. ”



TOWARD THE WELFARE OF VILLAGE COMMUNITIES

Bayu Setyo Nugroho¹

New hope for the rapid welfare improvement of village communities arose from the adoption of Law No. 6/2014 on Villages (the Village Law). The law mandates greater authority to the village government to regulate and manage their own region. The authority which was given to villages due to state recognition of villages as lawful entities has brought a new nuance that puts villages as subjects of development.

This scope of the authority is broader than just efforts to empower village communities which were the objectives of many previous development programs. Take the National Program for Community Empowerment for Rural Communities (PNPM-MD) for instance, which includes capacity building. Villagers are given the opportunity to participate in planning village activities; they are trained to make list of priorities. However, in reality, such room is still limited. Many aspects of the society's life are still untouched by the program, one of which is the participation of the poor, both men and women. Moreover, the program also has a top-down technical guideline that has to be strictly implemented. This often results in PNPM-MD's processes and activities getting caught up in administrative formalities.

The spirit of the above program is unlike the spirit carried by the Village Law. With the power vested in the villages, now they can achieve their goals. A common dream, vision,

and goal can be created and the process of achieving them can be carried out collectively through various sustainable development programs and activities. With this power, villages can optimally manage their own assets and potentials. The development activities can also touch every aspect of the community's life. This is an opportunity that should be utilized as best as possible by villages, especially to achieve community welfare.

A Challenge

Behind the opportunities provided by the Village Law, there are still considerable challenges faced in improving the welfare of rural communities. First, this is due to the fact that there are many poor people in Indonesia, especially in the villages. According to Statistics Indonesia's (BPS) report, the number of poor people as of March 2018 reached 25.96 million or more than 9% of Indonesia's total population, which is 261,890,900 people. Within the poor population, 60.92% live in villages. Second, the factors causing poverty in rural areas are very complex. Poverty often does not only involve an individual's incapacity or powerlessness, or the scarcity of resources, but can also involve a social structure with asymmetrical access to resources, where a portion of the people, especially the poor, is unable to improve their welfare.

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Then how should villages deal with such challenges? Could the welfare of rural communities be rapidly improved considering that since the Village Law has been put in place, villages enjoy not only extensive authority, but also relatively huge funds? The answer lies in the ability of the villages to manage their authority.

Prior to the Village Law, villages were highly dependent on the supravillage government in carrying out their development programs. The dependency was due to the fact that many resources, especially the budget, were managed by the supravillage government. Even if there were programs or activities conducted in a village, such programs were designed as supravillage programs. Therefore, the village just served as a location for various supravillage programs and sectoral projects. Even worse, the programs or projects were often not in line with the village's priority, not even what the village needed. Indeed, development plans were made by villages every year; however, the documents were often rendered pointless because the priorities stipulated in the documents could not be integrated with the supravillage planning. It was as if village development heavily relied on the kindness of supravillage government. This resulted in slow rural development.

With the Village Law, such condition has been corrected. Villages have been given the authority as well as the funds. Both serve as an important capital and the main driving force for villages to move forward. Villages now have better development resources than before. Such authority also allows villages to set their own priorities according to their potentials. In addition, the funds enable villages to conduct activities as they have planned using their authority. With the amount of village funds that continue to rise each year, from 20.67 trillion rupiahs in 2015, 46.98 trillion rupiahs in 2016, to 60 trillion rupiahs in 2017 and 2018, the efforts aimed at welfare improvement can be conducted appropriately and continuously.

What Are Village Funds For?

During the four years of Village Law implementation, village funds have not been widely used to encourage efforts that directly improve people's welfare. Most villages in Indonesia still consider infrastructure development as their top priority. This, of course, is normal, because there is still a great need for infrastructure development as a lot of villages still do not have proper infrastructure. However, changes in other aspects are also evident. Good practices of village governance have started to appear. Such practices are related to the services delivered by the village administration, utilization of information and communications technology to support development activities and increase transparency, as well as other kinds of innovations, including village economic development.

In terms of economic development, it is evident that the village-owned enterprise (BUM Desa) has shown significant impact in increasing people's income as well as village-generated income (PA Desa). Take for example, BUM Desa Ponggok in Kecamatan Polanharjo, Kabupaten Klaten. The BUM Desa has tourism and fisheries among other businesses. In 2017, the BUM Desa posted five billion rupiahs of net income. As a result, the good governance of BUM Desa Ponggok has served as a role model and Desa Ponggok is considered a place to learn best practices for other villages in Indonesia.

Other good practices in economic empowerment also took place in Desa Dermaji, Kecamatan Lumbr, Kabupaten Banyumas. In August 2018, Desa Dermaji held the Goat Festival. The festival was an event to promote the village's potentials and products. It included a goat contest, seminar on goat breeding, village product exhibition, coloring contest for pre-school students, and storytelling event for children.

Dozens of stockbreeders from Desa Dermaji partook in the contest. The contest chose the best goat from both Ettawa and Jawarandu crossbreeds. The winners received prize money and trophies. The contest was done to evoke the feeling of pride among the breeders so that they could be more enthusiastic in goat breeding. Goat breeding has been one of the key potentials of Desa Dermaji. Almost all household heads in Desa Dermaji breed goats. However, breeding is still merely a side job. Apart from promoting the potential of goat breeding, the festival was also part of the preparation to turn such livelihood into the main source of income for the people in which they can further produce on an industrial scale.

After the contest, participants could also join a seminar on goat breeding featuring academics, government officials, and practitioners as speakers. The seminar was held as a form of knowledge transfer from people outside the village to the breeders in the village.

” During the four years of Village Law implementation, village funds have not been widely used to encourage efforts that directly improve people's welfare. ”

What Can Be Done?

There are a number of ways to effectively manage village authority in order to accelerate community welfare, including:

1. **Villages must develop accurate databases.** A village database comprise static and dynamic data, including those related to the welfare of the community. Such database is important because it will be the main reference for decision-making through village consultative meetings. It will be even better if villages have data on their own level of welfare which is compiled in a participatory manner. Without comprehensive databases, it is very difficult to make effective decisions.
2. **Strengthening and expanding room for participation.** The involvement of communities, including marginal groups, both women and men, is important in decision-making. Participation can strengthen social capital as well as give real support to programs on the pipeline. Through participatory spaces, various problems related to the effort to increase welfare can be discussed.
3. **Making village consultative meetings effective.** Village consultative meetings as a forum for decision-making must be designed to be a space that allows for various ideas to surface. These meetings have to serve as a space to build common dreams.
4. **Realizing village development governance.** Village governance must be participatory, transparent, and accountable.
5. **Building collaborations or partnerships with various parties.** Collaborations are needed to speed up the process of village development. Through collaborations, villages can optimally benefit from various resources outside. They can be established with the supravillage government, higher education institutions, and nongovernmental organizations. ■



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