

Reducing Economic Inequality through Agrarian Transformation: A Role of Rural Saving and Investment

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The agricultural sector in Indonesia recently employs about 35 percent of the workforce, while the GDP share of the sector is only around 14 percent. This indicates relatively low level of farmers' economic wellbeing as compared to other sectors', which could be corrected by inducing agrarian transformation. One of the critical problems in conducting agrarian transformation is scarcities in saving and investment in rural area. This problem limits not only the ability of the agricultural sector to grow optimally but also constrains improvement of non-farming and off-farming activities in rural area, which make agricultural employment stuck and accumulated badly within the sector. Therefore studying agricultural/rural saving and investment and their relation to support of agrarian transformation is very important. This paper includes analysis on factors affecting agricultural saving and investment, utilizing household data from three Indonesia's provinces that have played predominant role with respect to agricultural sector. It is found from the regression analysis that the farm level investment is positively affected by operated land area and farm income. Furthermore, households with more non-agricultural income tend to have higher savings and productive investment that potentially can be used for financing non-farm and off-farm activities, which in turn capable of providing job opportunities to be filled by existing rural workforce who are working under their capacity and hence inducing agrarian transformation to run. This transformation would push further rural development and signify attempts to reduce economic inequality. As such, it is suggested that government should provide incentives for farmers as well as non-farmers to invest more in agroindustry in rural area.

Keywords: agrarian transformation, economic inequality, rural saving and investment.