

## MODEL FOR HANDLING DISADVANTAGED VILLAGE IN FACING THE VICIOUS CIRCLES OF POVERTY IN SITUBONDO DISTRICT (CASE STUDY IN BESUKI VILLAGE)

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### Abstract

The main problem of concern in economic development studies so far is the question of poverty. The effectiveness of poverty alleviation programs that have been piloted by both top-down and bottom-up government are not running well yet. Small and Medium Enterprises (SMEs) become one of the sectors that dominate economic activity besides agriculture sector. The purpose of this research was to obtain the synergy model of the policy implementation of underdeveloped village to face the vicious circles of poverty. Besides, this research was aimed to obtain a relationship model of factors of success in the implementation of disadvantaged village policy in facing the vicious circles trap. The data were processed and analyzed using SWOT and institutional analysis through focus group discussion (FGD) technique with the stakeholders. The results of the analysis showed that in enhancing economic activities through SMEs, an active role of government is needed as a mediator that connects SMEs with stakeholders such as academics, financial institutions, and trade associations.

Keywords: Poverty, Small and Medium Enterprises, Stakeholder

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### INTRODUCTION

The main problem of concern in development studies so far is poverty. Various studies suggest that the increasing rate of economic growth in Indonesia still does not rely solely on the strength and potential of the domestic or local economy. Until now, the effectiveness of poverty alleviation programs that have been tested by the government, both top-down and bottom-up are still not running well [1]. This is indicated by the low level of success in top-down nature because the program target community is not involved in the design of the program and the monitoring activity, so it appears that the program is a grant from the government that does not need to be returned. Similarly, the bottom-up program has lower failure rate than the top-down program [1].

The decline of poverty in Indonesia in the period 1976-1996 was one of the most impressive development episodes and was one of the success stories of poverty alleviation for Indonesia as well as for many other countries. In this period, the poverty rate in Indonesia fell from 40 percent to 11.7 percent.

This downward trend was interrupted when Indonesia was hit by the Asian financial crisis in 1997-1998. Beginning in early 2000, the downward trend of poverty rates has begun to return but with a slower decline compared to the pre-crisis period in 1997-1998. This slowing down of poverty continues until the beginning of SBY-Boediono's administration in 2009.

Some poverty alleviation programs focus on increasing public consumption such as the provision of Direct Cash Transfer (Indonesian abbreviation: BLT) as compensation from the fuel price hike. This condition is inversely proportional to the poverty alleviation program in the form of Community Business Loans (Indonesian abbreviation: KUR) which experienced obstacles such as bad debts. There is a tendency that society is dependent on consumptive program psychologically which as a whole results in KUR perception as a form of grant like BLT.

[2] expanded that human development approach further and called it the human capabilities approach. Human development needs to be seen as a process expanding the capabilities of people. Real poverty can be sensitively identified in terms of capability deprivation: deprivation that are intrinsically important, unlike low income, which is only instrumentally significant. Relative deprivation in terms of income can yield absolute deprivation in term of capabilities. Distinguish between income poverty and capability poverty; and capability poverty is obviously more important. Poverty can simply be defined as the state of being poor and unable to provide basic human needs such as food, clothing, and shelter. Thus, poverty denotes a state of need, of not having access to necessities of life that support actual dwelling. It is a state of helplessness [3].

To accelerate growth and reduce poverty, the World Bank Group and other International aid agencies provide targeted assistance to small and medium size enterprise (SMEs) in developing country. This pro SME policy is based on three core arguments. First, SME advocate argue that SMEs enhance competition and entrepreneurship and hence have external benefits in economy-wide efficiency, innovation, and aggregate

productivity growth. Direct government support of SME will help countries exploit the social benefits from greater competition and entrepreneurship. Second, SME proponents frequently claim that SMEs are more productive than large firms but financial market and other institutional failures impede SME development. Third, SME expansion boosts employment more than large firm growth because SMEs are more labor intensive [4].

By undertaking deliberate, and appropriately planned strengthening of SMEs, one will most certainly end up by achieving the following results: enhancing their productivity; raising their employment generating capacities; and consequently placing higher incomes in the hands of the poor entrepreneurs. A direct way of strengthening these enterprises will require that we focus our attention on two main factors: first, addressing the constraints facing those enterprises and second, taking appropriate technology to the enterprises and making sure that such technologies are adopted by the enterprises. We do not need to over-emphasize the fact that such technologies must be appropriate. The appropriateness of a technology can be viewed from four main characteristics which must be incorporated into the design of the technology: the technology must be entrepreneur capability friendly to the extent that its design must take into account the capability of the entrepreneur; it must be productivity enhancing; it must have a high employment generating capacity; and it must equally have a high income generating capacity. By generating larger volumes of employment as well as higher levels of income, the SMEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society [5].

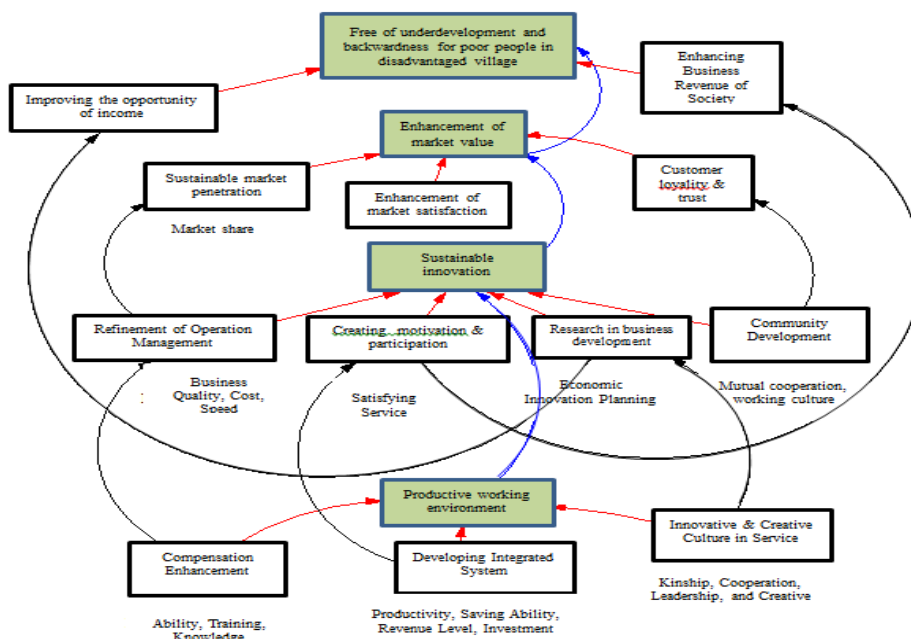
The SMEs are being considered as engines of economic growth world wide. One of the most important roles of SMEs in this context includes poverty alleviation through job creation. The developed as well as developing countries are taking extreme benefits from SMEs and they are capable to accelerate the economy of any country [6]. It is also implicit that sector conquered by SMEs are better able to develop dynamic economies of scale. The role of SMEs in the creation of productive employment are concerned with its position in the center of the range of sizes and resources intensities in a rising economy. Developing economies have started to focus on the crucial role that SMEs can play in their development [7].

Besuki District, located in Situbondo Regency, has a long history in Indonesia. In the Dutch East Indies era, Besuki District was the capital of the eastern region of Java Island. The poverty rate in Situbondo decreased from 2012 to 2014. But increasing number of population lead to higher gini ratio. In other words, the level of income distribution has an increasingly wide gap. The decline in the number of poor people was not linear to the gap occurred in Situbondo.

## **METHODS**

Strategic research or action research is intended to solve the problem according to the goal. The problem that will get the solution is the development of handling model of disadvantaged village in facing the vicious circles trap in Besuki Village located in Besuki District, Situbondo Regency.

The conceptual framework of the handling model for backward village in facing the vicious circles in Besuki Village using linkage program pattern and productivity improvement, income level, savings ability, investment as well as refinement of market, underdevelopment, and backwardness are described as follows:



**Figure 1. Strategy Map of Underdeveloped Village Handling in Facing the Poverty Trap Circle**

The output of this research is underdeveloped villages handling model in facing the vicious circles in Besuki Village. The technique of processing and data analysis is using SWOT and institutional analysis through focus group discussion (FGD) technique with stakeholders.

**FINDINGS AND ARGUMENT**

**External and Macro Environment**

Situbondo Regency is dominated by pre-prosperous family totalling 67.880 families. This shows that the majority of families in Situbondo have not been able to meet their minimum basic needs. The average calculation result of Location Quotient (LQ) in 2010 - 2016 shows that the economic sectors in Situbondo regency categorized in base sector with the criteria of LQ calculation is greater than 1 consist of 8 (eight) sectors, those are Agriculture, Forestry, and Fishery sector with LQ score (2.68), Water Supply, Waste Management, Waste and Recycling sector with LQ score (1.38), Information and Communication with LQ score (1.10), Financial and Insurance Services with LQ score (1.13), Government Administration, Defense, and Mandatory Social Security with LQ score (1.48), Educational Services with LQ score (1.49), Health Services and Social Activities with LQ score (1.41) and Other Services with LQ score (1.47). This means that the growth rate of the eight sectors in Situbondo is greater compared to the growth rate of the similar sectors in the economy of East Java.

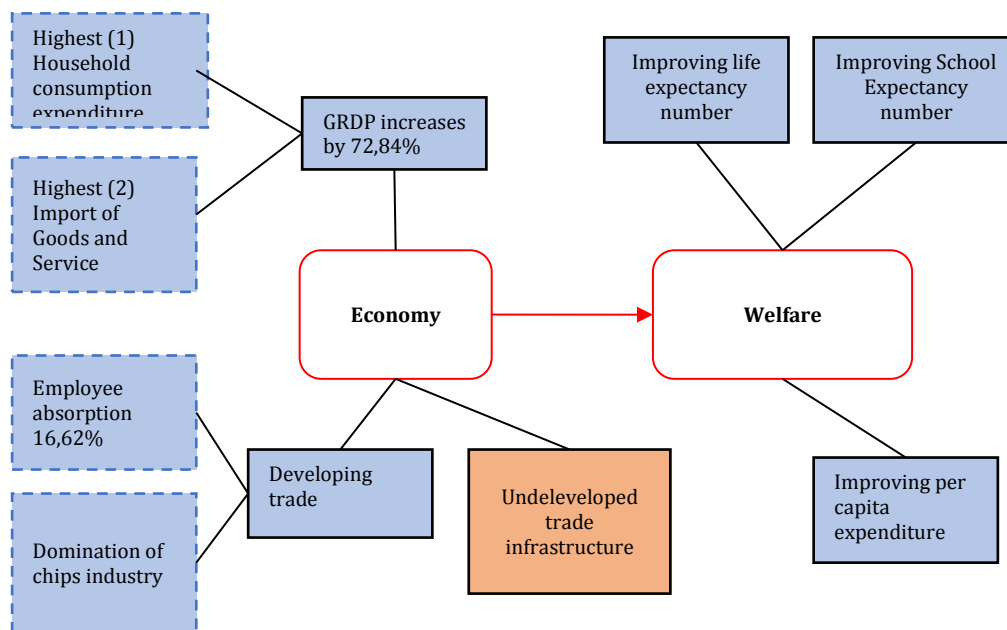
There was an increase in population density. In 2009, the density in Besuki was only 2,325 inhabitants per km<sup>2</sup>. In 2015, the population density in Besuki increased to 2,460 km<sup>2</sup> or an increase of 5.806% in just 6 years. Most Besuki residents (54%) have low education. While the population with the background of junior education is 15% and the population with high school background is 12% of the total population. While for the population with a high education background (Diploma / Bachelor / Master / Doctor) only 3% of the population.

In general, Human Development Index in Situbondo district is in the score of 65.08 in 2016. Thus it can be understood that HDI in Situbondo is in the medium category. While East Java HDI in 2016 are respectively at 69.74 (medium) and national HDI is 70.18 (high). However, although the HDI of Situbondo District is still far below, there is a positive growth of the HDI-forming dimensions such as life expectancy, school, and per capita expenditure.

Life expectancy of Situbondo residents was in average of 68.41 years old in 2016. Compared to the previous year, life expectancy in Situbondo has increased. However, this figure is still below the life expectancy of East Java and National, each of which is 70.74 years old and 70.90 years old.

For Besuki region, trade is a sub-sector that gives the most impact to the economy in Besuki. The trade sector is more dominant than the agricultural sector. This is interesting to note remembering some districts in Karesidenan Besuki (Situbondo, Banyuwangi, Jember, Lumajang) are dominated by agriculture sector. The location of Besuki which is passed by the northbound lanes (Trans Jakarta-Bali) is a very profitable potential

and should be developed for the trade between regions. It can be seen that Besuki trading facilities and infrastructure are dominated by stores / grocers.



**Figure 2. Economic Structure of Besuki**

In one production process, the profit that can be generated by the businessmen is Rp 60.400. On average in a month, the respondents are able to perform 8-11 times the production process. Thus it can be understood that the profit generated by chips businessmen in a month is reaching Rp 483.200 - Rp 664.400.

During Forum Group Discussion (FGD), respondents revealed several problems faced in doing business production of cassava chips. In terms of capital, cassava chips businessmen explained that the capital gained is a result of savings, selling the assets such as motorcycles, and loans from relatives. Furthermore, the respondents explained that they did not know or did not have information about capital loans from financial institutions such as cooperatives or commercial banks. Respondents revealed that the only one who often came to visit to offer capital assistance was "mobile banks".

The next discussion was about the possibility of capital assistance. Respondents explained that all this time, their business of chips production does not have a trade license. This happens because the respondent does not know how to get the license. The next discussion was an explanation of the terms and benefits that businessmen can get when they have a trade license. Regarding administrative requirements such as identity cards, family cards, and bureaucratic licensing flow, respondents feel no objection. However, when it came to the premium obligation of Social Security Administrator (Indonesia abbreviation: BPJS) paid by employment/business owner for the workforce, the respondent objected because it will increase the production cost. They only get limited omzet so it will result in the depletion of the value profit received by the businessmen.

From the results of discussions in the FGD, it can be understood the role of several stakeholders by looking at the results of discussions on the constraints and potential opportunities that can be improved in the production of cassava chips. Government has a role in conducting data collection and business licensing. With a business license owned by the entrepreneur, the entrepreneur has the opportunity to engage in trade association activities for strengthening the trade and marketing network. In addition, with the legality of the business, businessmen have the opportunity to get the opportunity to obtain business capital from commercial banks and from cooperatives. In addition, academics also have a role in reviewing existing market opportunities. Academics also have a role in product innovation, production process, and marketing.

**Table 1. SWOT Analysis**

	<b>Strength</b>	<b>Weakness</b>
	<ol style="list-style-type: none"> <li>1. Have knowledge that has been passed down about the production of chips</li> <li>2. Have trained human resources because they have the same knowledge about the production process of chips</li> <li>3. Availability of good raw material supply in traditional local market</li> <li>4. Proximity distance to the raw material</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited access to capital, because it does not have a legal entity and not incorporated in the community of SMEs</li> <li>2. Technological aspects, especially in the production process such as cutting tools that still use simple technology, so it takes a long time in cutting process</li> <li>3. Cassava chips has not been representing</li> </ol>

	<p>handlers in the form of cassava</p> <p>5. Has geographical conditions of high temperature and low rainfall intensity and it is suitable to process the chips that require the drying process</p>	<p>the leading culinary industry in Besuki region yet.</p> <p>4. Limited information in getting business legality, so no brand is registered.</p>
<p><b>Oppurtunity</b></p> <ol style="list-style-type: none"> <li>1. Geographically advantageous in terms of market potential, because Besuki is located on the main route of northern island of Java that connects Probolinggo with Situbondo district, as well as the main route of Java island to the Bali island.</li> <li>2. The existence of community empowerment program from the local government that aims to develop SMEs</li> <li>3. The existence of an educational institute or university located in Jember Regency, which allows to cooperate in terms of research and development of small industrial chips in Besuki</li> <li>4. Fewchips businessmen in Besuki indicating low competition</li> </ol>	<p><b>SO Strategy</b></p>	<p><b>WO Strategy</b></p>
<p><b>Threat</b></p> <ol style="list-style-type: none"> <li>1. Weak production innovation</li> <li>2. Competition with tape (traditional food made from cassava too) manufacturers in gettingraw materials from Bondowoso District</li> <li>3. High dependence of raw material in local market</li> <li>4. Banking and financial institutions support that still have various collateral requirements that ultimately even weaken the capital of SMEs in Besuki</li> <li>5. Conducive business climate still dependent to regulation and policy and the weak of Intellectual property rights protection in cassava chips industry</li> </ol>	<p><b>ST Strategy</b></p>	<p><b>WT Strategy</b></p>

**1) SO Strategy**

In the formulation of this strategy, it is recommended that with hereditary knowledge about the production of cassava chips will be more mature in the industry when it is supplied with support of research and development in production involving parties from academics, in this case is the university located in Jember regency. In addition to research and development on production, it can also be developed in terms of marketing which includes the promotion process with the help of technology and information. Thus, the production of cassava chips will become better known in the community as a product characterizing Besuki. In addition, the role of Situbondo government is to support in terms of the trade legality of businessmen, so it can help businessmen in Besuki in accessing the capital.

**2) WO Strategy**

This strategy is to overcome the weakness by taking advantage of opportunities. In this case, the weaknesses of businessmen identified are in terms of capital, technology support for production processes, business legality, and products that are not widely known by the market. So the right strategy is to utilize the existing opportunities where the government of Situbondo Regency is expected to be a facilitator in terms of business legality, so that banks can provide capital assistance to SMEs in Besuki. Regarding product introduction, the Situbondo government can collaborate with the academics so that the products of SMEs in Besuki can be marketed and promoted in more sophisticated ways through several online media network channels on the internet.

**3) ST Strategy**

This strategy is to use the power to avoid threats. In order to avoid competition with *tape* businessmen in getting raw materials from Bondowoso, SMEs in Besuki can optimize the process of ordering raw materials to suppliers such as farmers without going through the traditional market, but purchased at the same price as the market. This not only benefits the SMEs in Besuki, but also farmers because the cassava products are purchased at higher prices without going through the process of collecting or distributing to the market. This strategy can of course also reduce the high level of dependence on market traders.

**4) WT Strategy**

The WT strategy is a defensive tactic aimed at reducing internal weakness and avoiding external threats. WT's strategy is to establish a business group of SMEs in Besuki, so that SMEs in Besuki have bargaining power in the regulation of SMEs policies and programs in Situbondo District. Furthermore, as the business grows as the SMEs in Besuki are team up, it can create more conducive and more enduring competitive climate than the competition of products coming from outside Besuki. Then, when the businessmen of SMEs in Besuki can maintain the existence of its products from competitors outside the region, then slowly chips products from

SMEs in Besuki will create its own characteristics, so that the characteristics of cassava chips of SMEs in Besuki could earmark culinary of Besuki. The formation of these characteristics will get the attention from the public, so the government and banks will easily analyze the potential and the sustainability of the business will be increasingly supported by various parties. Furthermore, with regulatory and capital support, SMEs in Besuki will be able to intensify and extend the business, by innovating their own products and marketing innovations by SMEs in Besuki. This will be an interesting phenomenon to be studied. So that it will provoke the academics to be able to recognize the potential and risk of SMEs in Besuki and they can conduct assistance on them.

## CONCLUSION

Besuki district has a predominantly productive age population, whose number continues to increase with increasing density as well in the last 6 years. However, most Besuki residents have low levels of education. Besuki's economic district is in a good situation where in the last 6 years there has been an increase in GRDP, with good growth in trade sub-sector which has resulted in the absorption of manpower. Nevertheless, the trade infrastructure showed no significant development. The level of wellbeing shown by the Human Development Index (HDI) is in moderate category but continues to increase for the last 6 years although it is still below East Java province and National value. It is also explained that during the last 6 years there has been a decline in the number of poor people in Situbondo Regency. Although the trade sub-sector is not a Situbondo district-based sector, the trade sub-sector is the second largest sub-sector in dominating the economy in Besuki. Chips business is the most widely done business in Besuki. Profit rate reached Rp 483,200 - Rp 664,400 in a month. This activity is able to give socio-economic impact to the residents in the vicinity of production sites such as labor absorption and economic value added to the providers of raw materials. Constraints faced by traders are limited business capital, legality, tools of production, and promotion.

In facing the poverty trap in Situbondo regency, the government has a strategic role in increasing economic activities that have potential such as cassava chips business by accommodating inter-stakeholders such as cassava chips businessmen, financial institutions, trade associations, and media with quadruple-helix scheme. The role of academics can contribute in conducting market segmentation research and product innovation, production process, and marketing process. Financial institutions such as commercial banks or cooperatives can play a role in capital assistance with more relevant amount of capital, installments payments, and installment periods to the production cycle of cassava chips businessmen.

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