

Research Article

THE ROLE OF LOCAL GOVERNMENT AND SOCIAL CAPITAL COLLABORATION IN REDUCING POVERTY HOUSEHOLD THE CASE OF KENDARI SLUM INDUSTRY PROJECT THE SOUTH EAST SULAWESI INDONESIA

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ABSTRACT

The role of Local Government and poverty alleviation mostly the strategic issues for political target rather than the honest action for poverty alleviation. Our survey indicates that the innovation of poverty alleviation using Puwatu slum industrial project located at Kendari urban city, of south east Sulawesi Indonesia look so beautiful for political image, but its still difficult to categorize as innovation model of poor household reduction at regional level. Our statistical result indicated that local government have directly influenced poor household to generate their income, but fail to revise social capital of poor communities to be more strengthen for the next powering to be exit from poverty. The poor household moved from rural sector to Puwatu Slum Industrial of Local Government take parts as employee as unskilled labor, and by economic reason, would back to rural sector and still remain as unskilled labor. Theoretically, their basic income will be greater if they well trained. Our research finding have note that local government policy on Puwatu slum industrial project look like the best strategy for poverty alleviation, as a matter of fact, there are no poverty reduction. There are no data change for poverty. Poor people moved from rural to urban, and by economic reason, they will back to village as poor household.

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INTRODUCTION

Indonesia has evolved into a dynamic middle-income country, with more than 250 billion of population to day. The country's 17,500 islands offer a diverse range of socio cultural, economic and natural resource settings with strong agricultural and marine potential. Indonesia is also dominated in a number of commodities, including oil palm, cocoa, coffee and marine fisheries. However, the growing economy of Indonesia is still face with poverty with different type and social economic conditions among regions. While statistical data indicated poverty rates have been reduced, they remains high in rural areas particularly in eastern Indonesia, including south west Sulawesi province. As we can note that the local government of Kendari City is strong committed to strengthening poor people with two different strategies outcomes. The first strategy is to encourage local poor household income by local government budget jointly with private business participation into the new project called 'slum industry' waste management small industry.

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In this type of small industry, poor household have participated as employee with salaries that provides by local government and private business that have position as buyer from waste selection process available from that small project. The second target is to form a clean Kendari city from waste of industries and trading daily activities around the city areas, The project look beneficial for poor household, but still difficult to seek the project as best solution for reducing poor household, temporary and some constraint of health problems and lack of health protection and guarantee, insurance and others. As we can note, poor household have limited choice to have job opportunities because of unskilled labor, and lack of education and public consultation often lead the poor household have persistence as poor people (Dercon and Krishnan, 2000); Townsend (1979); Treanor (2016). This paper is to examine the response of local government to urban problems and policies in solving poverty household reduction. Under decentralized government in Indonesia, every region have innovation policy to poverty alleviation. In decentralization era to day in Indonesia, local government was viewed as the key institution to design independently some instruments expanding for targeting region welfare and poverty household reduction. As discuss from literature, that if local government responsibilities grew, it

increasingly came under attack for being more bureaucratic and unresponsive to the needs of local people or to the business community (Lowndes dan Wilson, 20010). The political needs for candidates to access the bureaucratic power still dominant aspects rather than the pure honesty for helping people to have more chance to get better life. The political economy literature of urban issues argues that local government is lack of its ability to help overcome the problems of urban poverty alleviation. The limitation of local government funds sources is supporting by lack of organizing plan how such funds will be used (Whitehead, 2003). For this government funds limitations, local government have initiative gathering private sector as partnership jointly in the slum industrial project where the poverty household take part as employee. Its look innovation and high electorate of local government leader may become frayed. However, we still continue with research question, can we support the slum industrial model of Kendari city could be the way solutions for poverty alleviation?

Grootaert (1999) reported empirical research of social capital and poor household in Indonesia and found that social capital reduces the probability of being poor and the returns to household investment in social capital are higher for the poor than for the population at large. As we can note, all of research location of Grootaert (1999) was done in rural sectors of some regions in Indonesia, meanwhile this research is focus on local government policy action that try to fight poverty in urban sector using slum industry strategy. Our research also focus on social capital as still have potentially strong relation network, trust and cognitive aspects based on religion or geographically that still possible to have better together as an instrument to exit from poverty. However, this research question will be back to Grootaert (1999), that will be social capital have the same result as Grootaert finding that social capital reduces the probability of being poor?. The study focus of this research is to evaluate the innovation strategy of Kendari local government in developing 'Slum Industry' for poverty alleviation.

Literature Review and Hypothesis

Some studies states that the benefits of urban development fail trickling down income distribution to local people who lack the skills and capital to benefit from emerging employment or business opportunities in the era of global competition to day. Small business with limitation of capital, network and lack of skills may be squeezed out (Turok,1992). Globalization today have significant impact to compete and tends to encourages the development of services and housing that are often too expensive for existing, low-income households. Poorer people may be increasingly more marginalised in the era modernization (Reher, 2011). In the case of without local government intervention, poor household have potentially powering their shelf using social capital as instruments to making more access to job search and information, education and some aspects related to make poor people become more productive.

Social Capital for Poor Household

Ellison et al (2007) states that social capital is rooted in the structures of social networks and expanded the relationships among mutually acquainted and recognized people. Nahapiet and Ghoshal (1988) defined that social capital as the sum of

all actual potential resources embedded and available from the network of relationships possessed by community. Putnam (2000) was classified social capital into two categories such as bridging and bonding. Bridging as component of social capital is similar to a weak tie; individuals gain new, useful resources. On the other hand, bonding social capital exists between individuals with strong ties, in which individuals In the context of more marginalized of poor household to have access on information, we organized research to try understand Nahapiet and Ghoshal (1998) that maintain social capital in three aspects, namely relational, structural and cognitive. According to Carey et al, (2011), the relational, structural and cognitive have initially as personal types interaction between individual based on the backgrounds of their interactions. Trust is the main pillar of relation (Lin, 2001). As we can note that social capital can believe as the sense of identification developed by individual to be known as identity with inherent in information transferred (Andrews, 2010).

The basic idea of Nahapiet and Ghoshal (1988) is that the cognitive aspect can be recognized as the goals, shared values between individual of organization and information beneficial to the member of organization. Other social capital component as Nahapiet and Ghoshal (1988) includes is the structural aspect as the combination between individuals and organization along with broad perspectives including network capability such as knowledge sharing and information available within social interactions. Another important reviews of social capital in connection with some practical issues is available in Grootaert and Bastelaer, (2002).

Financial Vulnerability

Poverty is mainly viewed as the dimension of lack of resources and income with demographic identity such as geographic location, age, gender, social class, ethnicity, community structure that all determines as poor people vulnerability (Chambers, 1989); Philip and Rayhan (2004). Poor households could be identified as defenselessness in the position of economic marginalization. Whelan and Maitre (2010) emphasize the vulnerability of the poor is reluctant to take debts with increased their vulnerability (Chambers, 1989); Whelan and Maitre (2010). The financial vulnerability is associates with poor household real condition, so that poor household can be measured as economic vulnerability with characterized as deprivation, unstable income sources, and subjective sense on insecurity. Treanor (2016) have translated all the vulnerability developed by Chambers (1989), Philip and Rayhan (2004) and Whelan and Maitre (2010) into three dimension such as money worried, household debt, and managed financially (Treanor, 2016).

METHODOLOGY

Data Sources

This research is developed research instrument using questionnaire based on theoretical model. We apply CPA approached SEM PLS methods. The main purpose of this study is to provide empirical study in supporting the social capital structure, relational and cognitive as found in Nahapiet and Ghoshal (1988) and social capital and poor household research in Indonesia by Grootaert, (1989). The data used in this study were collected in Kendari city of east Sulawesi Indonesia.

Figure 1.1. Constructs and Dimension

Construct	Measures (Scales)	Sources
Government Policy (X1)	gp1 Financial support gp2 Empowerment gp3 Training Facilities ses1 Social economic status	Dercon and Krishnan (2000) Whitehead, 2003
Social Capital Structural (Y2.1)	ses2 Education ses3 Strong reciprocity ses4 Mobilized their resources	Nahapiet and Ghoshal (1988) Lin (2001) Andrews, 2010
Social Capital Relational (Y2.2)	scr1 participation in local community, scr2 tolerance of diversity, scr3 proactivity in social context, hcr3 bodily Integrity to move freely	Carey et al (2011) Lin (2001)
Social Capital Cognitive (Y2.3)	scc1 participation in local community, scc2 tolerance of diversity, scc3 proactivity in social context, hcc3 bodily Integrity to move freely hcc4 norm and tradition	Carry et al (2011) (Narayan (1999) Grootaert & Bastelear (2002)
Financial Vulnerability (Y1)	fv1 money worried, fv2 household debt fv3 managed financially	Treanor, (2016) Whelan and Maitre, 2010) Philip and Rahyan, (2004)

This study analyzed data of poor household sources from the survey of slum industry that organized by local government of Kendari city. The study sample includes 150 proportional random sampling selected households in one location of Puwatu project and outside the project. The sample was designed to be statistically representative using proportional random sampling (see Saunders et al, 2009). The questionnaire designed is gathering household-level data on social capital component developed using hierarchies latent model as available discussion in Lin et al (2005), Beckers et al (2012) and Hair et al (2016). The head of each household participating in the study was interviewed individually.

Data Analysis

This research is organized using perception data sources collected from primary data of 89 respondent selected randomly. The statistical data analysis was conducted using structural equation modeling (SEM). The SEM PLS is used based on some considerations such as prediction oriented (Hair et al, 2016), small sample (Chin et al, 1988) and flexibilities (Hair et al, 2012). The SEM PLS methods also available for modeling to test statistical significance of the hypothesized causal relations among observable variables, latent variables, and it provides an excellent framework for the comparison of group means on latent variables (Wong, 2013). Types of structural equation models include path analysis, latent change models, confirmatory factor analysis (CFA), and structural regression models (Hair et al, 2010).

Modeling Perception and Dimension

The link between social capital and poverty household have been studied by Grootaert (1999) in rural sectors in Indonesia and found that social capital ties have significant effects to reduce poverty household in rural sectors of several regions in Indonesia. This research have been more focused in urban sector and special issues in local government project called

Puwatu slum industry project at Kendari City East West Sulawesi Indonesia. We consistent with Nahapiet and Ghoshal (1998) as library sources of social capital and try to apply as the model for struggling for reducing poverty household using slum industry project as instrument to conduct more poor people out from poverty. Three dimensions of social capital were presence such as structural, relationship and cognitive social capital (Nahapiet and Ghoshal, 1988), and the extension of Whelan and Maitre (2010).

Another aspect of our model developed is the role of local government in real policy action of urban poverty solution as formulated in slum industry strategies that build in Puwatu projects outside Kendari city. This project look so prestigious as done by politician to get some voters target rather than encouraging seriously that project for poverty alleviation strategies. Our first survey indicates that more than 75% of slum industry employee are with unskilled labor with low level education. Although the age of employee look variation between young people between 20 until 62 olds, but the slum industrial model look as traditional company without any effort to empowering poverty household to become more effort to brings them out from vulnerability. However, based on our qualitative database, slum industry of Puwatu project have a look as mobilized poor household from rural sector to urban, without any improvement at the stages of vulnerability of the poor. This research problems will be formulated as research hypothesis and try to answer using some academic procedure and statistical tests. The last stages of research construction is to evaluate the degree of financial vulnerability of the poor household at slum industry of Puwatu project of Kendari city Indonesia. Whelan and Maitre (2010) states that financial vulnerability is associates with poor household that can be figured as economic vulnerability with deprivation, unstable income sources, and sense of insecurity. The three dimensions of financial vulnerability will be categorized as (a) money worried, (b) household debt, and (c) managed financially (Treanor, 2016); Philip and Rahyan (2004) and Whelan and Maitre (2010).

Research Hypothesis

The role of local government have been focused as the main evaluation and the topics of the relation between local government policy action and poverty alleviation in the special cases of slum industry of Kendari city. We try to investigate local government policy action and its impact to long-term household reduction. Our research than developed 3 hypothesis as below.

- government policy have positive and significant impact to financial vulnerability
- government policy have positive and significant impact to social capital of poor household.
- The social capital of poor household have significant impact to financial vulnerability.

RESULTS

SEM PLS methods is used to analysis resea hypothesis and try to understand which constructs could be believe supporting by statistical test under 5% level of significance. The research framework modeling all reflectives indicator, so that we can tests fully of cronbach Alpha as reliability test and Fornel-Lacscker test, cross-loading test and heterotrait-monotrait ratio test as validity test methods of research instruments were be used. To be expanded, under reflective constructs, all of the indicators were manifests with uni-dimensional covary (Jarvis et al, 2003). However, research is fully organized to evaluate the reliability and validity of reflective construct. Reliability evaluation is conduct using cronbach Alpha, composite reliability, rho_A and evaluation supporting of convergence validity by by the statistical test of average variance extracted (AVE). The second steps is to conduct a validity test using Fornell Larcker (1981), cross-loading evaluation and heterotrait-monotrait ratio (HTMTR) as recommended by Henseler et al (2015).

Measurement Testing Procedure

The main reason of measurement testing procedure is to understand that the data sources come from the valid instrument measurement, so that the goal of empirical measures of the model is to determine how well the theory fit the data, to be expanded that empirical measures delivered information about the relationships between the indicators and the constructs.

Table 1. Statistical report of reliability test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Extracted (AVE)	Variance
X1	0.899	0.905	0.9370	0.833	
Y1	0.937	0.942	0.960	0.889	
Y2.1	0.886	0.889	0.930	0.816	
Y2.2	0.844	0.850	0.906	0.762	
Y2.3	0.943	0.943	0.959	0.854	

We selected Smart PLS as the non-parametric evaluation criteria that included bootstrapping to evaluate the measurement results. The Statistical report of reliability test is presented in Tabel 1. Based on Table 1 there were five basic evaluation types conducted to assess a reflective measurement model and the outcomes of reliability test.

According to Table 1, we can seen that cronbach Alpha was greater than .70, and the same result of rho_A, composite reliability, and the last evaluation of AVE indicates greater then 0.50, therefore we can conclude that all statistical results supporting for reliability of all the constructs we developed in this research model. The next step is to investigate Fornell-Larcker discriminant validity test, cross-loading validity test, and the HTMT test developed by Henseler et al (2015). Table 2 presented the statistical result of Fornell-Larscker testing procedure that was summarized for five constructs evaluation. As we can seen, under evaluation using diagonal methodology, the AVE root was greater than its cross-correlation, so that we can consider that based on Fornell-Larcker criteria, all the constructs are valid discriminant.

Table 2. Statistical report of Fornell-Larcker Test

	X1	Y1	Y2.1	Y2.2	Y2.3
X1	0.91242				
Y1	0.41697	0.94274			
Y2.1	0.24519	0.53748	0.90329		
Y2.2	0.26980	0.48704	0.74948	0.87313	
Y2.3	0.24872	0.51497	0.93041	0.72547	0.92426

Validity testing procedure as presented in Tabel 3 is the MTMT statistical result based on Henseler et al (2015). The statistical test will be categorized as valid measured if HTMT score below than 0.85. To be expanded, according to Table 3, there are totally 15 of HTMT ratio, and found only 9 HTMT score below the line of 0.85, and more than a half of of the HTMT value are below the 0.85 value, so that we can summarized that all constructs have discriminant validity.

Table 3. Statistical report of HTMT

	X1	Y1	Y2.1	Y2.2
Y1	0.45			
Y2.1	0.27	0.59		
Y2.2	0.31	0.54	0.87	
Y2.3	0.27	0.55	1.01	0.81

Hypothesis Testing Results

The first steps of inner-model evaluation is to investigate the best fits model using the quality criteria that was inspected based on the coefficients of determination (R^2). Table 4 shows the obtained R^2 values. The R^2 values of the construct of social capital as dependent laten variable Y1 with 0.41 value, and financial vulnerability as another construct of dependent latent variable Y2 with 0.98 value, indicated both of dependent latent variables have indicated the predictive accuracy of this research model. The quality criteria as informed in Table 4 that the R^2 adjusted were distributed be;low than the value of R^2 , so that the further research still possible to insert the addition of another latent variables.

Table 4. The Quality Criteria

Dependent Variable	R Square	R Adjusted	Square
Y1 Social capital	0.41	0.40	
Y2 Financial vulnerability	0.98	0.97	

After the PLS test, the R-square was varied to determine the effect of all the constructs. This approach involves the repeated estimation of PLS and evaluation of effect size, in which each of the PLS is run with one dimension omitted.

The effect size was derived using the following equation: Effect size is adopted from Cohen (1988),

$$\text{Effect size, } f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}}$$

Table 5 shows the effect size calculation. Cohen (1988) defines that a value of 0.02 as small, 0.15 as medium, and 0.35 as large. The results show the effect size values is more than 0.35, so that the addition of the dimension as a complete measurement model is the main component of this analysis (see Table 5.)

Table 5. The Effect Size

	R2	f	Includes	f Excludes	Eff.Size
Y1 Social capital	0.41	0.98	0.57		0.97

In PLS-SEM, structural models' validity are assessed through the strength of regression weights, t-values, p-values for significance of t-statistics, as well as effect sizes of independent variables on the dependent variables. The results in Table 6 shows that, not all of the hypotheses were supported by the data. The hypothesis number 1 is the relation between government policy to financial vulnerability of poor household is fail to have significantly. The t value of 1.010 is less than t value with 5% significance level (t = 1.96), however we reject our statement that government policy have strong relation to financial vulnerability to poor household.

Research Question Number 1

The research question number 1: that government policy X1 have positive influence to social capital of poor household (Y2) is not successfully answered. The statistical t test value of 1.010 is less than t value of 1.96 indicated the fact that government policy is fail to have the key for social capital support. The house facilities that have been built for temporary housing of the poor household tends to constructs the better together behavior for poor household members to start understanding their new communities and sharing to each other. However, this research survey indicates the new transforming value of social capital strengthen at the poor community is starting from themselves without local government social capital formulation as the innovation plan for social capital as an instrument for poverty alleviation. In this case, we avoid to say that local government is going to plan social capital of poor household revised as the needs for strengthening the better together social capital of poor communities to out from poverty. Our survey investigates the local government policy action look as the policy for mobilizing poor people from rural sector to urban sector with temporary housing facilities and with the slum industry projects. According to this empirical test, we can conclude that local government project is just temporary policies that fail to impact as poverty alleviation.

Research Question Number 2

The research question number 2: that government policy X1 have positive influence to financial vulnerability (Y1) of poor household is successfully answered.

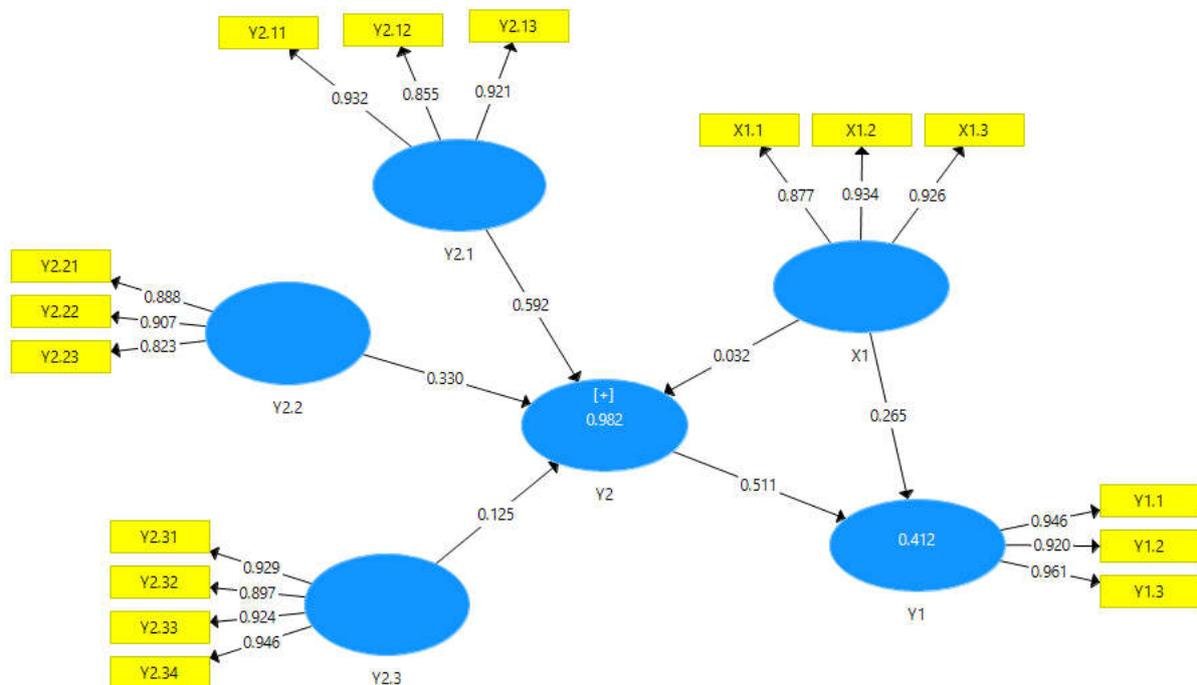


Figure 2. Path and Estimation

Table 6. Bootstrapping Analysis Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics O/STDEV	P Values	discription
X1 -> Y1	0.265	0.244	0.092	2.874	0.002	Support
X1 -> Y2	0.032	0.049	0.032	1.010	0.156	Not Support
Y2 -> Y1	0.511	0.542	0.093	5.495	0.000	Support

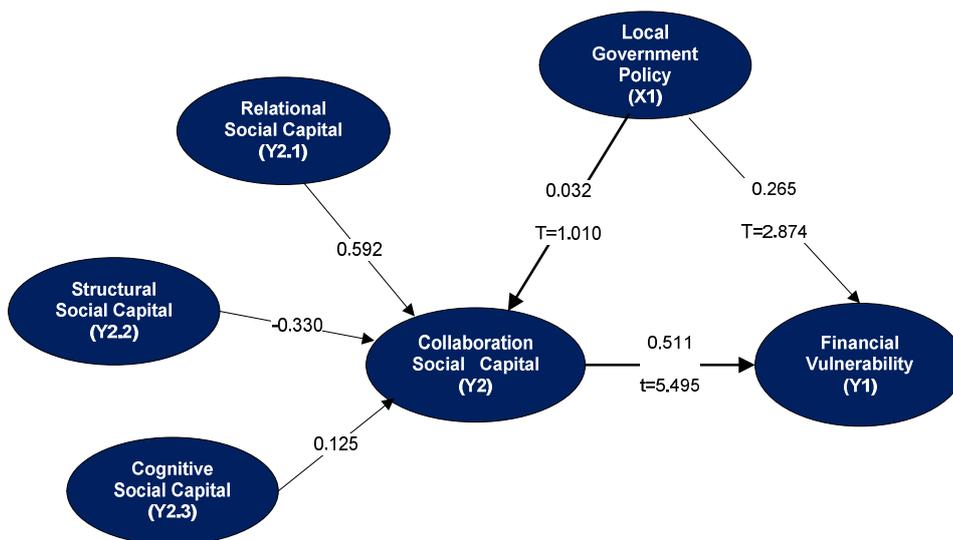


Figure 3. Social Capital as Mediator

Table 7. Statistical report of indirect effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
X1 -> Y1	0.016	0.026	0.018	0.941	0.174

The statistical t test value of 2.874 is greater than t value of 1.96 indicated the fact that government policy is directly influence for better supporting the stability of financial vulnerability of poor household. The house facilities and supporting with slum industry project of local government of Kendari city can be take function as temporary solution for poor household to hold more stable income sources from that slum industrial project.

Research Question Number 3

The research question number 3, that social capital have positive impact to financial vulnerability of poor household is successfully answered. The statistical t test value of 5.495 is greater than t value of 1.96, hence we can conclude that social capital has positive impact to manage more better stability of financial vulnerability of poor household. This research found have connected with Nahabiet and Ghoshal (1988), Carry et al (2011), and Gootaert (1999). As we can note, the social capital link to poor household of rural sector in Indonesia has been discuss in Grootaert (1999), however this research is difficult to directly compared, but can be seen as reviews that social capital would be strongly believe as an instrument for poverty alleviation, as in the case of our research in slum industry of Kendari city as location of temporary of poverty alleviation.

The Mediation of Social Capital Perception

The social capital collaboration empirically dominated by sub-dimension of relational or trust is estimates with 0.592, and the second dimension of structural capital with 0.330 and the last dimension is by 0.125 estimation that contributed the primary construct social capital collaboration. Using this empirical second order dimension evaluation, we can figured that relational social capital empirical is highly sub-dimension to form the social capital collaboration in poor household.

This potential relational dimension have further impact to positive better relationship to build more stable financial condition of poor household. The potential opportunities for better condition of social capital of poor household is fail to link as mediation relation by local government policy as antecedent latent variables to place social capital as mediator for handling more stable financial vulnerability of poor household. (see Figure 3 and Table 7.).

DISCUSSION

This research have found that local government policy action is not support the poverty alleviation as well as many local governments do concern in general. As we know from data sources that poor communities participayed in the Puwatu slum projects are unskilled labor with very low degree of education. Although more than a half of participant are less than 50 old, but this project is just design for how to organized waste as industrial process, without any innovation to how poor communities will be transform to out from poverty. The fail of social capital as mediator of local government policy can be as a signal of less innovation policy of local government to poverty alleviation. As Lowndes and Wilson (2001) argue that local government must be work hard to revise social capital of the community to have more survival togetherness in the long run. If this Puwatu project is design without any improvement in the future, we have believe this poverty project will be the same as informal urbanization model of Todaro. Todaro (2003) argue that the majority of the workers entering the informal sector are recent rural migrants who are unable to find jobs in the formal sector. Their main reason for taking part in the informal sector is to use what little skills they have to earn enough income to sustain their daily lives. The poor household must consider the risks and weigh them against the positive urban-rural real income differential. Todaro states that just because a typical migrant who obtains a job in the urban formal

sector can expect to earn twice the amount he would than if he stayed in the rural sector. Using Todaro rural-urban migration model, we can learn as an equilibrating force that equates rural and urban expected incomes. The main reason that expected incomes take into consideration entering the urban area or back to rural is that the wages and the probabilities of securing employment turn around in informal sector of urban or rural sector. This Todaro model demonstrates the Puwatu project of poverty reduction is not clearly solution. Poor household turn around in informal sector with financial vulnerability and no hope to find better quality of life.

Contribution Study

Our focus research is to find the role of social capital as instrument of poverty alleviation collaborates with local government policy action. Based on theoretical model building, this model only empirically support the direct effect of local government policy to financial vulnerability of the household, and social capital collaboration to the financial vulnerability of poor household. This model simplified the characteristic of local government behavior that tends to express more political image rather than the honest target for poverty alleviation and the effort of reducing income inequality of the region. The second important contribution is the supporting results of Grootaert social capital bonding inclusiveness found in rural sector of Indonesia in 1999 that still consistent and connected as the same direction of Grootaert (1999) and this research recommendation. Our last note of this research is refers to The International Funds for Agricultural Development (IFAD) for rural capacity building have successfully reported (IFAD for Indonesia, (IFAD, 2016). The innovation effort for poverty alleviation of IFAD is the design of connecting rural producers to markets and creating jobs, Invigorating and transforming rural communities, strengthening the capacities of women and young people, the use of technologies and sustainable resource management practices, developing and piloting innovative models of rural finance, partnering with producer organizations, and private and public sectors to drive rural growth more relevant solutions for poverty alleviation in Indonesia. The Puwatu project is questionable project if connecting with poverty alleviation and bring-up poor community to out from poverty.

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