ECONOMIC DEVELOPMENT STRATEGY THROUGH RURAL AREAS: A CASE STUDY IN TOBA SAMOSIR, NORTH SUMATERA, INDONESIA

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ARTICLE DETAILS

ABSTRACT

This study aims to analyze rural area development after Law No. 4, 2014, concerning villages. The new round of village development begins with the rights of recognition and the program of rural development by the Indonesian government. In this case, the village fund is the government flagship policy for village development, which considered to succeed in increasing the quality of people’s lives through infrastructure, community empowerment, and the formation of rural areas. The development of rural areas is a center of growth, whereas focusing on the most developed areas in the disadvantaged region. To encourage the village economy, some policies used in rural areas by developing several villages that have different potential within locations. A method in this research is a case study that occurred over the past four years in Indonesia. In this case, the declining number of poor people become interesting. It happens because rural development, such as Ajibata, Toba Samosir, North Sumatra, Indonesia, can encourage regional development. The concept of rural areas relying on the coffee’s attractiveness and coffee’s processed as well as increasing the scale of coffee’s agricultural and the coffee’s product value. Therefore, innovations in rural area development are significant to support regional economic development.

Keywords

Rural development, Economic Development, Rural Areas.

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1. Introduction

The success of national development cannot be separated from the role of rural areas. However, the countryside has been identified with poverty and agriculture. Many poor people and small farmers come from villages, but in some parts of the world, they are still dealing with hunger and malnutrition (Fanzo, 2018). The main characteristic of rural areas is that there is traditional agricultural management and located far from cities (Verma, 2019). Difficult access to education, health, and other essential services becomes an unresolved problem when discussing rural development.

The central government program associated with issues of agriculture and rural areas (Weilun et al., 2019) argues that village development will face conflicts between traditional agriculture and economic development, infrastructure development, and other modernity. It happens because traditional agriculture having conflicts with economic development and infrastructure development when rural areas develop towards modernity. In Indonesia, the characteristics of villages that are inherently full of problems such as high poverty rates, unstandardized agriculture’s population income, inequality of land ownership, and other social problems. The government can never correct mistakes in taking care of villages, so the pockets of national poverty always shelter in the countryside.

This time, the government has many village development programs. Unfortunately, it is considered less
successful in reducing poverty and improving people's welfare. Village development will be successful if the village community made as to the subject of development and provides many opportunities for villages to determine their own fate decisions (Jamal, 2008). The needs and potentials of villages in Indonesia are diverse; as a result, policies that are uniform for all villages will only be in vain with those backgrounds, a new round of village development legalized by the law no. 6, 2014 concerning villages.

The main problem faced by policymakers and development planners is the absence of collaboration between rural and urban development; as a consequence, economic harmony is not created. Law No. 6, 2014 also regulates rural areas' development as a bridge of relations between villages and cities. This law clearly distinguishes between rural development and rural area development (Febrian, 2016). Therefore, the purpose of this paper is to show the process of regional economic development through the development of rural areas in Indonesia.

2. Literature Review

VILLAGE LAW

Based on Law no. 6, 2014, villages provide new hope for village communities. First, villages gain sovereignty to determine their destiny through the right of recognition and subsidiarity. Villages are given the right of recognition because villages are different from other villages, villages have their respective origins, villages carry diversity or multiculturalism. While the right of subsidiarity means that the village can determine its destiny, in this case, the village has the right to issue a part of it to make the decision requested by the community.

Second, this law provides a new position for villages that are not only the object of development but as the subject of development. This law provides a new era for villages to achieve independence through governance and also finance which aims to improve people's welfare and quality of human life and alleviate welfare, meet basic needs, infrastructure development, local economic development as well as sustainable natural and environmental resources (Herry, 2015).

Third, the village law also requires villages to be professional, uphold accountability, be effective and efficient, and take responsibility for all programs and planning (Village Forum) (MUSDES). The existence of village regulations by governance that is easy to use in villages should be sufficient, efficient, safe, and on target (Ibrahim et al., 2017). Fourth, the Village Law addresses the village's economic problems through the village budget and village financial institutions form the BUMDesa. Village funds are direct transfer funds from the central government to villages that are used to fulfill the basic needs of the village. The local economic institution, called BUMDesa, is positioned as an institution that encourages village economic development.

A critical concept in village law is the development of rural areas. Rural areas are areas that have main activities in agriculture, including natural resource management with the arrangement of the area as a place for rural settlements, administrative services, social services, and economic activities. Article 83 (1) Rural District Development is a combination of village development in 1 (one) Regency/City. Rural development is managed by improving the quality of services, development, and empowerment of rural communities in Rural Areas through participatory development.

RURAL DEVELOPMENT

In recent years, Indonesia has approved development focused on rural areas. The term rural area of development concerns with village development as a growth center in the most critical areas in the disadvantaged, outermost, and frontier areas (3T). Rural areas are areas that have settlements, government services, social services, and economic activities related to natural resources in them (Budianta, 2010). The development of rural areas through the merger of several villages with similar potential to related locations helps improve the economy.

The development of rural areas done by developing areas that improve the welfare of the community, increase the area of development, and reduce inequality between villages and cities (Ma'rif, 2012). Massive urban development has become a common practice by the government at this time. So far, there have been many rural development programs, and rural development agreements approved from urban development (Basuki, 2012). It is emerging prominent differences between villages and cities both in terms of the economic scale, technological development, governance (economic, social, and political), ecology, and social conflicts over interests that cannot be appropriately handled by the government (Gouburu & Luis, 2018). Society meetings
provide fresh air that presented as a bridge of collaboration between villages and cities. Forming a rural area will facilitate collaboration between villages and cities. Villages and cities are the foundation of national development, and harmonization will complement each other in realizing community welfare.

In rural area development, economies of scale emerge because they have entered national development planning as a center of growth. In the 2015-2019 RPJMN there was a discussion on rural areas development as a government program that wanted to support and diversify the economic activities of rural communities, encourage the development of rural industry based on micro, small, medium and cooperative businesses, and develop natural resource activities supported by rural communities based on economic and social security and rural ecology. The strategy for rural development areas carried out by the government under the planning documents includes:

1. Achieve connectivity between cities and towns, between towns and villages, and between islands.
2. Realize the interrelationship between economic activities and village development through the development of special agropolitan, minapolitan, tourism, and transmigration clusters.
3. Optimize the local economic governance oriented to rural-urban linkages.

Conceptually, the design of rural areas in Indonesia has four main functions, development deepening (Yustika, 2018). Relates to the creativity and innovation of rural communities in regional development is not only the development of the agricultural sector but also the modernization of the agricultural process and processing of agricultural products. Technology development is the main foundation in developing strategies for developing rural areas. Has begun the design of rural areas based on "smart agriculture" which is defined as the concentrated use of information and communication in communication, communicating, analyzing, and representing the characteristics of agricultural production in a digital format to support the right decision making and improve farmers (Ayre et al., 2019).

Second, rural development as a bridge, namely building relationships between villages and cities. As a center of growth for 3T areas, rural areas have bridged the relationship between villages and cities. Harmonization of power between villages can be a bridge between rural-city equality. The relationship between rural villages is significant in urban development and is also essential in rural development. Rapid urbanization, limited space, high cost of living are problems in urban development. Meanwhile, village development faced problems of limited social access, poverty, and limited technological development (Gebre & Berhanu, 2017). Therefore, rural development is needed as a bridge to overcome the problem of rural development.

The next function is collaboration and control. Rural areas have the function to collaborate with all village stakeholders to create prosperity for the entire village community. Collaborative support in rural development widely used in a cooperative way with the participation of all interests in innovative and implementation designs. This collaborative development model provides space for villages with different types of unique characters; various activities become an investment attraction in boosting the local economy. This collaboration also emphasizes deliberation groups, consensus development, and the support of diverse insights from all stakeholders, both the public sector and the public sector (Nygaard & Keith, 2014).

Based on Law No. 6, 2014, concerning Villages, rural development aims to improve and improve the quality of services, economic development, and empowerment of rural communities through participatory participation. This rural development policy framework carried out with a sturdy design. Where social, economic, ecological, and administrative aspects of government and rural areas are well managed. Good governance is balanced with an excellent institutional design consisting of community organizations, norms or rules, values, and policy choices or processes that empower rural communities, promote rural areas, and improve regional social capital. The outcome expected from this policy is an increase in the Village Budget.

According to Lowe (2010), there is three information on rural development in China. First, approaching the top-down or exogenous approach, emphasizing economies of scale and concentration. Second, looking from the bottom up or endogenous, prioritizing local resources, and sustainable development. Third, the network or neo-endogen, promoting identification and exploitation based on economic potential and also equality of the three more complete about putting rural areas in different functions and different focus of development following the potential needed by the region.

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Table 1. Rural Development Approach

<table>
<thead>
<tr>
<th>Key principle</th>
<th>Top-down (or exogenous) development</th>
<th>Bottom-up (or endogenous) development</th>
<th>Networked (or neo-endogenous) development</th>
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</thead>
<tbody>
<tr>
<td>Economies of scale &amp; concentration</td>
<td>Harnessing local (natural, human &amp; cultural) resources for sustainable development</td>
<td>Identifying and exploiting the place-based potential of localities; Socio-spatial justice</td>
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<tr>
<td>Dynamic forces</td>
<td>Urban growth poles</td>
<td>Local initiative &amp; enterprise</td>
<td>Local-global networks and urban-rural flows; External interconnection through multi-sectoral governance</td>
</tr>
<tr>
<td>Function s of rural areas</td>
<td>Production of food &amp; primary products for expanding urban economies</td>
<td>Diverse service economies</td>
<td>A mosaic of consumerist and (re-emerging) productivist functions</td>
</tr>
<tr>
<td>Major rural development problems</td>
<td>Low productivity &amp; peripherality</td>
<td>The limited capacity of areas/groups to participate in economic activity</td>
<td>Unequal relations between localities and external forces and institutions; Climate change and economic crises</td>
</tr>
<tr>
<td>The focus of rural development</td>
<td>Agricultura l modernization; encourage labor &amp; capital mobility</td>
<td>Capacity-building (skills, institutions &amp; infrastructure); overcomin g exclusion</td>
<td>Building local capacity to mobilize internal resources and respond to external pressures and opportunities</td>
</tr>
<tr>
<td>The focus of rural development research</td>
<td>Agricultura l economics; Keynesian economic models and positivism</td>
<td>Rural sociology and rural geography; interpretive approaches and case study research</td>
<td>Action and activist research with communities; Inter/transdisciplinary</td>
</tr>
<tr>
<td>Sources of knowledge</td>
<td>Scientific research and external experts</td>
<td>Local communit y</td>
<td>Place-based 'vernacular expertise.'</td>
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</table>

Sources: Lowe, 2010

3. Research Method

This research approach offers a pluralistic understanding (Joy Dangora, 2019) related to the phenomenon of rural development in Indonesia. Tasci, Wei, & Milman (2019) defines the case study method is instrumental in researching complex and new phenomena and is a story about something unique, special, or interesting about individuals, organizations, processes, institutions, and destinations and more. Case study method as an inquiry of a phenomenon in its reality (Yin, 2013). The phenomenon of rural area development in Indonesia is a complex and unique phenomenon by taking one of the places as a research objective, so this observation includes in the research approach.

The Case study method has its rules and standards, including 1) comprehensive investigation of phenomena, 2) observation of most variables and their relationships, 3) multiple perspectives on the phenomenon, 4) mixed methods, 5) convergence of information from different sources, 6) triangulation for validity and 7) theory building or theory testing (Tasci, Wei, & Milman, 2019). This study will be reviewed related to the rural development phenomenon in Indonesia, especially the development of rural areas in improving the regional economy. Besides, this study also analyzes quantitative and qualitative data (mixed methods), this research located in Ajibata, Toba Samosi, North Sumatra.

4. Result and Discussion

For four years (2014-2019), the government's efforts to increase rural areas' degrees have produced quite encouraging results. The result of rural development can be seen from the declining scale in poverty, such as unemployment and rural inequality. Also, in 2014 the poverty rate in the village was still perched at 13.8% while in March 2019 (12.85%). Furthermore, it can be seen that the inequality scale decline in the Gini ratio from 0.336 (2014) to 0.317 in March (2019). Also, rural unemployment decreased from 4.35 in February (2016) to 3.45% in February (2019) (BPS, 2019). The village development is a clear proof of the government's successful policy in 2014, and it can be seen that 26.81% are categorized as the disadvantaged villages, 69.26% as the villages belonging to the developing group, and only 3.93% as the villages with independent status. These figures changed a lot in 2018. The remaining villages owned by Indonesia only left 17.96%, developing villages increased up to 74.49%, and independent villages increased by
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nearly 7.55%. The indicators that affect some changes in the village's status include social services, infrastructure, transportation, public services, and village administration.

All those results are inseparable from the village fund program, which has become the government's golden program. The form of government fiscal policy shift that prioritizes development in villages makes village funds the primary stimulus for village development. Apriani and Irham (2016) stated that village funds are a form of providing ample fiscal space and are expected to reduce development disparities between regions and the center. Based on data from all villages in Indonesia until December 2018, village funds have succeeded in building village roads along 191,600 km; bridge 1,140,378 m; 5,371 boat mooring units; 8,983 village market units; 192,974 landholding units; 959,569 units of clean water; 58,931 irrigation units. Also, village funds were utilized to carry out 37,830 activities in BUMDESAs and 19,526 units of sports facilities in support of increasing the productivity of village communities.

On the other hand, village funds are also used to improve the quality of life of the community by building 24,820 posyandu units; 29,557,922 m of drainage; 240,587 MCK units; 50,854 PAUD / TK units; 4,175 reservoir units; 45,169 units of wells and 9,692 units of Polindes. In the field of business, the allocation of village funds in 2018 nearly 69% for infrastructure in roads, irrigation canals, and others. 20% of village funds are used for the fisheries sector, both in the form of empowering fishing communities as well as economic activities and infrastructure related to fisheries. Furthermore, 7% of village funds are allocated for other service sectors, 2% for manufacturing industries and 3% of village funds used for the agriculture and plantation sectors; animal husbandry; forestry; electricity, water, and gas; trading; transportation; restaurants and accommodations (source: Kemendes, 2019). Even the results of village development have exceeded the target of the 2014-2019 RPJMN, and the government set a target of alleviating 5,000 disadvantaged villages to develop and increase of 2,000 villages to develop into independent villages. By the end of 2018, the government had alleviated 6,518 little villages into developing villages as well as increased 2,665 villages into developed villages. Moreover, 39 National Priority Rural Areas (KPPN) is the main target of developing rural areas to build the surrounding villages’ economic growth centers. Until the end of 2017, the government has provided local government facilitation to prepare a master plan of 28 regions (Andari & Ella, 2019).

One of the rural regions that become the national target is the Ajibata rural area in Toba Samosir. The Ajibata rural area consists of 7 villages with six underdeveloped villages and one developing village in 2014. First, Motung Village has an area of 8 km², a population of 846 inhabitants, and this number is the only developing village in this area. Second, Parsaoran Sibisa Village, has an area of 13.5 km², with a population of 681 inhabitants. Third, Sirungkungon Village, an area of 5 km², has a population of 380 inhabitants. Fourth, Pardamean Sibisa Village, an area of 16 km², with a population of 852. Fifth, Pardamuan Motung Village, an area of 6 km² with a population of 377 inhabitants. Sixth, Sirungkungon Village, has a population of 288 people, an area of 5.3 km². The last, Sigapiton Village, an area of 5 km², has a population of 390 inhabitants.

This rural area has proper infrastructure. One of the infrastructures owned by the Ajibata rural area is roads, ranging from local roads, environmental roads to farm roads that can connect one village to another. Also, infrastructure is the basic needs of the community, including water sources. Water resources owned by this area include springs, reservoirs, and check dams. Besides, this area also has a transportation infrastructure in the form of Sibisa airport, a ferry port to Tomok. This area also has electricity that is dominated by PLN, as well as a communication and information network for cellular phones in the form of BTS.

The leading sector of this Ajibata area is agriculture and tourism. The agriculture sector in the seven villages has potential in coffee, orange, and corn product. Coffee became the mainstay commodity of the seven villages, with an area of 294.6 hectares producing 140.29 tons of coffee in one period. For citrus, it can produce 203.4 tons. While corn, with a planting area of 695 ha, can produce 4,268 tons. The potential tourism sector is in the Black Swamp and Indigenous Forests, Bukit Senyum, Singapore Lake, Singapore Waterfall, and the integrated area of Lake Toba authority.

The initial strategy for developing the Ajibata area was to establish an economic scale by increasing the scale of coffee commodity production from the seven villages. Economies of scale are defined as large-scale production, leading to low costs. In other words, they were increasing production by reducing production costs, thereby increasing profits (Cang, 2018). The production costs incurred will be low by establishing rural areas because they must be shared, and the production scale will increase. An economic scale can occur due to several
factors. Firstly, economies of scale have entered the planned cost of capital. Secondly, economies of scale are always associated with operational efficiency and massive profitability improvements. Thirdly, economies of scale prove that general administrative costs are constant or tend to be lower (Ambrose et al., 2019).

To establish added value in this area, a coffee processing center was built, so those coffee products are sold not only in the form of coffee beans but also in processed coffee. Efforts to increase the added value of coffee from the region require high creativity and innovation to be different from other regions. In the end, it will create new jobs and increase income per capita in the community. Added value will be created in the rural area, and the approach is creativity on economic activities and good cooperation between villages. Research on the creation of added value in Turkey (Tuker & Mehmet, 2013) reveals that the creation of added value is highly correlated with the factors of informal labor, the informal economy, financial conditions, culture, and others.

This area is also designed for coffee marketing products with a sales strategy as souvenirs of Toba for the domestic and international markets. In marketing this local product, the community collaborating through BUMDESMA (BUMDesa Bersama). In this area, coffee processing has been established from upstream (production by farmers) to downstream (marketing). All of these processes involve a local workforce from the area.

The purpose of developing this area is to increase the rural economy, which will encourage the economy in the regional area. The main objective of developing rural areas is to increase community income, competitiveness, added value, and GRDP (Martadona, Purnamadewi, and Najib 2014). Gustiana (2015) also said that the agriculture-based rural area development model would increase competitiveness, added value, exchange rates, and farmers' welfare.

The economic movement of the rural areas is the foundation of the national economy. Therefore, entrepreneurship based on empowering local communities, utilizing the economic potential, and using local labor is a good strategy. Rural areas have been able to function correctly; it can increase the economies of farmer’s coffee scale, the added value of coffee products, bargaining power by making coffee products as local souvenirs. With a sense of shared ownership, there will be no more villages competing with each other but promoting collaboration between villages. Low production and less market make economies of scale not optimal, so that it is often detrimental. The main challenge of remote areas is the lack of economies of scale and companies that produce only a few with the same product that often creates competition (APEC, November 2018). Rural areas will encourage an increase in the scale of the rural economy, especially production from one village rise more than one village.

Learn from other countries, collaboration is the key to the success of rural development; for example, in Thailand, collaboration in infrastructure development, sharing information, and experience gives new strength and eliminates the desire to compete between villages (Chiangmai, 2017). Reflecting on China's experience in rural development, in the long run, rural development must be able to pay attention to environmental protection, develop and utilize natural resources rationally by avoiding pollution and environmental damage. Besides, the spatial design of rural development is also an essential concern at a later stage. Traditional villages, historic buildings, iconic villages are essential to protect as witnesses to the history of village life, and village development must also pay attention to the interests of all communities, not only the majority but also ethnic minorities. Rural development must be able to integrate traditional ethnic without leaving the different nationalistic (Xia & Wen, 2019).

Also, in China, the development of rural areas began with development from the top down, by forming inter-village organizations in one region aimed at increasing agricultural production (Zhou & Yan, 2015). The top-down approach here means building cooperation between villages and making decisions to produce the same agricultural commodities simultaneously. There will be a lot of transfer of knowledge, experience, information, and technology between communities with cooperation between two or more villages. Many countries develop rural areas through a top-down approach by changing knowledge about agricultural expansion (Lowe, 2010). Sharing the good things between farmers will produce superior products that can increase economies of scale. Rural areas of Ajibata are more geared towards a top-down approach, which places the key to development on economies of scale and specialization. The power of development in the rural areas of Ajibata is growth centers that act as producers of food and beverages in urban areas. In this case, the Ajibata region can be marketed locally or marketed in urban areas as a coffee producer.
5. Conclusion

The developments of technology and globalization increase gradually; therefore, villages need to adapt appropriately to modernization. Although the growth centers in rural areas were formed to overcome the backwardness of village development, keeping the village's local wisdom and economic potential from modernization is essential. The rural area development policy is a continuing project to protect the culture and local wisdom based on the respective villages. Indonesian villages have unique characteristics (rural areas at Ajibata, Toba Samosir, North Sumatra), in this case, the development of rural areas is using the strategies of regional economic development called a top-down approach, whereas creating the Ajibata rural area as a center of growth and as a marketing bridge to the urban areas.

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