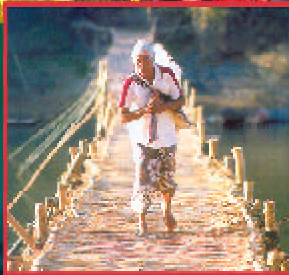




International  
Labour  
Organization  
Jakarta

Indonesia:  
Working out  
of Poverty



**Rural development:  
access, employment  
and income opportunities**

**5**

In Preparation for the ILO's submission to the Poverty Alleviation Committee in Indonesia, a series of 12 (twelve) Technical Briefing Notes (TBNs) have been prepared which serve two purposes; first, as background documents, on issues and policy choices critical to poverty reduction and secondly, as building blocks towards a comprehensive report: "*Working Out of Poverty: an ILO submission for the Indonesia PRSP*".

This briefing note address **Rural development: access, employment and income opportunities**. Other themes in series include the following:

- Employment dimensions of macro and sectoral policies;
- Decentralization and decent work: making the connection to the MDGs;
- Job creation and enterprise development (SMEs and local economic development);
- Youth employment: pathways from school to work;
- Skills development for economic growth and sustainable livelihoods;
- Promoting the declaration on fundamental principles and rights at work;
- Eliminating the worst forms of child labour;
- Social protection for all;
- Promoting good governance in the labour market by strengthening tripartism and social dialogue;
- Migration: opportunities and challenges for poverty reduction;
- Gender and poverty.

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# RURAL DEVELOPMENT: ACCESS, EMPLOYMENT AND INCOME OPPORTUNITIES

## Introduction

Rural development has long been recognized as crucial in promoting economic growth. There are both indirect and direct benefits from infrastructure development both having a significant impact on employment creation and an effective strategy for poverty alleviation.

Investing in local resource based rural infrastructure has both economic and social benefits on rural society. Economic indicators such as increased income, employment, productivity gains and better income distribution are obvious. Social benefits include time savings, easier access to schools and health facilities and improved information.

Rural infrastructure development contributes to the achievement of the Millennium Development Goals (MDGs). It is essential for employment creation and income generation (reducing by half the proportion of people living on less than a dollar a day), improving access to primary education and health care (ensuring universal primary education, reduce child mortality and improve maternal health) and improved living conditions (ensuring environmental sustainability by, amongst others, reducing by half the proportion of people without sustainable access to safe drinking water).

Rural development is an important strategy in achieving development objectives. This may cover agricultural and rural infrastructure in rural areas including rural roads, water supplies, irrigation

systems, electricity, health and education facilities and markets.<sup>1</sup>

**An overview of rural development: agriculture**

The strategic value of agriculture in the overall economic development of developing countries like Indonesia is very significant such as the source of food, its share in GDP formation, its linkages with other sectors, and, most importantly, the agricultural sector is a source of employment. Though the contribution of the agricultural sector to total GDP which declined from 24 percent in 1980 to 16.5 percent in 2000, agriculture was the third largest contributor to GDP in 1999, which then upgraded to be the second largest contributor after the crisis. However the agricultural growth rate had been relatively slow, 3.8 percent annually during the 1980s and it slowed down to 2.9 percent during 1990 to 1995.<sup>2</sup> Per capita GDP in agriculture in 2000 was just one fifth of that of non-agricultural sectors. Such low agricultural growth resulted in low productivity. Which is among the lowest when compared to other sectors.

The share of agricultural employment in Indonesia has always been substantial. Although the percentage of people working in agriculture had been declining overtime the absolute number has remained on the increase. The percentage of employed people in agriculture had been on the increase after the economic crisis; it was 40.73 percent in 1997 and rose up to 46.54 percent in 2001, more than half were women (CBS, 2002).

During off-peak season, many rural workers look for work in the urban informal economy. Seasonal nature of work is also accompanied with low wages in the agricultural sector. Data by CBS shows that the Indonesian average monthly wages of workers in the agricultural sector were the lowest in comparison to those of the other economic sectors. The 2001 CBS data showed that 65 percent of women working in agriculture were employed as unpaid workers. Furthermore for those women who

1 The Coordinating Team on Rural Infrastructure Development (CTRID) defines rural infrastructure as physical infrastructure providing access to basic as well as social and economic services for the rural community- see "Rural Infrastructure for Development" by CTRID, Coordinating Ministry for Economic Affairs, Jakarta, January 2003.

2 Within agriculture, half of the value added comes from food crops, followed by tree crops and horticulture: fisheries, forestry, and livestock products each contribute 17-19 percent and 9-12 percent respectively.

are classified as wage earners, they earn about half of what male agricultural workers do. It was 53 percent of that of males' wages in 1997 and improved to 56 percent in 2000. It is thus no surprise that agricultural workers are among the groups with the highest incidence of poverty in Indonesia.

Like in many other developing countries in Indonesia agricultural workers are excluded from any employment injury benefit scheme, because none exists for them or because agricultural workers are specifically excluded from general schemes. A large extent agricultural workers are considered as informal workers.

The picture of the agricultural workers depicts that decent work deficits are pervasive in the agricultural sector.

Recognizing the importance of the agricultural sector, the Indonesian government has stipulated in its policies directives and programs to give priority upon the development of the agricultural sector (National Development Program/PROPENAS 2000-2004). The Ministry of Agriculture (MOA) has determined that agribusiness is to be the grand strategy for the agriculture development in Indonesia.

Infrastructure has an important position in Indonesian national development especially in the government and private sector budget allocation acting as promoting and facilitating sector for local economic development, despite its low allocation of financial resources from public expenditure by international standard. During the period of 1990/91-2000, government budget allocated for infrastructure is around 3,8% with the highest figure reaching 5% in 1993/94. During that period local development and isolated areas, energy and road sectors received higher allocation than other sectors. With such allocation, one problem to be tackled is the disparity among regions especially with regards to the eastern part of Indonesia. During the 1997 crisis in Indonesia, there was a large shift toward self-employment in both urban and rural areas, and a smaller shift towards unpaid family-based employment in both rural areas. Real wages have declined and open unemployment has appeared.

## **Infrastructure**

The increase in female and child employment acted as a coping mechanism to compensate for falling household incomes. Child employment has been observed to increase and, although the impact on female employment is ambiguous, some 40% of those recorded as newly unemployed are female (the latter particularly due to the impact of textile sub sector production). With low personal savings and no effective social welfare system, people cannot afford to be unemployed for a very long.

The establishment of CTRID (Coordinating Team on Rural Infrastructure Development) is a milestone in the Indonesian rural infrastructure development since it demonstrates concerted efforts of various ministries and agencies to curb problems and to tackle issues in rural infrastructures development.<sup>3</sup>

The result has been an increase in under employment (with falling real wages and purchasing power) and substantial increase in lower-paid agricultural employment. Unskilled men have suffered most from the construction industry decline. Since construction sector particularly road sector adopts labour intensive techniques, it is capable of absorbing a large proportion of workers this sector is thus a significant target for poverty reduction efforts. Conditions in rural areas show that most of the workers (97,2%) are low-level labourers indicating the ability for this sector to dominantly absorb unskilled or semi-skilled workers-those affected most by the poverty.

### **The need for decentralization**

The decentralization process in Indonesia affirms that among the responsibilities transferred to the local governments are the responsibilities for rural infrastructure services. One of the prime benefits of regional autonomy is it can bring local governments closer to citizens, enabling a better understanding of citizen needs, and provide for more efficient methods for preparing, managing and providing services to them.

However decentralization can have negative impacts towards development as well, for instance local governments may be unprepared and unclear for the task and responsibilities they must bear, the local capacity may not be strong enough in terms of resources and manpower to implement functions, in

addition to this it is important that intergovernmental fiscal system is well developed and there is accountability, avoiding a situation where "corruption is being pushed down to the localities." Capacity building at local government level is thus a critical issue, and one where the ILO can assist in further developing procedures and tools for rural infrastructure development (Refer box below).

Capacity building at local government level is a critical issue. The ILO Employment Intensive Investment Programme (EIIP), represented in the Asia-Pacific region by ASIST-AP, is already active in the country to assist in developing procedures and tools for rural infrastructure development at the local level. This work is based on extensive experiences in similar decentralizing environments in Asia. An important effort in this respect is being made by the Sustainable Rural Infrastructure Development Project (SRIDP). This project serves as a cooperative framework for 2003-2004 between the ILO and the Coordinating Team on Rural Infrastructure Development (CTRID). The project will focus on three main technical concepts: local level infrastructure planning, small-scale contracting, and labour-based infrastructure maintenance and will be implemented in one pilot province selected by the CTRID in order to draw conclusions and lessons learnt for formulating national and local policies and strategies for future replication. In addition, the project will develop guidelines and training materials for developing capacity for rural infrastructure development at the local level.

Investing in rural infrastructure creates income opportunities and generates employment. Directly in a sense that rural infrastructure on its own adopts labour intensives techniques, it is capable of absorbing a large proportion of workers, improves access to income and employment opportunities. Rural roads provide access to markets and employment centers. Rural roads also provide opportunities for the rural transport sector to develop which benefits both owners and operators of rural transport services and the entire rural transport service supply industry. Forward and backward linkages will stimulate local economic development and may provide additional income opportunities for the rural poor.

## **Creating opportunity**

The ILO promotes the use of labour-based investment policies and practices. It has developed



Labour-Based Technology (LBT) to maximize opportunities for employment of labour (skilled and unskilled) during the construction and maintenance of infrastructure, while supported by light equipment, under strict conditions of cost competitiveness, acceptable engineering quality standards, and timely implementation. Labour based work methods are often competitive and can provide a lasting alternative to traditional equipment-intensive construction methods.

International experience has shown that labour based infrastructure programs:

- are between 10 and 30 per cent less costly in financial terms than more equipment-intensive techniques;
- they reduce foreign exchange requirements by between 50 and 60 per cent;
- creates between three and five times as much employment for the same investment.

Two components of the current ILO work under the Sustainable Rural Infrastructure Development Project (SRIDP) may further contribute to employment creation, namely the work on developing procedures and guidelines for local procurement and small scale-contractors and the work on labour-based maintenance systems.

Small-scale contractors play a key role in the implementation and maintenance of rural infrastructure services in Indonesia. A thriving local contracting industry needs the development of a conducive environment, the production of appropriate contract documentation, the training of local contractors, and establishing an efficient contract administration capacity in local government agencies.

Proper maintenance of rural infrastructure saves scarce resources invested in the past and will sustain the benefits of the assets created which include income and employment opportunities. An increased use of local resources could be a key to improving maintenance practices and systems now that the responsibility for maintenance is with the local government units. Implementation by local authorities while engaging small-scale contractors could prove to be a most effective approach for ensuring the continued serviceability of infrastructure.

## **Community empowerment**

Emphasis should be placed on community-based approaches to infrastructure investment, by developing the organizational and negotiating capacities of local communities, producers and service providers. Community empowerment should be associated with both management and maintenance of infrastructure projects.

Involving communities in maintenance works offers another vehicle for empowering communities. The impact and sustainability of rural infrastructure is partly based on local participation during planning and maintenance. The use of local resources including labour and the strengthening of local communities for maintaining infrastructure should be seen as a key factor in providing sustainable access in rural areas. A local level labour-based maintenance system will make use of length-men (small-scale contractors) for maintenance activities. The local communities could take responsibility for organizing this work and identifying, selecting and supervising the petty contractors.

Community-based approach is particularly useful in addressing the needs of women in poverty, for example, by promoting the objectives of equal pay for work of equal value and equal access to jobs and training, it combats discrimination.

The ILO work on local level planning (IRAP) strengthens an already existing participation process at local government level. IRAP tools have been developed to assist local government to identify rural infrastructure investment priorities that will address the real needs (education, health care, water supply, transport services, marketing) of "access" poor communities. Communities participate in this process by jointly analyzing their access situation and identifying priorities for investment. Local negotiation and participation skills, procedures and practices will be enhanced. The ILO is currently introducing IRAP tools in 4 provinces.

## **Capacity building**

Capacity building in terms of development of Labour based technology for public investment infrastructure helps in targeting the poorest in society. It is important that labour based projects set a wage level (generally at minimum wage level) that assists families in severe poverty, and avoids

attracting employed workers away from other income-generating activities. Thus in this context of capacity building, community-based consultation is crucial so that creation of job opportunities target the most needy, as well as ensuring that the infrastructure built meets local priorities.

## **Social protection**

Despite a dramatic reduction in poverty over recent years, many Indonesians continue to confront a situation of high vulnerability. Loss of income earning opportunities or unexpected high expenditures would push many people back below the poverty line, particularly in rural areas where 75% of the poor live. The Government has developed different initiatives to create immediate employment<sup>3</sup>. Results of these programmes have been variable in rural areas. Labour-based employment schemes however are potentially amongst the most successful to alleviate the effects of the crisis in the short run.

Indonesia will continue to experience (regional) crisis situations although maybe not in the order of the 1997 crisis. To overcome the problems of hasty developed and implemented programmes without adequate preparation, participation, design and training, and to strengthen what is already an effective tool in crisis situations, a comprehensive strategy for using employment intensive works as a social safety net can be developed. This would include the role and responsibilities of the private sector and the communities.

Employment intensive programmes for short-term unemployment relief and quick income generation in rural areas could have a significant impact towards poverty alleviation. The main objective would be to develop standard appropriate institutional arrangements (now that the country has decentralized), effective management mechanisms, training approaches and implementation guidelines, in order to rapidly design and implement employment-intensive programmes in (regional) crisis situations.

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3 Amongst others, the GoI revived the Padat Karya programmes. Padat Karya programmes were commonly used in Indonesia since the 1970s to create employment and generate income through infrastructure development but were phase out in the early 1990s. Padat Karya programmes faced many problems however as a short-term social safety net programme they remained effective.

## **Recommendation**

- Sustainable rural development is expected to provide more employment opportunities and increasing income, which in turn will encourage rural workers to stay and work in their villages. This in the long run will be better for both the urban and rural economies.
- Sustainable agricultural development would support rural development. Strong and labor-intensive agricultural growth can be sustained with adequate levels of investment in infrastructure;
- As rural poor are getting more dependent on non-farm activities for their income sources, therefore measures to stimulate off-farm rural income will be critical to poverty alleviation. In line with the Ministry of Agriculture's strategy that agribusiness is to be the path of agricultural development, thus small/micro agribusiness development may be used as the vehicle for improving farmer incomes;
- Rural infrastructure development is instrumental in facilitating and responding to development challenges. Through sustainable rural infrastructure development, the needs and opportunities for social and economic development can and will be expressed in their highest potentials. Labour based approach in rural infrastructure development would be important strategy to help the poor.
- Strengthening the capacity of local authorities for rural infrastructure planning, implementation and maintenance using the sustainable rural infrastructure approach for both regular local development and crisis situations;
- Developing tools and programmes aimed at targeting the poorest and most vulnerable regions and communities in a sustainable manner. Thus close consultation and coordination with local communities is vital, as well as involving them at all stages of programmes (design, implementation, management and maintenance);
- Community based approach is very useful in addressing the needs of women in poverty. It can help promote equity and equality towards work. The involvement of women in the technical and supervisory functions of projects managed by communities can help overcome biases against the recruitment of women workers.