Sustainable agricultural reform and the persistence of poverty in Indonesia: A path dependence analysis

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Abstract. The most important characteristic of poverty in Indonesia is the prevalence of poverty in the agricultural sector. What is the main root of poverty in the agricultural sector in Indonesia? By analyzing the historical account of agrarian reform, the paper examined the evolution of policy toward peasant and agricultural sector in Indonesia from 1960s. It argued that the lack of peasants’ accessibility of land ownership, government reluctance to revitalize agricultural sector, as well as the failed land reform agenda have contributed toward massive poverty in Indonesian agricultural sector. The paper provided further analysis of current Indonesian policy toward agricultural sector.

Keywords: agricultural reform, poverty persistence, historical analysis

1. Introduction

For the past two decades after the 1998 Asian Crisis, Indonesia has been rapidly growing into the world’s 16th largest economy [1]. Indonesia’s economic growth is primarily due to a combination of domestic consumption and productivity growth in the commodity sector [2]. However, despite its economic achievements, poverty is still prevalent in Indonesia. It is estimated that 30 million Indonesians live below the poverty line while the other 30 million can be considered as a near-poor. Thus, making Indonesia homes for 70 million poor people [3]. The question, then why does poverty still prevalent in Indonesia despite its steadily economic growth in the past two decades?

Conventional wisdom argues that the problem of poor governance within the government institutions [4], the failure of industrial policy [5], as well as the lack of social safety net program [6] in Indonesia are the main factors causing the persistence of poverty in Indonesia. For the past fifteen years, the government, with the supervision from the World Bank, has put a greater effort into developing and implementing the poverty eradication policy to address the later issue. Though the implementation of the policy has made millions of Indonesians covered by social safety net program [7], however, this policy has not be able to lower the poverty rate in Indonesia. In 2015, the number of the poor people is predicted to reach 30.25 million people, or about 12.25 percent of the Indonesian population. Based on BPS data, the number of poor in 2014, the percentage of poor people in Indonesia reached 11.25 percent or 28.28 million people, then in 2015 there was an additional population of about 1.9 million poor This paper contends that the policy does not address the fundamental problem of poverty in Indonesia. If we look more closely on the characteristic of poverty in Indonesia, we found that the prevalence of poverty
is higher in the agricultural sector than in any other sectors. Thus, without any systemic solution for eradicating poverty in agricultural sector, poverty would persist in Indonesia.

The paper aims to analyze the structural problem causing the persistent of poverty in the agricultural area in Indonesia. The paper argues that the lack of peasants’ accessibility of land ownership, government reluctance to revitalize agricultural sector, as well as the failed land reform agenda have contributed toward massive poverty in Indonesian agricultural sector.

2. The characteristic of poverty in Indonesia

By sector, the number of poor people in Indonesia are concentrated in the agricultural sector. From Indonesia’s Independence in 1945 until now, this sector has always been the sector where the majority of poor households depend. BPS data (2010) indicates that about 63% of poor households working in agriculture are farmworkers, while only 6% of poor households work in the industrial sector and the remaining 21% work in other sectors. Furthermore, the agricultural sector is not only a sector with the majority of poor people, but it is also the highest elastic sector in job creation by contributing around 40-44% of the proportion of jobs created in Indonesia. This has made many Indonesia's workforce tend to work abroad rather than working in the agricultural sector [8].

Nevertheless, we see growth in the agricultural sector continues to decline from year to year, which implies very low productivity. Low productivity causes the value of per capita income in the agricultural sector is the lowest when compared to other sectors. The low productivity is caused by many things. One of the main causes is the lack of ownership and control of land by poor farmers [9].

Table 1 shows characteristics of the Indonesian farmers. The number of farmer households increased by about 5 million in the period 1993 to 2003 from 20.8 million to 25.4 million, or in other words, it increased an average of 2.2% per year. However, this increase was also accompanied by an increase in the number of smallholder/subsistence farmers that in 1993 only amounted to 10.8 million to 13.7 million in 2003, an increase of approximately 2.6% per year. Hence, the average percentage increase in the number of smallholder/subsistence farmers is 0.3% higher compared with the increase in the average number of farm households. By looking at the percentage ratio, the proportion of subsistence farming households increases from 52.7% in 1993 to 56.5% in 2003. This figure becomes even more significant if we look at the statistical data in Java where the number of households that do not own land or have less than 0.5 ha of land increased from 69.8% in 1993 to 74.90% in 2003. In other words, more than half of Indonesian farm households are landless farmers or have less than 0.5 ha of land [10]. The absence of land ownership is causing farmers in Indonesia to have low productivity. Agricultural production which they did only able to feed but have not been able to benefit from obtaining sufficient additional revenue to meet the needs of non-food.

| Farmers                          | 1993 | 2003 |
|----------------------------------|------|------|
| the number of farm households    | 20.8%| 25.4%|
| amount of subsistence farmers    | 10.8%| 13.7%|
| the ratio of subsistence farmers | 52.7%| 56.5%|
| the ratio of subsistence farmers in Java | 69.8% | 74.9% |

Source: Agricultural Sensus, BPS (2010)

In addition, the number of poor people living in rural areas is much higher compared to living in urban areas by an average of nearly two-fold. In other words, every one of the poor people in the city, there are two poor people in the village. Deeper when we note the existence of the urban poor is nothing but the result of a relatively massive urbanization of rural poor people who move to cities to find work.
Urbanization led to the transfer of labour from the rural poor who have little education and limited skills to the city. This change indirectly becomes a process of displacement of poor people lives in rural areas initially be living in urban areas. In other words, although there are poor people in the city, the source of poverty came from rural areas.

3. The structural poverty in the agriculture sector in Indonesia

Indeed that, through the Social Safety Net Program designed by the World Bank and implemented by Susilo Bambang Yudhoyono presidency (2004-2010) which has made the Indonesian poor to be covered by Social Safety-Net System. However, this policy has served as a social safety to protect the poor in the event of shocks exceptional crisis. Furthermore, even until now, the Indonesian government faces difficulties in reducing the prevalence of poverty in the agricultural sector. The main root of poverty in the agricultural sector is not the lack of safety net provided to Indonesian farmers but the lack of asset and capital. Asset and capital are the two main problems that hinder poor people in the agricultural sector out of poverty. In the absence of assets and capital, the poor in the agricultural sector have difficulty in breaking the vicious circle of poverty they face. At the same time, the state as protector of the poor has so many assets that would otherwise be used by the poor as a starting point for their efforts to escape poverty. This is where the state plays a role in the structural transformation by providing opportunities to the poor, especially farmers to own assets and capital to break the vicious circle of poverty that traps them. Structural transformation is a strategy to improve the access, use, and ownership of assets and capital. To achieve this goal, the first main priority for the Indonesian government is to implement agrarian reform. This policy is intended to increase the ownership and utilization of productive assets for the poor farmers. The core problem of poor farmer households is the lack or absence of productive land assets so that the process of agricultural production cannot be run with the maximum. Sufficient land ownership is the most fundamental prerequisite for farmers to increase their productivity [9]. Without a change of ownership and utilization of productive land, the agricultural production will never achieve optimal conditions and the government will not be able to cope with the problem of poverty in this sector [10].

Agrarian Reform is not a new agenda in Indonesia’s political landscape. The idea has been proposed long ago since the early day of the independence of the Republic. In the Indonesian context, the most important policies of agrarian reform are the land reform. While land reform itself covers two important issues namely land tenure reform (land reform related to the relationship between owners and renters) and land reform operation (broad changes in land tenure, legal land status, ownership and land tenure arrangements), or in other words in the agrarian reform there are two main parts that are important to note, that the aspect of 'control and ownership' on the one hand and the aspect of 'use and utilization of' land on the other hand. But the agrarian reform should not be understood only as a concept of equality. This understanding may lead us away from the problem of poverty in the agricultural sector, which accounts for about 60% of the number of poor households in Indonesia. It takes more than just having the land for wealth creation in the agricultural sector. Thus, agrarian reform should be understood more as a strategy to create opportunities for subsistence farmers out of condition and become net producers. By placing agrarian reform in order to create this opportunity, then it will open up opportunities for the eradication of poverty in the agricultural sector.

There are two approaches in conducting agrarian reform that is already known. First, the policy of agrarian reform carried out radically, simultaneously, fast, and thorough. This strategy has been attempted by President Sukarno in 1960. Although at the end of this program foundered due to a coup by Suharto. Human rights activists and NGOs working in the agricultural sector is more inclined to this strategy. The second method is the policy of agrarian reform carried out gradually and continuously. This method is 'softer' and is usually supported by the bureaucracy, especially by relevant ministries which technically is implementing the policy.

Furthermore, this approach also emphasizes on the administrative aspect rather than a radical change in the ownership of land. Hence, it requires less adjustments to political, sociological, and economic. Existing social structure changed slowly with no change in the structure of longstanding
drastically. Strengthening the administrative side of Law and protection of poor farmers is an important point that must be ensured first before doing the agrarian reform.

In the early days of independence, the spirit of eliminating feudalism and colonialism was at its peak so the policy, at the time, to change the agrarian structure became an important issue among the ruling elite. Political effort to improve the agrarian Law by running the agrarian reform policy is closely linked with the history and spirit of the struggle against the colonial grip. Therefore, do not be surprised if this policy becomes a struggle almost all classes, not just the socialist-Marxist and communists, nationalists and Islamists have also agreed to make it as one of the main agendas that needs to be fought. Even when Indonesia run its first election in 1955, political parties have used the agrarian reform program in campaigns to lure voters. Therefore, in 1960, the government agreed to create the Basic Agrarian Law (BAL) 5 in 1960 and the Law No 2/ 1960 on Production Sharing Agreements (UUBH).

It took approximately 12 years to form these two Acts since the committee was formed in 1948. In the era of the Soekarno’s Old Order, Agrarian Reform Program was based on two laws above. Law No. 2/1960 on Production Sharing Agreements (UUPBH) is designed to regulate the relationship between landlords and tenants. This Law aims to protect tenants who are poor and weak in the face of more powerful landlords and tenants to provide stimulus to increase production. While Law No. 5 of 1960 on Basic Regulation of Agrarian (BAL) is a much broader in scope. The Law is intended to harmonize the conditions of agrarian revolution with the aim of Indonesia where the goal is to lay the legal basis for the creation of a legal structure accepted and become a national reference in regulating ownership rights, tenure and land use, and management of Agrarian Reform. Besides, the Basic Agrarian Law (BAL) was also made to cancel the regulation on the ground of Law, which is inherited from the era of feudalism-colonialism as the Agrarian Law 1870 and Decree 1870. With the enactment of this BAL expected feudal social structure, crippled, uneven and could be abolished.

Basic Agrarian Law (BAL) No. 05/1960 includes four basic principles of Agrarian Reform. First, agricultural land is the land given to the farmers. Second, the primary right to land is specifically for Indonesian citizens. Third, the ownership of the land that is not used is not justified. Fourth, farmers that are economically weak must be protected from the exploitation of the rich that a stronger economic position. Basic Agrarian Law also stipulates that to protect subsistence farmers who have no land, the government will provide land ownership rights over a minimum of two hectares of rice field irrigation and dry land for every family nucleus smallholder, while on the other hand, set a maximum limit for preventing excessive ownership. The average data of land ownership before the exercise of agrarian reform is presented in Table 2.

**Table 2. Average Land Tenure in Java, Madura, Sulawesi and Nusa Tenggara 1957**

| Province                     | Number of Villages | Total of Land owners | Land Areas | Average Land per owner |
|------------------------------|--------------------|----------------------|------------|------------------------|
| West Java                    | 3.763              | 2.519.365            | 1.283.856  | 0.5                    |
| Central Java                 | 8.314              | 3.599.182            | 1.347.238  | 0.4                    |
| East Java                    | 8.139              | 3.727.389            | 1.738.005  | 0.5                    |
| Celebes and Nusa Tenggara    | 3.093              | 705.647              | 661.231    | 0.8                    |
| Total                        | 24.093             | 10.551.593           | 5.030.330  | 0.5                    |

Source: Pidato Menteri Agraria RI Sadjarwo pada sidang Dewan Pertimbangan Agung 13 Januari 1960.

Table 2 describes that the average family has 0.5 hectares of farmers only and the figures were obtained from rice area divided by the number of landowners, but if the rice area is divided by the
number of growers, then obtained a smaller number again, which is about 0.151 hectares of land per capita. To determine the structure of land tenure. Table 3 gives a general overview.

Table 3. Structure of Agricultural Tenure in Indonesia in 1957

| Province          | The Number of Land Owners |
|-------------------|---------------------------|
|                   | <0.5 ha | 0.6-1 ha | 1.1-2 ha | 2.1-5 ha | 5.1-10 ha | 10.1-20 ha | >20–thousand ha |
| West Java         | 1,395,307 | 359,424 | 156,216 | 56,283 | 8,153 | 1,449 | 363 |
| Central Java      | 1,388,352 | 405,067 | 115,304 | 25,787 | 3,265 | 905 | 111 |
| East Java         | 933,615 | 464,532 | 167,565 | 40,954 | 4,369 | 577 | 93 |
| Celebes and Nusa Tenggara | 468,151 | 197,286 | 105,704 | 42,277 | 5,770 | 1,468 | 433 |
| Total             | 4,185,425 | 1,426,309 | 544,789 | 165,301 | 21,557 | 4,399 | 1000 |

Source: Pidato Menteri Agraria RI Sadjarwo pada sidang Dewan Pertimbangan Agung pada 13 Januari 1960.

Data on Table 3 clearly shows that the majority of farmers or about 60% of the total number of existing farmers, are poor farmers with land holding below 0.5 hectares. Meanwhile, the number of landowners that control land above 20 acres up to thousands of acres, only about 1,000 farmer households, or approximately 0.01% of the total landowners. This further confirms the fact that inequality is very worrying and depressing. No wonder that the issue of land tenure inequality become a populist issue in the era of the Old Order. This is not only due to the sheer ideological problem, but it is because the needs are already an urgent national development in order to create a fairer and more equitable [11].

During the Old Order era, effective implementation of the Agrarian Reform took place between 1961-1965 with two main activities, namely land registration and the establishment of excess land to be distributed equitably to poor farmers who have no land. Basic Agrarian Law (BAL) and the Law on Production Sharing Agreements (UUPBH) at first was not effective because governments are still struggling to focus on the problems of data collection and measurement of land covering the area of Java, Madura, Bali and West Nusa Tenggara. However, the process of data collection and measurement in all parts of Indonesia have been completed in the year 1963-1964 even at the end of 1964, the division of the land was done. This division occurred in Java, Madura, Bali, Lombok, and Sumbawa as the first stage. In this first stage, the land has been distributed is as much as 296 hectares of the 337 445 hectares of land which is programmed to be shared. As for the second phase of the division successfully conducted many as 152 502 hectares. However, these efforts were never realized because in 1965 the Old Order experienced a military coup attempt of creating political upheaval in which political conflict between communism and the military is at its peak. Furthermore, as noted by history, the Old Order successfully overthrown by the military which then form a government known as New Order under Soeharto authoritarian regime.

New Order supported by the United States have changed the direction of Indonesian development from the socialist-revolutionary to become more pragmatic-capitalist. New Order were supported by the United States have changed the direction of Indonesian development from socialist-revolutionary to become more pragmatic and capitalist oriented. As a result, in the beginning of the New Order (1966-1970), Agrarian Reform has never been a national development agenda. Even in practice, the New Order campaign covertly that agrarian reform policy is a policy that is identical to the Marxist-communist ideology. This causes groups who want to fight for agrarian reform labelled as Marxist-communist group which is the main enemy of the New Order government. Instead of fighting for agrarian reform policies,
the New Order government makes the foreign capital investment as the basic foundation of national development by making Law on Foreign Investment (UUPMA) No. 1/1967. This Act became the beginning of the liberalization of the sector does capital in Indonesia, and Revolution put an end to socialism that had previously been the doctrine of national development in the era of the Old Order.

New Order policies towards a more open and pro-foreign capital make agrarian reform policy, not as a program that should be seen seriously. Changing the unequal social structure, unfair, and exploitative is not an important issue to be resolved for the New Order government. Economic development in the perspective of the New Order narrowed down only to the extent of economic growth with the capital as the key driver. Agriculture development paradigm was reduced solely to improve the productivity of food supply. Food self-sufficiency a barometer of success not as an attempt to alleviate poverty. No wonder if the progress of development in the agricultural sector is understood only a process of increasing food production to achieve food self-sufficiency. New Order government has managed to achieve rice self-sufficiency in the early 1980s achieved not of results but the agrarian reform of green revolution policy launched by the government. The green revolution alone conceptually makes farm ownership system concentrated only on the owners of capital are able to manage agricultural land in large-scale production, while small farmers and landless poor and remain trapped in the cycle of poverty in the agricultural sector. As a result of agrarian reform policy itself deeper and deeper into the earth. In addition, the concept of agrarian reform is becoming increasingly unpopular due to the negative image caused by the discourse that always puts the concept of agrarian reform in the context of the ideology of socialism and communism. Moreover, this concept is the main agenda in the Old Order were already branded as a supporter of socialism and communism.

In the reform era with the fall of the authoritarian New Order regime, the spirit to carry out agrarian reform policies resurfaced [12]. The agrarian reform policy has been accepted unanimously at the Assembly meeting in 2001 and House of Representatives have mandated the government to execute this policy. Nevertheless, the political processes that occurred at that time were filled with turmoil and the government heavily focused on maintaining good stability of macroeconomic fundamentals as well as political and security. In 2005 finally, the agrarian reform had increasingly become a public discourse in national level. Unfortunately, under the leadership of Susilo Bambang Yudhoyono, the commitment toward agrarian reform has not been realized in the form of formal legal regulations and binding. Government Regulation Plan (RPP) promised Agrarian Reform will be published in 2007 was not met. Until January 2012 set as the deadline for the issuance of, any Government Regulation is yet to be determined.

Actually, if the government is serious and committed, agrarian reform is not something utopian. The essence of agrarian reform is the redistribution of land ownership and use a country with the aim to reduce inequalities of land ownership, so that poor people also acquire use rights over state land. Based on BPS data (2010) the number of households in Indonesia reached 59.1 million farmer households and is estimated at 30 million. Furthermore, if one refers to the results of the agricultural census in 2003, it is estimated there are at least 16 million small farmers with land below 0.5 acres and with ideal conditions at least 2 hectares of land tenure, then the additional necessary for the average farmer is 1.5 hectares per household, or about 24 million hectares for the whole. The need is very likely to be met with a land area of Indonesia reached 191 million hectares of agricultural land while only about 19.81 hectares [13].

4. The need for agricultural revitalization
Agrarian reform is a major strategic step that must be executed as it systematically will change the structure of land use and tenure and encourage poor farmers to have productive land assets that give them a more significant opportunity to increase revenue. But the agrarian reform alone is not enough. To revive the role of agriculture in economic development, the revitalization of agriculture must be a strategic move to complete. Agricultural revival is an attempt to revive the agricultural sector as a vital sector and a priority of national economic development.
Revitalization of agriculture itself has three essential meanings in the discourse of development in Indonesia. First, the revival of agriculture is the nation's collective consciousness of the importance of agriculture for the life of the nation and all the people of Indonesia. Second, the revitalization of agriculture is a concept of the future expectations of the agricultural sector, and the third, revitalization of agriculture is a major policies and strategies in doing 'process' to alleviate poverty in the agricultural sector.

Revitalization of agriculture should be understood proportionally and contextually. Proportional means that the agricultural sector is the most important sector but does not stand alone and is closely linked with other sectors. In the context of economic development and poverty alleviation, the agricultural sector requires a comprehensive approach to the development and support of other sectors [14].

While contextually revitalization of agriculture means that the urgency of the development of the agricultural sector is not caused by greatness or past successes. Indeed, the context of the revitalization is more geared to the interests of the present and the future. Agricultural development not only as an effort to build food security, the fulfillment of the quota of food for domestic society, achieve food self-sufficiency and food surplus. Agricultural revitalization should be put in the context of the global political economy landscape that are facing a global crisis in the food sector. Food security became a central issue today and in the future. Even if we look further, the problem of food and revitalization of agriculture is no longer seen in the economic and socio-cultural perspective only, but now has entered the realm of national security non-conventional (non-conventional security).

Therefore, agricultural revitalization should be a collective consciousness of the nation in the face of the challenges of the world food crisis. Besides, agricultural revitalization should also include three important things namely improving the competitiveness of the agricultural sector, the development of the capacity of the sector to be more productive and competitive, and the most important is the increase in the human resources capacity in the agriculture sector. The final goal of agricultural revitalization should not be separated from the establishment of the welfare of the farmers so that they come out of the poverty trap structural and able to empower themselves to become more prosperous, equitable and prosperous.

5. Conclusion
Agrarian Reform is a major strategic step that, if it is executed systematically will change the structure of land use and tenure in the agricultural sector. This condition will encourage poor farmers to have land productive assets and thus give them greater opportunities to increase revenue. But the agrarian reform alone is not enough. In an effort to revive the role of agriculture in economic development, the revitalization of agriculture must be a follow up strategic move after the agrarian reform. Agricultural revitalization is an attempt to revive the agricultural sector as a strategic sector and thus given a priority for national economic development. This policy is an instrumental in complementing agrarian reform policies. Since without the revitalization of agriculture, agrarian reform policy will not create an optimum impact on poverty reduction in agricultural sector. In the context of poverty reduction in the agricultural sector, these policies constitute a core policy in an effort to transform the structural to help poor households in agricultural sector to be able to out of poverty.

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