

# INDONESIAN RURAL DEVELOPMENT AT CROSSROAD: INSTITUTIONAL REFORM, LOCAL ECONOMIC DEVELOPMENT AND APPLIED TECHNOLOGY

Anggun Trisnanto Hari Susilo <sup>a\*)</sup>, Budi Waluyo <sup>a)</sup>, Susingih Wijana <sup>a)</sup>, Merlya Balbeid <sup>a)</sup>,  
Mahmuddin Ridlo <sup>a)</sup>, Danniary Ismail Faronny <sup>a)</sup>

<sup>a)</sup>University of Brawijaya, Malang, Indonesia

<sup>\*)</sup>Corresponding Author: a.trisnanto@ub.ac.id

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**Abstract.** The Indonesian Government releases the Law 6/2014 on Village. Since then, there are lively discussions about its implementation. In its 7th years of implementation, this paper intends to analyse on how and to what extent the implementation of the Village Law has determined village development in Indonesia. This paper is based on case study approach, which is conducted in seven selected villages in East Java Province. Data is collected by series of interviews with village heads, member of village council, women and youth representatives. This paper presents that there are three main popular sectors of village development in Indonesia namely institutional reform, local economic development and applied technology. On this, the paper argues that applied technology is less problematic than the other two. Institutional reform and local economic development are two sector that many problems (social and political) are identified. This relates to existing social-political structures of traditional Javanese village as well as problem of capacity.

**Keywords:** village; institution; economy; technology

## I. INTRODUCTION

In 2014, the government of Indonesia released the Law 6/ 2014 on Village (hereafter Village Law). This was a momentum for village development not only because village had been 'marginalized' by the state in particular by the New Order regime but also being subject for political purpose such as eradicating communist ideology [1] In contrast, the Village Law, is also reforming village institution, organization and promoting local democracy [2]. Though the design of Village Law seemed to be perfect, implementation and practices of the law are in fact in opposite direction. From the period of 2015-2017, there were mounting evidences of corruption in village [3] in which most of them were about corruption of Dana Desa (village fund). Besides, other problems are also found in the village such as elite capture and clientelism [4]. It can be summarized here that there is expectation towards village development in Indonesia as hoped in the Village Law. Here, we like to draw attention on recent village developments that are taken from case studies in six villages in East Java Province. The recent village development that is discussed here cover three things namely institutional design, local economic development and use of applied technology. Prior to describe the six cases, we survey literature review on those three sectors.

## II. RESEARCH METHODS

This paper is based on case study approach, which is conducted in seven selected villages in East Java Province. Data is collected by series of interviews with village heads,

member of village council, women and youth representatives. This paper presents that there are three main popular sectors of village development in Indonesia namely institutional reform, local economic development and applied technology.

## III. RESULTS AND DISCUSSION

### Institutional reform

Institutional capacity is one of crucial issues in Indonesian village development. In the past, village development was dominated by elite groups (though this is still identified in current days). Since the establishment of Village Law, there is effort on institutional reform. This reform is, to large extent, inspired by the idea of new institutionalism that was spreading in 1990s. Quoted from Douglass North, a Nobel Price winner and the most prominent scholar of New Institutional Economics, institution is defined as "created by utility-maximizing individuals with clear intentions" [5]. In relation to economics, neo-classical approach takes social and political context as given phenomena while this is opposed by new institutionalism that social and political context can be part of equilibrium neo-classical approach [6] The relation between institutional reform and development is evident.

Thorstein Veblen, a classic theorist of institutionalism stated that neoclassical economic theory promise was lack of evidence. As promised, neoclassical economy would:

Under the powerful force of economic competition, consumers were assured by Alfred Marshall, the great neoclassical synthesizer, that they would enjoy

goods at the bare cost of production, unearned profits would disappear, production would occur with maximum efficiency, and the distribution of income would appropriately reward each contributor to the productive process while insuring that the industrial complement would be adequately maintained and expanded [7].

However, for Veblen, economic development is like life process that is characterised by constant flux and without predetermined destiny [7]. Because of the life process that inhibits in human behaviour, external factor like technology is fragile of being blocked by existing social structure [7]. On this condition, it is urgent to take seriously on institutional reform in economic development. Actually, major donor like the World Bank has started to apply institutional reform. In its flagship publication World Development Report (WDR) 2002 entitled Building Institutions for Markets, the Bank uses institution in the forms of rules, enforcement mechanism and organizations supporting market transactions [8]. This is actually a pragmatic way to see institution that is only used for specific purposes. On this, this is for market extension [9]. What about institutionalism in Indonesian village development?

Based on definition by the World Bank on institutionalism, we argue that institutional reform in village development has to deal with existing context. Here, we point to lack of capacity of village officials. During the implementation of the Village Law, evidences from the field show that there is problem in capacity of village officials such low quality in village development plan, high-dependency to central government on budget, low capacity on decision making and lack of capacity on administration [10]. Similarly, on this, a village facilitator stated that the quality of village development plan is low as well as other documents that are unorganized (Interview with village facilitator, 9 January 2021). Besides issue of capacity, institutional reform in village context is determined by existing power structure. This is supported by Simanjuntak (2012) Moreover, she argues that event such as election determines social and political context in which this could lead to power tension between elite groups. In this context, power undermines institutional reform. Now, we refer to the six case studies [4].

Village Loderesan, Regency Tulungagung proposes cattle fattening activities and assistance in making animal feed concentrate to LPPM UB. However, the two proposed activities have not yet been included in the village medium term development plan. Team LPPM UB conducted field observations on 8/11/2020. According to the Village Secretary, the two proposals came from members of the BPD who were one of the candidates for village head nominations. The description above shows that the residual conflict of interest during the nomination and election process for the village head may prevent village development program proposals from running optimally.

Village Giripurno is the only village that has female BPD members in City Batu and Regency Malang. Team

LPPM UB conducted a village potential survey on 14/11/2020. According to Akung, the village assistant said the process was not short. Initially, there were doubts about appointing a woman in the BPD, because of the position of women who were considered inadequate by men and the strong dominance of men in the public sector (patriarchy).

Both cases in Village Gunungronggo and Bumiaji, problem of capacity is found in their village development plan draft. The team LPPM UB had the opportunity to visit Giripurno Village on 15/11/2020. According to Edy Suyanto, Head of Village Bumiaji, normally, the full draft should be completed before December. When the study was conducted in November 2020, one of the village officials stated that the draft was in progress and it was unlikely to completed on time. This was conformed by village facilitator. Activities that were proposed in their draft were 'business as usual' meaning that there was no creativity on designing activities. Though, they share commonalities in terms of program priority. Both of them have prioritized economic development and environment sustainability (such as issues of waste and water preservation). Interestingly, there was limited coordination and communication with district government. Their villages are located close to tourism area. Due to this, they want to build rest area that is planned in their development plan. In fact, there is no further information. One official said that district government did not response to question about the rest area plan.

Village Pucangombo has carried out the 2020 UB Program Doktor Mngabdi as a request for community empowerment activities submitted by the Pacitan Regency Bappeda and local village government. The team LPPM UB conducted a potential survey of Village Pucangombo on 25/11/2020. According to Sarmidi, the head village of Pucangombo emphasized that the planning of the Village RPJM involves various elements of society. However, this community empowerment activity is still considered insufficient considering the abundant potential of empon-empon and the lack of support from various elements of society.

In relation to tension between village head and village council, the case of Village Tambakasri represents this. The team LPPM UB conducted a potential survey of Village Tambakasri on 01/12/2020. According to the village head, Teguh Wiyono that Tambakasri needs support to collect village's archives and codify them in a well-organized file. This is important for the village as it contains letters, village's map and notes on important events. Up to now, there are no adequate attempts to collect and digitalize these archives. The village head complaints as village council is rarely help him on this important matter.

### Local economic development

For long time, village has been considered underdeveloped especially in relation to economic growth. On this, urban area such as city is more contribute than rural (village area). However, under the Village Law, the government has pushed village to be centre of economic activities. President Jokowi also suggests that one of his

priorities is rural development. In order to boost economic growth, the Village Law has mandated to establish Badan Usaha Milik Desa/ BUMDES (village owned enterprises). In further detail, village government supports BUMDES through cost sharing. Before describing the dynamics of BUMDES, which are found in case studies, this paper explores the idea behind local economic development in Indonesian village.

It goes back to poverty reduction program that have been operated in Indonesia. Those poverty reduction programs contain element of economic development such as microfinance. Inpres Desa Tertinggal/ IDT (Presidential Instruction for Underdeveloped Village) was the pioneer of microfinance program targeting the poor in the village [11]. Disbursed fund from central government was dedicated to several groups of women. The fund was used for starting small business. Each group was entitled to get IDR 10 Million. Microfinance program like this was also found in IDT's successors namely Kecamatan Development Program (KDP) that was implemented from 1995 to 1997 and Program Nasional Pemberdayaan Masyarakat (PNPM)/ national program for community empowerment that was in place from 2007-2014.

For Indonesian government, the objective of poverty reduction program was by stimulating local economic activities through establishment of microfinance and infrastructure projects. In a nutshell, the poor will get benefit by actively participating in market and it was hoped, this ended poverty. But, from the critical perspective, 'dragging' society to market is a tool to for enlarging and deepening market as well as transforming social relation into what is called 'market society' [12]. The way of transforming society into market society has impacted to increasing problems in the village such as elite capture and social exclusion. But, this paper is not to mention impacts of market society. Instead, this paper argues that the process of marketing society is hampered by the fact that most villagers are unable to deal with market. The arguments and explanation are mentioned below.

Taken from field observation and series of interviews with three village heads, there is a critical problem on BUMDES. One of the problems is on marketing product. All village head said that BUMDES was already in place. The village have allocated fund for cost sharing ranging from IDR 50 Million to IDR 150 Million. In fact, there is no plan on economic activities. On this, BUMDES staffs have limited experience on how to establish business. One village located in Trenggalek District has conformed this. Its village head stated that its BUMDES has planned to develop herbs such as ginger and turmeric. This is due to the fact that almost each household has planted these plants. But, as said by the village head, poor household that have the plants do not intentionally to sell those plants. They said, "we plan these herbs just in case we need them and not for sale". Similar condition applies to other two villages.

Special attention is given to one village that is supported by Australian donor. Through its strategy of closing the gap between buyer and seller, the program

invites buyer to see production process as well as to negotiate the price directly to seller. Actually, this is an innovative solution. But, it is only last for three months. The secretary of BUMDES stated that the buyer is no longer buying their products since there is decreasing demand of ginger and turmeric in market. In this situation, not many choices that BUMDES have since they are not usually facing this problem. For generations, they are farmers not merchants. From these experiences, it can be summarized that introducing market to village by establishing economic enterprises like BUMDES seems to be inefficient since the target beneficiaries which is the villagers are not ready to integrate with market. This problem lies on limited capacity in market as well as long tradition of agriculture.

### Applied technology

The use of technology in Indonesian village is hardly separated from the Green Revolution project. It refers back to 1960s in the US when the project was firstly initiated. Scientists developed high-yielding crops such as wheat and rice, in that time. This was the main character of the Green Revolution in which using those varieties of crops. The project was then developed in Latin America and in Asia with the help of high-rates of rainfall and sufficient irrigation system [13]. Apart of its successfulness, the Green Revolution has called radical criticism especially from left-wing perspectives. For some of those, the Green Revolution was about capital accumulation, which was directed, managed and supported by international development agencies such as the World Bank, United States Agency for International Development (USAID), the Ford Foundation and the Rockefeller Foundation [14]. In Indonesia, the Green Revolution was operated in 1970s.

The government of Indonesia intensified agricultural development by adopting the Green Revolution. In the country, it was not only introducing high-yielding crops but also applying pesticides and fertilizers. This was supported by building irrigation canals that eventually contributing to self-sufficiently of rice in Indonesia [15]. However, the downside of the Green Revolution was that the project was forced by Suharto New Order regime. Farmers who resisted this project would be imprisoned [16]. The problem does not stop there, the mounting evidence of environmental degradation due to over-use of pesticides is real [17]. Regardless the controversy and dynamics of the Green Revolution in Indonesia, we like to emphasize in this paper is that villages in Indonesia are already familiar with the use of technology.

In our cases, applied technology is a very backbone for rural development especially on increasing added value of agricultural products. For villagers, applied technology means something that is handy, easy to use and at low-cost. With regards to our cases, applied technology was supported by technical assistance program provided by local universities. As in the case of herbal production in Village Tajinan on 21/11/2020, according to Baihaqi that a group of women that produce herbal products stated that they were able to produce effectively using machine by the University

of Brawijaya. Before, this group relied on traditional mechanism for herbal production that was inefficient. This was because the group hired many people and in turn it cost them high.

On 18/11/2020, the team LPPM UB made observations at the Village Pagelaran, Regency Malang. So far, according to Rinik, the Chairperson of the Women's Farmers Group (KWT) has been burdened by expensive land rental prices and quite high labor costs. Regarding the second thing, the head of the KWT said that the harvest was still dirty (mixed with soil), so it needed the next process, namely washing. However, the washing fee is quite expensive, around IDR 40,000/day/worker. KWT Show requires a washing machine with a simple working principle and runs on electricity.

Another example is shown in the case of Village Pule in District Trenggalek on 26/11/2020. Similar to Tajinan, according to head of Village Pule, Purwadi that Pule benefits from herbal crops such as ginger and turmeric (see above). Fortunately, this business has been backed up by KOMPAK; a program supported by AUSAID. Next to technical assistances and series of capacity building provided by KOMPAK, BUMDES in Village Pule is also provided by green house effect (GHE) building that can dry crops in short time.

#### IV. CONCLUSION

This section intends to summarize on what has been outlined. Indonesian rural development is now administered under the Village Law. This is a revolutionary approach by the Indonesian government under President Joko Widodo. Due to this 'good news', it is interesting to observe the current condition of Indonesian villages. Our paper offers a display on this. We start from three key things that seemingly crucial in rural development which are institutional reform, local economic development and applied technology. We come to the conclusion that the implementations of those three are challenging. Explanation of this argument is presented below.

First, Indonesian village is evidently related to global agendas or development. All three sectors mentioned above connect to global ideas. Institutional reform and local economic development are connecting to neoliberal platforms that emphasizing market fundamentalism. Effective and supporting institutions for market are the backbone for this. In fact, our findings in this paper have conformed that social and political landscape determines more to institutional reform.

Second, under neoliberal lexicon, villagers are 'forced' to integrate with market. Taken the case of BUMDES, problem arise when lack of basic understanding on how market works and limited individual capacity. Up to date, all BUMDES in this paper are in stagnation though the village government already financially supports them. Relatively less problematic than the earlier two is on the use of applied technology. In two cases mentioned, applied technology is required to solve technical problems although

other problems remain unsolved. It seems that this is a pivotal point for government to intervene. And, this is our third conclusion. With all of these on-board, we like to stress that Indonesian rural development, in more years coming, can be dominated by technical intervention like applied technology. Thing that we should anticipate is the effect of this application toward social and political structure that has been in place for generations.

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