

# Agrarian Transformation through Rural Savings and Investment

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Currently, the agricultural sector in Indonesia employs about 35 percent of the workforce, while the gross domestic product (GDP) share of the sector is only around 14 percent. This indicates relatively low level of farmers' income compared with other sectors. One of the critical problems in conducting agrarian transformation is scarcity in savings and investment in rural areas. This problem limits not only the ability of the agricultural sector to grow optimally but also stops the improvement of non-farming and off-farming activities in rural areas. This will only retard any growth in agricultural employment and lead to poor accumulation in this sector. Therefore, studying agriculture/rural savings and investment and its relation to support agrarian transformation is very important. This study included analysis of factors affecting agricultural savings and investment. It utilized household data from three Indonesian provinces, which have played a predominant role with respect to the agricultural sector. A regression analysis found that farm-level investment is positively affected by the area of land operated and farm income. Households with more non-agricultural income tend to have higher savings and productive investment, which can potentially be used for financing non-farm and off-farm activities. Therefore, there is the potential to provide jobs to members of the existing workforce who are currently working below their capacity. As a result, agrarian transformation can occur. This study also suggested that the government needs to provide incentives to farmers, as well as non-farmers, to invest more in the rural agro-industry.

*Keywords:* agrarian transformation, rural savings, rural investment, household data, regression analysis