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Rural Development in Indonesia

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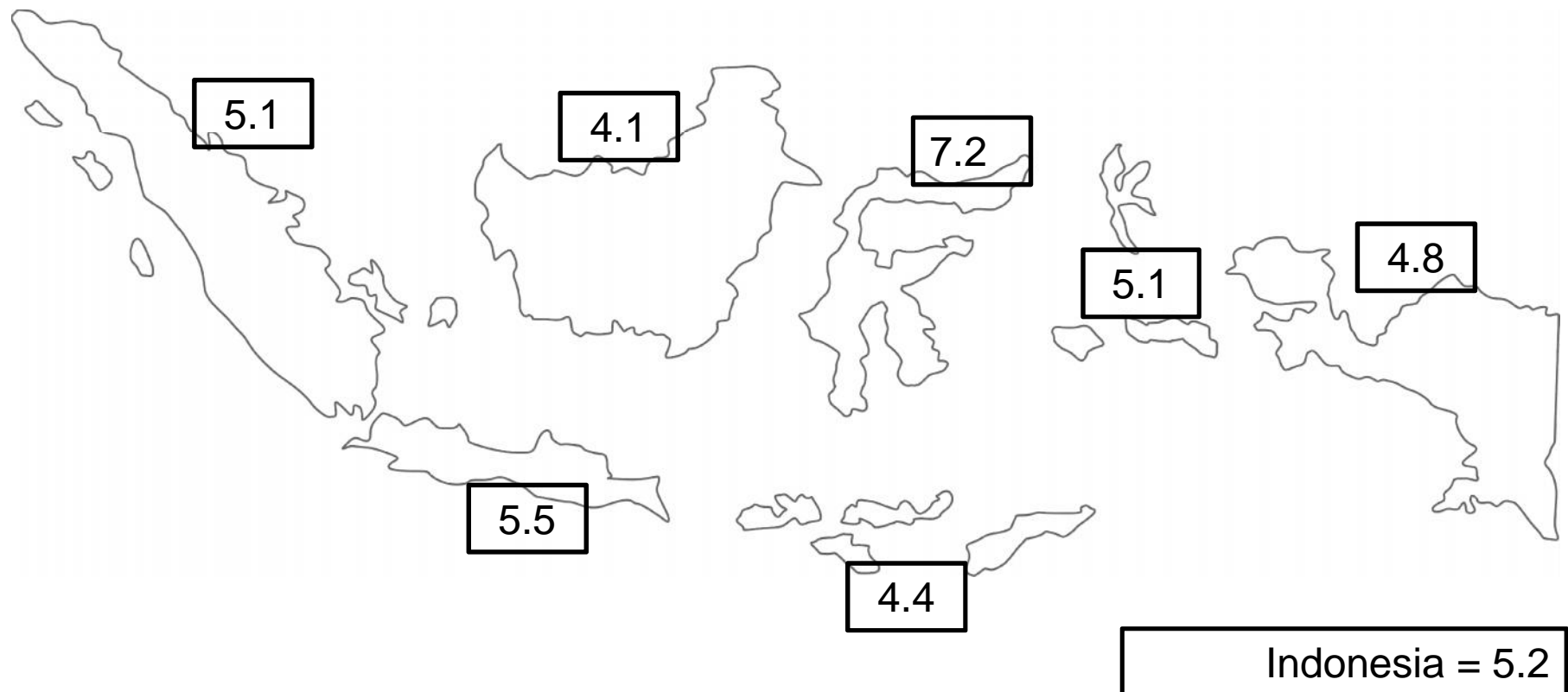


2001 - 2014

Development in Indonesia

Growth of GDP

In %



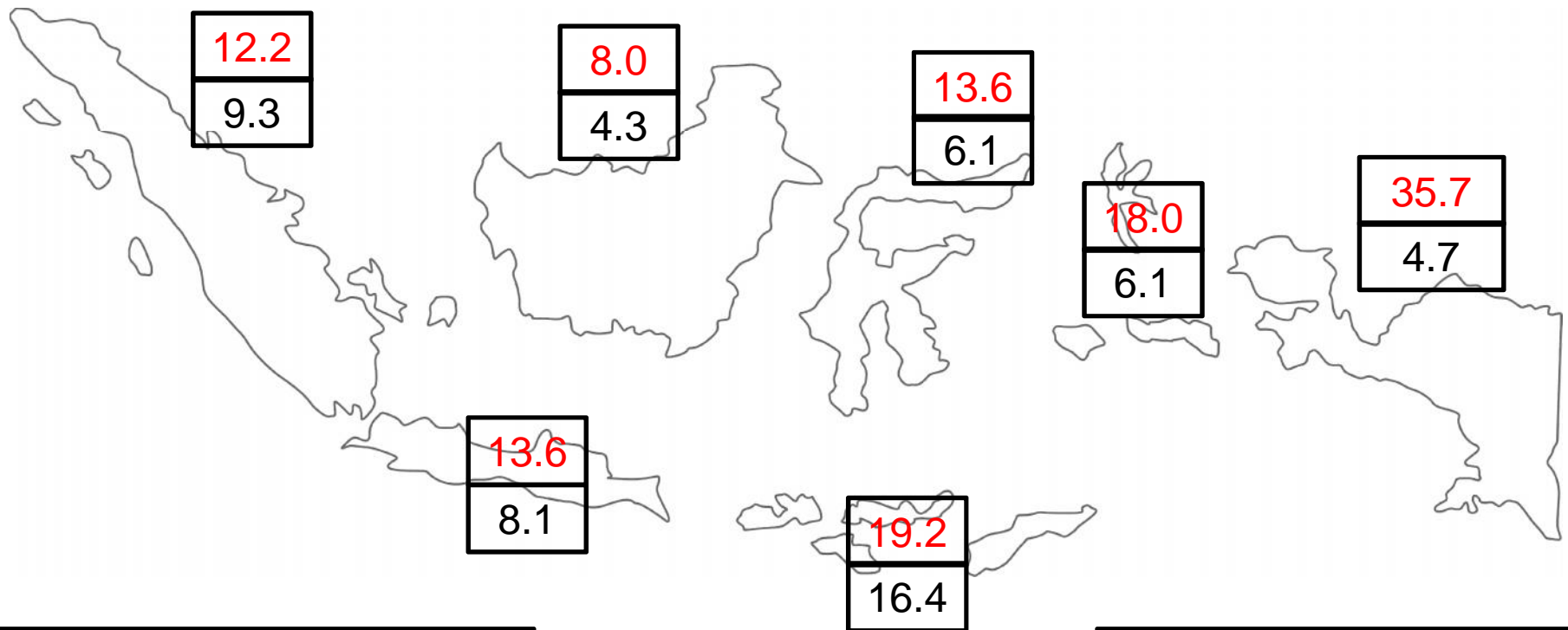


2014

Poverty

Rural and urban areas

In % of population



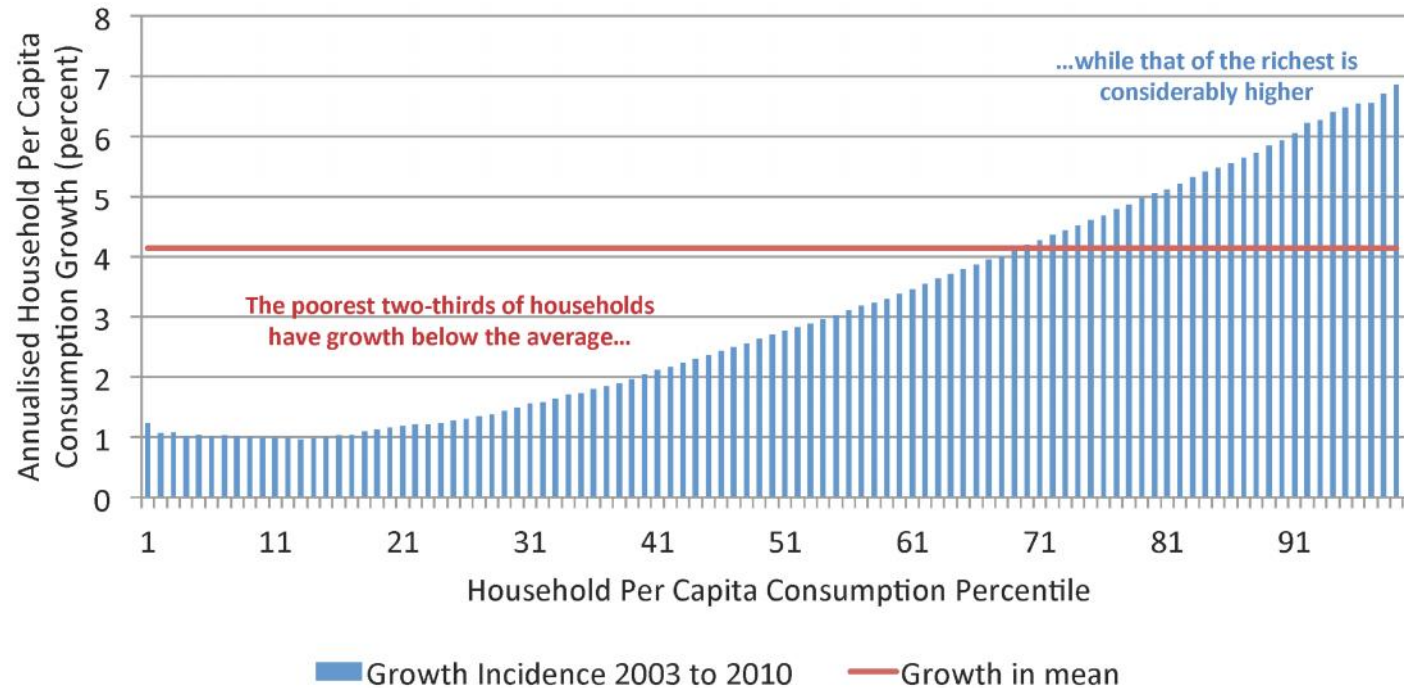
Local people Poverty

Indonesia = 13.8 & 8.1



Household Expenditure

Household Consumption Growth Incidence Curve, 2003-2010



Source:

Susenas, World Bank calculations

Notes:

Household per capita consumption is adjusted for spatial purchasing power with BPS poverty lines



Standard Explanation

- Weak quality of human capital
- Uneven playing field in term of physical infrastructure and capital ownership
- Lack of access to productive employment opportunities
- Inadequate provision of social safety nets
- Low effectiveness and efficiency of (local) government spending
- Bias central government policies
- Remoteness
- Conflicts



Targeted national development policies

- Both supply and demand side interventions, such as
 - Provision of better school and health services
 - Transfer of fund
- Aim to reach the poor
- Based on international experiences
 - Limited success → Village Development Program: 2014 Village Law



Village Development Program in Indonesia

- One typical argument is that rural areas lack the necessary capital to develop their economy (Lewis, 1954; Harris-Todaro, 1970)
- Previous programs:
 - Ag Credit, such as Padi Sentra (1959-65), BIMAS (1965-85), KUT (1985-99), KKP (2000-now): Microcredits at individual farmer level
 - IDT (93/94-96/97): Microcredits at village level for individuals
 - KDP (1998-2006): Grants at sub-district level for initiatives from villages within sub-district
- Moving from microcredits to grants, individual to community, top-bottom in selection to bottom-up, and increasing accountability



National Program: PNPM Mandiri

- National Program for Community Empowerment (2007):
 - Core: (1) Rural (KDP), (2) Urban (P2KP since 1999), (3) Poor & Disadvantaged Areas, (4) Rural infrastructure, and (5) Socio-economic infrastructure
 - Support: (1) Health and education, (2) natural resource management, (3) agricultural development etc.
- Grants are delivered to sub-district governments and villages within the sub-district allowed to bid for projects to be funded
 - Not all villages receive these grants (+/- 75% in rural areas; +/- 20% in urban areas)

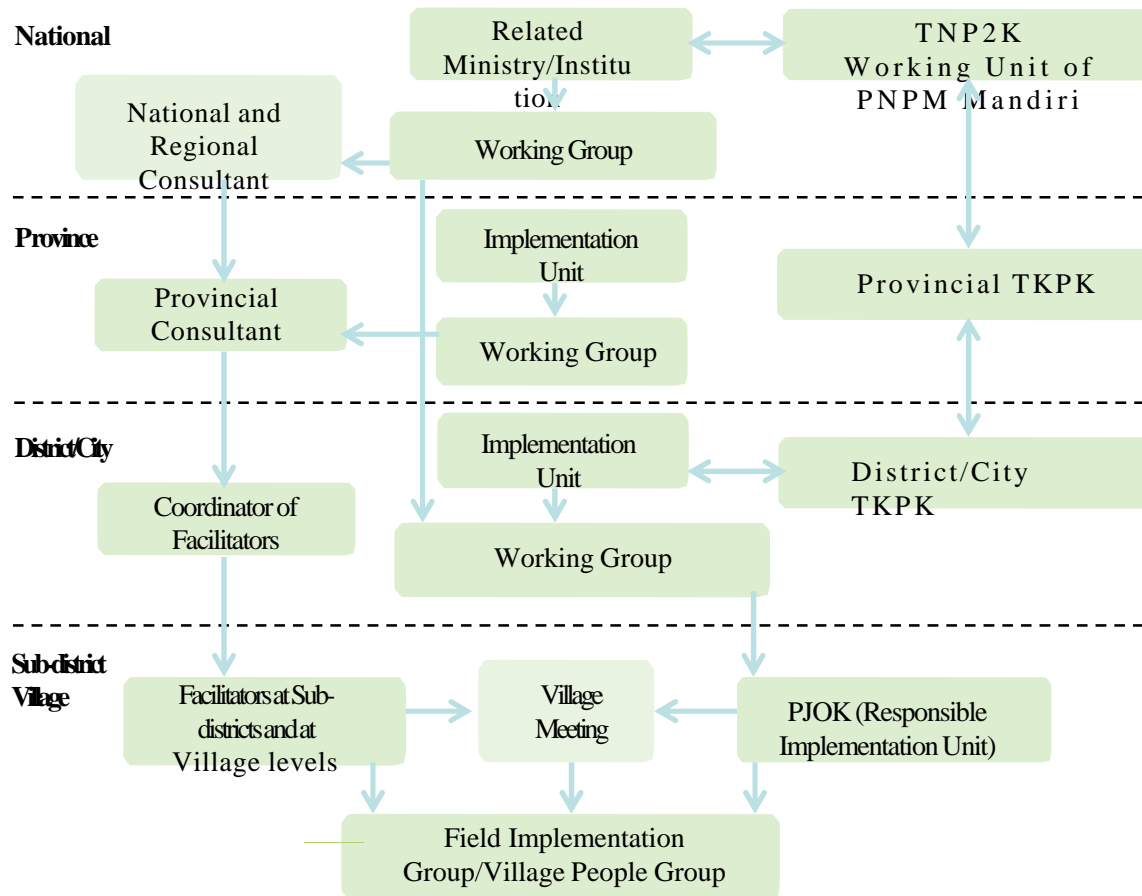


Village Strategic Development Program

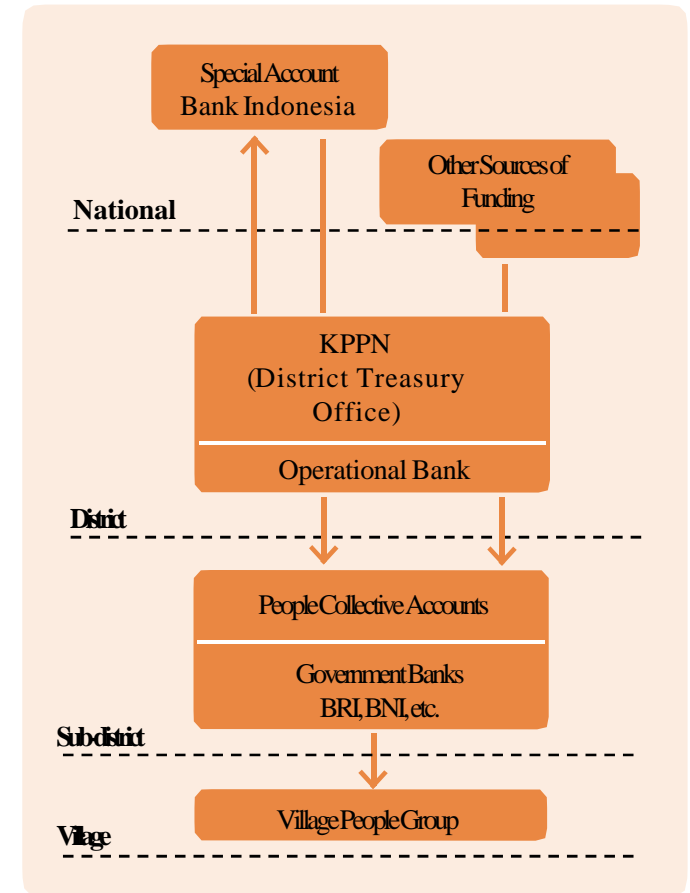
- RESPEK (or PNPM RESPEK) means to “drop” grants to all villages to develop capital needed to develop rural areas:
 - Rp 100 million (US\$10,000) annually to all villages in Papua and West Papua*; starting 2008
 - Gives village people considerable freedom, through village meetings (*musyawarah desa*), to make their own decisions about the areas in which they want to build capital; though government expectation is that the areas they choose will be:
 - nutrition and food security, education, primary health care, village infrastructure, and economic livelihood.
 - Also gear up toward community driven development



PNPM: Implementation



Much freedom in making decision, but accountable



Almost no opportunity for red tapes



Challenges

- Accurate information on what PNPM is and how to implement it:
 - **Quality of sub-district government officials**
 - **Quality of village head**
 - Quality of facilitator
 - Village topography
 - Access to media
 - Education in general
- Appropriate decisions on the use of funding:
 - **Village elite capture**
 - Quality of village leader
 - Quality of facilitator
- Education in general
- Good implementation of the activities
 - **Quality of village leader**
 - Availability and prices of materials
 - Village topography
 - Distance to the closest municipality
 - Quality of facilitator
- High and effective utilization of the product
 - **Elite capture**
 - Quality of the product



Village Law: Law 6/2014

- Empowering village institutions:
 - Head of village is accountable to BPD and village assembly (village representative board) and so no more to head of district)
- All villages in Indonesia annually receive Village Funds (Dana Desa): 10% of regional transfer budget for all villages → approximately Rp 1 billion or US\$100,000 annually per village
 - The first Village Fund was in 2015



Village Funding

- In 2015 Fund distributed; while PNPM facilitators are not hired:
 - No independent accountability on the use of fund
 - No supports for local decision making
- In 2016 Ministry of Village, Development of Disadvantaged Regions and Transmigration attempted to rebuild village facilitators
 - No independent accountability on the use of fund
 - Less supports for local decision making
- No much action to resolve previous challenges:
 - Accurate information on how to implement Village Fund
 - Appropriate decisions on the use of funding
 - Good implementation of the activities
 - High and effective utilization of the product

→ Elite capture



Literature

- Elite capture phenomena (theory):
 - Through capturing the key factors of production; i.e. ownership of land and other capitals
 - Through capturing the local powers; i.e. local governments or informal (adat) institutions
 - Through capturing local rules or norms

Wade (1982); Dreze and Sen (1989); Bardhan and Mookherjee (2000); Acemoglu (2006); Acemoglu and Johnson (2006) and Acemoglu, Reed, and Robinson (2012)



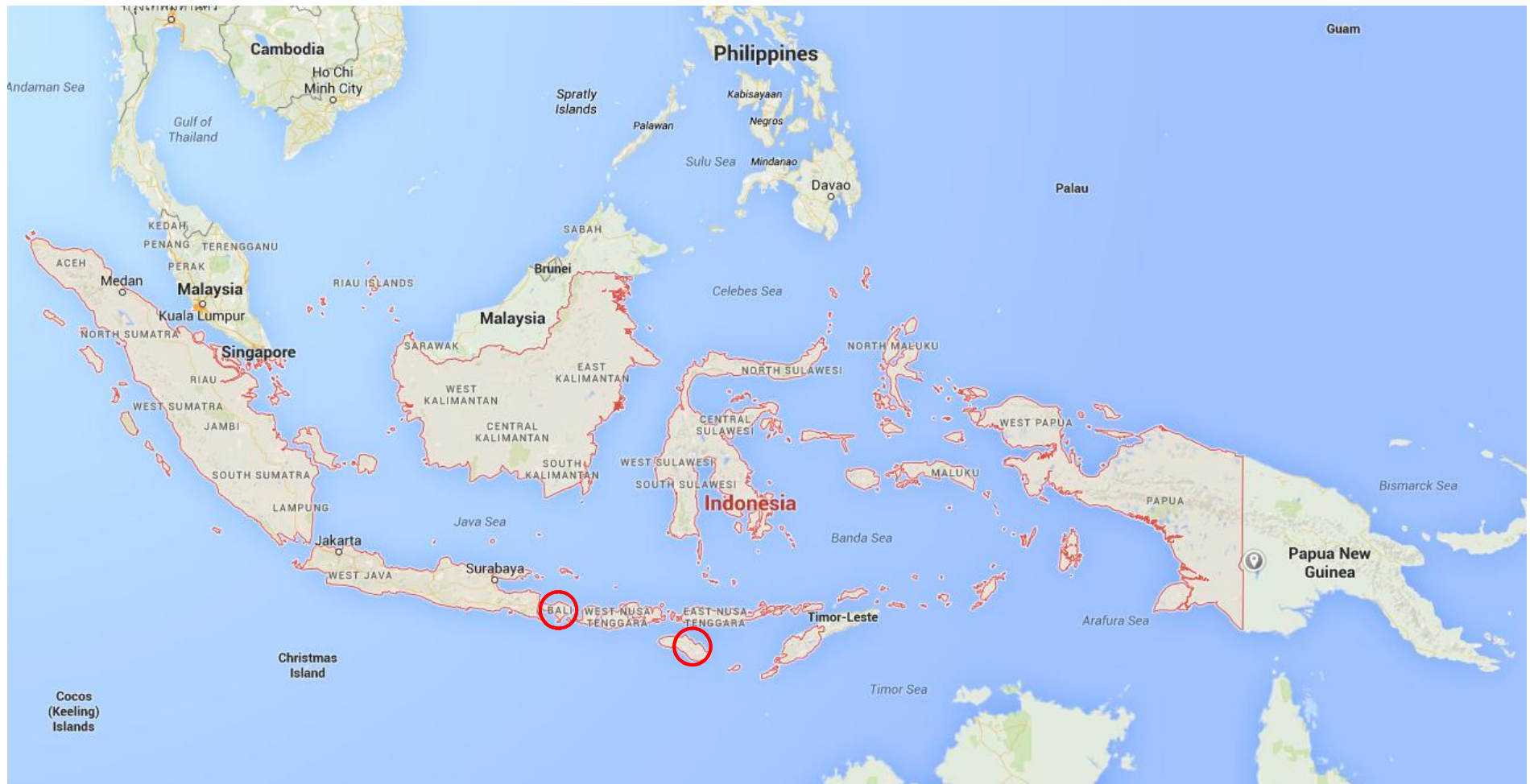
Traditional Social Institution

- Tradition division among members of the (local) societies →
 - Feudalism
 - Manorialism
 - Religious classes, etc.
- Have been established for years (pre-colonial period)
- In different forms, but relatively still intact in many Eastern Indonesia's small islands and in Papua
- Why? Most likely due to relative remoteness and isolation
- Need to take into account the impact of the existence of traditional institutions on development outcomes





Two Case Studies: Bali & Sumba





Bali

- Traditional social institution in Bali: High caste (Brahmins & Ksatrias) and Others
- Traditional social institution in Bali does impact individual year of schooling; i.e. the quality of human capital

	High caste		Others	
	N	Mean	N	Mean
Year of school	1,085	9.39	7,304	7.42
Age	1,085	37.44	7,304	36.91
Female	1,085	0.51	7,304	0.51
Number of schools in a district (x100)	1,085	1.23	7,304	1.32

Susenas in 2002



Sumba

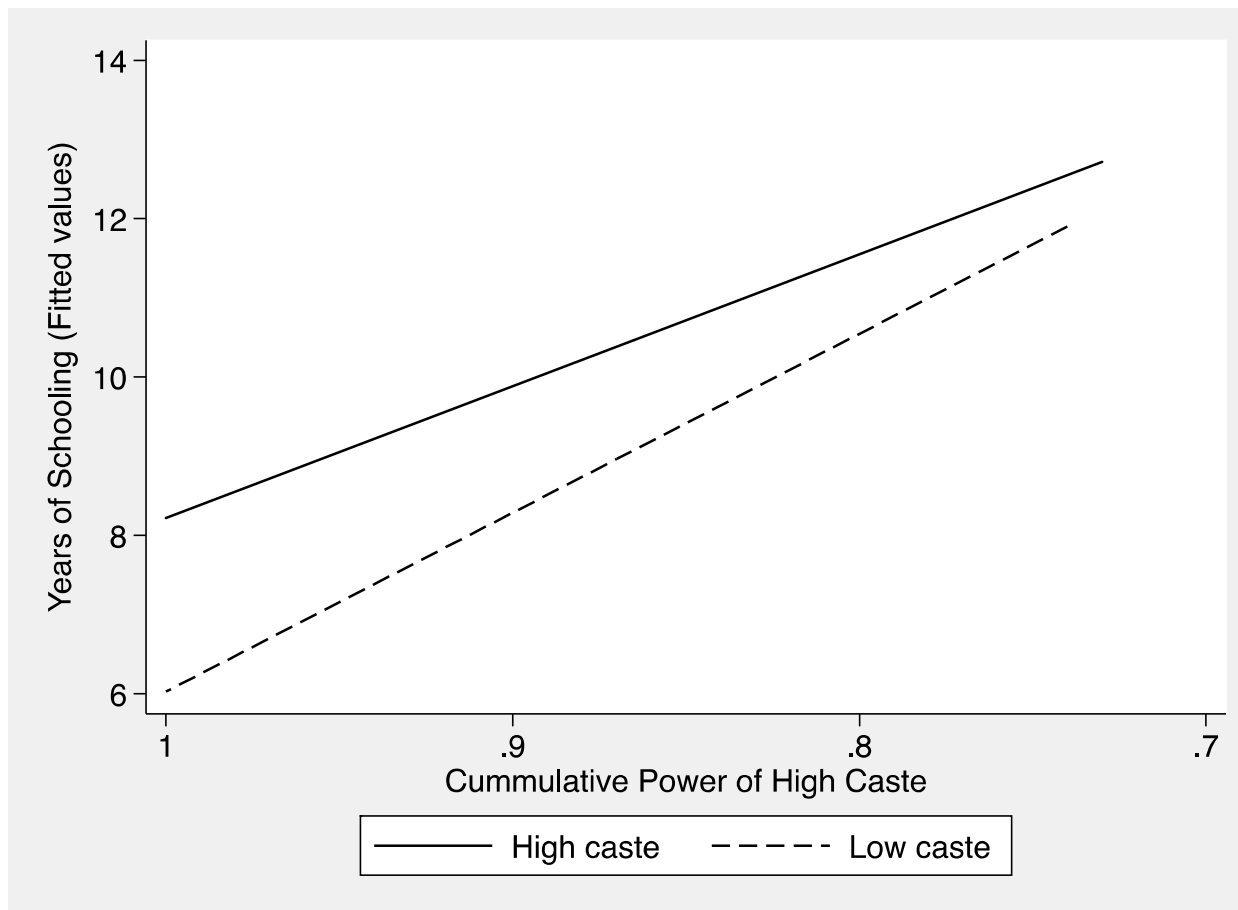
- Traditional social institution in Sumba: Nobilities, Commoners and Servants
- Traditional social institution in Sumba does impact individual year of schooling; i.e. the quality of human capital (but not that for height)

Variable	Definition	Mean		
		Nobility	Commoner	Servant
Years of schooling (YOS)	From 0 (never enrolled) to 16 (University graduate)	10.01	7.370	7.295
Highest educational attainment:	No degree	0.128	0.273	0.290
	Completed Year 6	0.246	0.414	0.400
	Completed Year 9	0.124	0.099	0.086
	Completed Year 12	0.307	0.141	0.141
	Completed University degree	0.194	0.071	0.082
Height	Body height, centimetre	159.4	156.9	159.1

Own survey



Education vs High Caste Power in Bali





Final Remarks

- Persistence of rural-urban development gaps in Indonesia
- Limited success of national development program targeted to the poor
- Some success of village development program: PNPM
- Village Law in 2014
 - Strengthening village institutions
 - Provision of large grant at village level: Village Fund (Dana Desa)
- Challenges remains
 - Accurate information on how to implement Village Fund
 - Appropriate decisions on the use of funding
 - Good implementation of the activities
 - High and effective utilization of the product
 - How to eliminate Elite capture