

THE INDONESIAN RURAL ECONOMY

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia, particularly the many-faceted problems of stability and security, economic development, and political and social change.

The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

ISEAS has an active publishing programme and has issued more than 1,000 scholarly books and journals on Southeast Asia.

THE INDONESIAN RURAL
ECONOMY
Mobility, Work and
Enterprise

Edited by

Thomas R. Leinbach



Institute of Southeast Asian Studies
Singapore

First published in Singapore 2004 by
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang
Singapore 119614
E-mail: publish@iseas.edu.sg
Website: <http://bookshop.iseas.edu.sg>

All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Institute of Southeast Asian Studies.

© 2004 Institute of Southeast Asian Studies, Singapore

The responsibility for facts and opinions expressed in this publication rests exclusively with the editor and authors and their interpretations do not necessarily reflect the views or the policy of the Institute.

ISEAS Library Cataloguing-in-Publication Data

The Indonesian rural economy: mobility, work and enterprise/edited by Thomas R. Leinbach.

1. Indonesia—Rural conditions.
2. Small business—Indonesia.
3. Rural industries—Indonesia.

I. Leinbach, Thomas R. (Thomas Raymond), 1941–

HN710 Z9C6142

2004

sls2003015543

ISBN 981-230-214-X (soft cover)

Typeset by Superskill Graphics Pte Ltd

Printed in Singapore on acid-free paper ∞ by Seng Lee Press Pte. Ltd.

CONTENTS

List of Tables		vii
List of Figures		ix
Contributors		xi
Acknowledgements		xiii
Glossary		xiv
Foreword by Hal Hill		xvii
Part I	The Development Context	
Chapter 1	The Indonesian Rural Economy <i>Thomas R. Leinbach</i>	3
Chapter 2	The Changing Importance of Off-Farm Income for Agricultural Households in Indonesia <i>Anne Booth</i>	15
Chapter 3	The Economic Policy Environment for Small Rural Enterprises in Indonesia <i>Peter van Diermen</i>	38
Chapter 4	The Contribution of Household and Small Manufacturing Establishments to the Rural Economy <i>Robert Rice</i>	61
Part II	Entrepreneurship, Gender and Mobility Issues	
Chapter 5	International Labour Migration and Rural Dynamics: A Study of Flores, East Nusa Tenggara <i>Graeme Hugo</i>	103

Chapter 6	Gender, Socio-Spatial Networks, and Rural Non-Farm Work Among Migrants in West Java <i>Rachel Silvey</i>	134
Chapter 7	Micro and Small-Scale Enterprises in Java: A Gender-Based Comparative Analysis of Entrepreneurial Behaviour and Performance of Enterprises <i>Surendhra P. Singh, Harsha N. Mookherjee and Safdar Muhammad</i>	152
Chapter 8	Migrant Entrepreneurs in East Indonesia <i>Marthen L. nDoen, Cees Gorter, Peter Nijkamp and Piet Rietveld</i>	182
Part III	Indonesia's Rural Non-Farm Economy: Case Studies and Policy Development	
Chapter 9	Small Enterprises, Fungibility and South Sumatran Transmigration Livelihood Strategies <i>Thomas R. Leinbach</i>	209
Chapter 10	Transitions to Non-Farm Employment and the Growth of the Rattan Industry: The Example of Desa Buyut, Cirebon <i>Social Monitoring and Qualitative Analysis Team, The SMERU Institute</i>	244
Chapter 11	Policy Implications for RNFEs: Lessons from the PARUL Project in Indonesia <i>Hugh Emrys Evans</i>	267
Chapter 12	The Indonesian Rural Economy: Insights and Prospects <i>Thomas R. Leinbach</i>	293
Index		307

LIST OF TABLES

2.1	Percentage Breakdown of the Increase in the Labour Force: 1990–95	16
2.2	Rural Households by Income Sources and Region, Indonesia: 1995	17
2.3	Income Accruing to Agricultural Households by Income Sources, 1984 and 1993	20
2.4	Total Annual Farm Household Income and Percentage from the Farm Holding by Province, 1984 and 1993	21
2.5	Breakdown of Agricultural Households by Size of Holding and Main Income Source	23
2.6	Sources of Non-Agricultural Income for Agricultural Households, 1993	23
2.7	Percentage Breakdown of Agricultural Household Income by Agricultural Income Source and Income Size, 1993	25
2.8	Percentage Breakdown of Agricultural Household Income by Non-Agricultural Income Source and Income Size, 1993	26
2.9	Linkage Ratios and the Percentage of Total Farm Income Accruing from Off-Farm Employment	28
2.10	Breakdown of Agricultural Households by Sources of Income	32
3.1	Policy Design Criteria	51
4.1	The Rural-Urban Distribution and Change in Indonesian Household and Cottage Manufacturing Industries 1987–96	66
4.2	Comparison of Household Manufacturing Establishments in Urban and Rural Areas 1987–96	68
4.3	Small Establishment Manufacturing Sector in Urban and Rural Areas in 1996	69
4.4	Value-added of Household, Small and Medium/Large Manufacturing Establishments in 1996	72

4.5	Employment of Household, Small and Medium/Large Manufacturing Establishments in 1996	74
4.6	Household Manufacturing Establishments 1996, 1998, 2000	76
4.7	Small Manufacturing Establishments 1996, 1998, 2000	77
4.8	Household and Small Manufacturing Establishments 1996, 1998, 2000	79
5.1	Number of Indonesian Overseas Workers Processed by the Ministry of Manpower, 1969–2001	106
5.2	Main Southeast Asian Labour Exporting Countries: Workers' Remittances Relative to Exports and Imports, 1980–99	107
5.3	East Nusatenggara and East Flores: Major Demographic and Economic Characteristics	111
5.4	East Nusatenggara and East Flores: Fertility, 1976–97	116
5.5	<i>Desa</i> Nelereren, East Flores: Major Use Made of Remittances in the Origin Area	122
6.1	Rural-Urban Resource Exchange; Network Density	138
7.1	Distribution of Selected Enterprises by Gender of the Owner/of Operator, Enterprise Type, and Average Number of Years in Operation	160
7.2	Selected Organizational and Performance Indicators of Selected Enterprises in Java, Indonesia	162
7.3	Selected Characteristics of Entrepreneurs by Gender	166
7.4	Lack of Knowledge in Marketing and Basic Enterprise Management Skills Perceived to be Problems by Selected Entrepreneurs	170
7.5	Differences in Attitudes/Perceptions (Entrepreneurial Behaviour) of Selected Entrepreneurs by Gender of Entrepreneur	171
7.6	Differences in Responses to Statements Regarding Leadership Qualities and Behaviour by Gender of Entrepreneur	173
7.7	Regression Results of Factors Affecting Performance of Female-Operated Enterprises in Java, Indonesia	175
8.1	Means and Standard Deviations of Characteristic Variables by Place of Origin	185
8.2	Migrants' Characteristics by Occupational Status, Parents' Occupation and Reason to Migrate to East Nusatenggara	187

8.3	Cross-Tabulation of Reason for Migration in Relation to Migrant's Occupation in Place of Origin	189
8.4	Regression Results for Migrants' Propensity to Stay at Their Current Place as a Function of Socio-economic Factors	191
8.5	Proportion of Migrants' Responses to Core Variables	193
8.6	Proportion of Migrants with and without Employees by Place of Origin	196
8.7	The Relationship of Employee to Migrants' Employers by Place of Origin	196
9.1	Transmigration Study Sites: South Sumatra	219
9.2	Home Industries: Head and Spouse-Operated	225
9.3	Logistic Regression Results: Head-Owned Business	227
9.4	Logistic Regression Results: Spouse-Owned Business	229
10.1	The Pattern of Rice Farming in Buyut	247
10.2	Growth in the Number of Rattan Enterprises in Kabupaten Cirebon and the Volume of Exports	250
11.1	Selected Clusters by Region	277
11.2	Impact on Incomes from Diversification of Coconut Production	283
11.3	Impact on Incomes from Processing Cashews	286
11.4	Impact on Incomes from Shrimp Fishing	288

LIST OF FIGURES

5.1	East Flores: Main Areas of Origin of Labour Migrants to Sabah	108
5.2	East Flores: Population Growth by <i>Kecamatan</i> , 1990–97	113
5.3	East Flores: Sex Ratios by <i>Kecamatan</i> , 1997	114
5.4	East Flores: Age-Sex Structure, 1990	117
6.1	Locations of Jowo and Sunda Villages	139
7.1	Primary Motivation to Start a Business as Indicated by the Selected Entrepreneurs by Gender	167
7.2a	Important Problems as Perceived by Enterpreneurs by Gender at the Time of Start-up	168
7.2b	Important Problems as Perceived by Enterpreneurs by Gender at the Time of Survey (Currently)	169
9.1	Location of South Sumatran Transmigration Sample Sites	219
9.2	Head-Operated Businesses	222
9.3	Spouse-Operated Businesses	223
9.4	Family- (both Head and Spouse) Operated Businesses	224
10.1	Map of Kecamatan Cirebon Utara	246
11.1	North Sulawesi	282

CONTRIBUTORS

Thomas R. Leinbach, Department of Geography, University of Kentucky

Anne Booth, School of Oriental and African Studies, University of London

Hugh Emrys Evans, School of Policy, Planning and Development,
University of Southern California

Cees Gorter, Department of Spatial Economics, Vrije University,
Amsterdam

Graeme Hugo, Department of Geography, University of Adelaide

Harsha N. Mookherjee, Tennessee Technological University, Cookeville

Safdar Muhammad, Department of Agricultural Economics, Tennessee
State University, Nashville

Marthen L. nDoen, Department of Economics, Satya Wacana Christian
University, Salatiga, Indonesia

Peter Nijkamp, Department of Spatial Economics, Vrije University,
Amsterdam

Robert Rice, Department of Economics, Monash University, Melbourne

Piet Rietveld, Department of Spatial Economics, Vrije University,
Amsterdam

Rachel Silvey, Department of Geography, University of Colorado

Surendhra P. Singh, Department of Agricultural Economics, Tennessee State University, Nashville

Social Monitoring and Qualitative Analysis Team, The SMERU Research Institute, Jakarta

Peter van Diermen, Geographical Sciences, School of Resources, Environment and Society, The Australian National University, Canberra

ACKNOWLEDGEMENTS

The idea for a book comprised of essays on the Indonesian rural non-farm economy has emerged over the last ten years as a result of my research on transmigration livelihood strategies in South Sumatra and the Moluccas. But the opportunity to invite authors and to produce this work was made possible by a sabbatical leave from the University of Kentucky and the generous support provided by the Institute of Southeast Asian Studies (ISEAS) through a Senior Visiting Research Fellowship in 2001. I am very grateful to ISEAS and its stimulating research environment which it has provided me over the years. In addition I gratefully acknowledge a University of Kentucky Research Professorship for the year 2002–03.

For my earlier work on off-farm employment in the transmigration areas of South Sumatra and the Moluccas I must mention the U.S. National Science Foundation for their awards and a Fulbright-Hays Senior Faculty Research Award to Sriwijaya University, Palembang in 1994.

In addition, I wish to acknowledge funding from the U.S.–Indonesia Society and a generous grant from the Committee for Research and Exploration, National Geographic Society. These awards contributed to the overall effort to produce the current volume but most importantly they have provided support for my current and on-going research on this theme.

Richard Gilbreath, Director of the University of Kentucky's Geo-Informatics and Cartographic Laboratory once again has produced magnificent graphics from my crude drafts.

Finally, my greatest thanks go with love to Marge, my life long partner, who has shared my Indonesian experiences and many of the editing chores associated with the research products. Her advice and insights, as well as cautions, have provided wonderful guidance for my academic efforts over the years.

GLOSSARY

ADB	Asian Development Bank
AKAN	Antar Kerja Antar Negara
AKATIGA	Yayasan Akatiga i.e., Foundation for Social Analysis, Bandung
Bappenas	National Planning and Development Board
BILC	Bank Indonesia Liquidity Credits
BIPIK	Bimbingan dan Pengembangan Industri Kecil i.e., Small-Scale Industries Guidance and Development
BKD	Badan Kredit Desa i.e., village credit units
BPR	Bank Perkreditan Rakyat i.e., People's Credit Bank
BPS	Central Bureau of Statistics
BRI	Bank Rakyat Indonesia i.e., People's Bank of Indonesia
CEFE/AMT	entrepreneurship training
DEPKOP	Department Koperasi i.e., Department of Cooperatives
DPE	Dewan Penunjang Ekspor i.e., Export Support Board of Indonesia
DPR	House of Representatives, Indonesia
EF	extended fungibility
FDI	foreign direct investment
FMP	family mode of production
FNS	West German Assistance Institute
GBHN	State Policy Guidelines
GDP	gross domestic product
GNP	gross national product
GOI	Government of Indonesia
GONGO	government sponsored non-government organization
HE	household establishment
HME	household/cottage manufacturing establishment
HMI	household manufacturing industry
IMF	International Monetary Fund

KIK	Lingkungan Industri Kecil i.e., small-scale industrial areas
KKB	Klinik Konsultasi Bisnis i.e., small business consultancy clinics
KKN	corruption, collusion and nepotism
KKPA	Koperasi Kredit Primer Anggota i.e., cooperative credits
KMKP	Credit for Fixed Capital programme
KOPINKRA	Koperasi Industri Kecil i.e., Cooperatives of Small-Scale Industries
KPEL	Kemitraan bagi Pengembangan Ekonomi Lokal i.e., Partnerships for Local Economic Development
KSP	Koperasi Simpan Pinjam i.e., Savings and Loan Cooperative
KUD	Koperasi Unit Desa i.e., loan facility
KUK	Credit for Small Enterprises
KUPEDES	micro-credit programme
LDCs	less developed countries
LIK	Lingkungan Industri Kecil i.e., small-scale industrial estates
LIPI	Indonesian Institute of Sciences
LLPM	Research and Community Development Institute
LP3ES	Institute of Research, Education, and Economic and Social Information
MENNEGKOP	Kantor Menteri Negara Urusan Koperasi dan Usaha Kecil dan Menengah Republik Indonesia i.e., GOI Office of the State Minister for Cooperatives and Small and Medium Enterprises
MOPS	Mid Oil Platts Singapore
MOT	Ministry of Transmigration
MS/MUK	management training
MSE	micro and small enterprises
MSMEs	micro, small and medium-sized establishments
NGO	non-government organization
NTT	Nusatenggara Timur
OCWs	overseas contract workers
OFE	off-farm employment
PARUL	Poverty Alleviation through Rural-Urban Linkages
PHE	peasant household enterprise

PMT/GKM	Total Quality Control programme
PPK	Permohonan Pemeriksaan Karantina
PPPAs	policies, programmes, projects and activities
RGDP	regional gross domestic product
RNFE	rural non-farm enterprises
SAMS	social accounting matrices
SIC	Standard Industrial Classification
SME	small and medium enterprise
SMERU	Social Monitoring and Early Response Unit
SMI	small manufacturing industry
SNI	Standard Nasional Indonesia i.e., National Management Quality System
TFR	total fertility rate
TKI	Tenaga Kerja Indonesia i.e., overseas labour
UNCDF	United Nations Capital Development Fund
UNCHS	United Nations Centre for Human Settlements
UNDP	United Nations Development Program
UNSRI	Sriwijaya University, Palembang
UPT	Unit Pelayanan Teknis i.e., Technical Service Centres
USP	unit usaha simpan pinjam i.e., enterprise unit
WARSI	Warung Informasi Konservasi i.e., Conservation Information Forum

FOREWORD

This is an important volume. Featuring the work of leading scholars from five countries, it addresses an important dimension of the development challenges facing Indonesia, the world's fourth most populous nation.

It is also a very timely volume. There has been a rich tradition of scholarship on Indonesia's rural economy, stretching back to the colonial period. It is no exaggeration to state that, in this field, the country has been a "social laboratory" for the international research community. Indonesia was the intellectual breeding ground for Boeke's famous but now discredited theory of dualistic development. Thirty years ago, there was the landmark Penny/Singarimbun study of rural Yogyakarta, with its Malthusian subtext. There has been a long-running debate about the socio-economic impacts of technological change in rural areas, particularly centred on the introduction of new high yielding rice varieties and associated agricultural mechanization from the late 1960s onwards. There were thirty years of very rapid economic growth during the Soeharto era, accompanied by unparalleled structural change, infrastructure expansion, an oil boom and bust, and much else. All this transformed the rural economy, as never before. Finally, Indonesia's social, economic, and demographic database is one of the richest in the developing world, and its research environment one of the most open, enabling scholars to undertake very detailed research to test their favourite theories and to interact with a lively domestic community.

A fresh look at these issues in the Indonesian context is also timely in the wake of Indonesia's deep economic crisis of 1997–98, and the significant political and institutional changes triggered by the collapse of the Soeharto regime. In this new era of *reformasi*, much of the post-crisis literature on Indonesia has been dominated by urban-centred macroeconomics and finance — fiscal deficits and growing public debt, corporate collapse and reform, exchange rate volatility, and the like. Yet, rural and agricultural resilience has been a key factor ameliorating the socio-economic impacts of

the crisis. In the long sweep of development agriculture, and the rural economy more generally, may be a shrinking share of the economy. But, as Thomas Leinbach reminds us, in important respects “Southeast Asia remains a land of farmers”.

The volume’s sub-title provides the key connecting analytical themes: mobility, work, and enterprise. Organizationally, there are four chapters in each of three parts. The scene is set in Part I with an overview of the development context. The focus then shifts to entrepreneurship, gender, and mobility issues. Finally, in Part III, there are case studies and policy analyses of a sub-set of the broader issue, looking specifically at the rural non-farm economy.

As is appropriate in this sort of volume, the contributions are diverse in their methodologies and disciplinary backgrounds. An attractive feature is that demographers, economists, geographers, planners, and regional scientists happily co-exist in these pages. Some chapters “let the data speak” as it were, drawing on intensive analysis of census and survey data. Notable here are the chapters by Anne Booth and Robert Rice. Others draw on intensive and localized field research, in locations as diverse as transmigration settlements in South Sumatra, and Kupang, East Nusatenggara. There are also thematic studies which for example paint an interesting picture of gender networks and crisis impacts on Java, and explore the growing international migration from Flores, East Nusatenggara in search of employment.

There is no “party line” permeating this volume. But there are clear messages for both the research and policy communities. The contributions on SMEs draw attention to past policy failures, in spite of much official rhetoric about their importance. “Specific programs should be avoided”, cautions Peter van Diermen. There is also evidence of resilience in the SME sector, nicely illustrated by SMERU’s careful analysis of the rattan industry in Cirebon. Marthen nDoen and colleagues highlight the important role of migrant entrepreneurs, especially in local environments characterized by “social tolerance”.

Several writers argue that policy-makers need to pay more attention to on-the-ground realities. Graeme Hugo, for example, underlines the importance of international migration as a poverty alleviation strategy, and advocates a policy framework which supports and facilitates these migration flows, of the sort which now occurs in the Philippines. The two chapters on gender call for greater recognition of the fact that women manage the majority of micro and household enterprises, while still suffering numerous

official, legal, and social handicaps. The importance of education permeates Anne Booth's analysis. Robert Rice worries that poorly developed collateral markets are a barrier to financing the development of SMEs.

Tom Leinbach and his team, together with ISEAS, are to be congratulated for preparing and publishing a stimulating, varied and interdisciplinary collection, rich in empirical and analytical insights, and constructive in its policy advice. This volume advances our understanding not just of Indonesia's rural economy but of broader development issues. It deserves to be widely read.

HAL HILL

H.W. Arndt Professor of Southeast Asian Economics
The Australian National University