

# The role of small agribusiness in regional development: the case of Sumatera Utara province

**Subhilhar**

Professor, Department of Political Science, Faculty of Social and Political Sciences,  
Universitas Sumatera Utara

E-mail: subhilhar@usu.ac.id

**Abstract.** The agribusiness is an emerging sector in Indonesia and its potential needs to be fully explored. Its development can contribute to a development of regions or correct the discrepancy in welfare benefits between groups and regions. The development of small agribusiness is important and strategic. There are more than 32 million small agribusinesses with their working capital less than Rp. 2 billion per year. In Indonesia, out of this 90 percent (about 21.30 million business units) are household businesses which run business in the agriculture sector. The aim of this study is to identify the contributions of small agribusiness to regional development in Sumatera Utara. The method that used in this study is quantitative approach by using survey and case studies through an in-depth interview. The result shows that small agribusinesses do contribute significantly towards regional development in Sumatera Utara. This study found that annual business turnover significantly contributes toward regional development. The main contribution of small agribusinesses is in the utilization of labor force and local tax revenues.

## 1. Introduction

Small agribusiness can be a trigger to new regional development by creating new jobs and accelerating progression in technology. There is a significant concern towards the role of small business as an important trigger of a development, as it constitutes “the spirit of entrepreneurship, simple organizational structures, rapid decision making and tailor-made production” (Giaoutzi et al. 1990:6). Although the role of small business is significant, many developing countries do not put development agribusinesses as a high priority. A study by Tambunan (1990a) shows that the relationship between small scale industry and local linkage can occur in four ways, these are:

- Creating local employment directly and indirectly, which will generate local income.
- Serving a local market
- Using local resources including local saving and
- Functioning as a growth-led sector to other sectors or vice versa.

Blakely (1989) gave alternative approach in local economic development. First, supporting local employment; second, development base; third, location assets, physical quality consideration and social environment; and fourth, knowledge resources. The objective this study is identifies the contribution of small agribusiness to regional development in Sumatera Utara.



## 2. Methodology

The survey is used to evaluate the contribution of small agribusiness towards regional development. Research indicators of small agribusiness are: the business type, working capital, business turnover and production technology. Regional development indicators are local revenue, local tax, inputs (the use of local resources), and job creation (the use of labor forces). The population in the study are small agribusinesses that is located in the Province of Sumatera Utara. There are two steps taken in sampling procedure, these are: (1) Identifying district that leading commodities in agribusiness. Purposive sampling is use in which five districts from thirteen districts in Sumatera Utara are selected as the location of the study. The selection is based on the distribution of commodities: vegetables (Tanah Karo Regency), coffee (Dairi Regency), palm oil (South Tapanuli Regency), rubber (Langkat Regency) and other commodities (Deli Serdang Regency). This study selected forty small agribusinesses as the sample in each district. The data analysis technique used in this study are based on the Cramer Test and Phi Test.

## 3. Result of the study

The contribution of small agribusiness to regional development is measured using four indicators, these are, local tax revenue, national tax, use of local resources and use labor force in the process of production. The annual business turnover to be the most significant variable in having a positive and widespread contribution to regional development. The small agribusiness contributes to regional development through their capacity to pay local tax revenues and their use of labor force.

The contribution of small agribusiness to relevant and functional regional development is expected to derive from local tax revenue, national taxes, the use of local resources, and extensive use of labour force. The contribution, in percentage, has a high potential, although the proportion of small agribusiness in paying local tax not maximized, as only about 41 percent of small agribusiness surveyed. While their contribution in paying national taxes and optimal use of local resources and labor force in production process tends to be the highest percentage.

The contribution of small agribusiness to regional development is determine by type of business (processing and marketing contribute more towards regional development), annual business turnover, operating capital, production technology, and business income. Annual business turnover significantly contributes towards the outcome as measured by three indicators, while the characteristics of the businesses can only be significantly limited to one or two indicators. The most significant contribution of small agribusiness to regional development is through its use of labor force and payment of revenue through local taxation mechanism.

The study shows that the expected contribution, in percentage, has high potential, although the proportion of the small agribusiness in paying local tax is not maximized, as only 41 percent of small agribusiness surveyed have done, while their contribution in paying national taxes and optimal use of local resources and labour force in production process tend to be at higher percentage. It was found that more respondents who are active in processing and marketing sector pay local tax compare who are active in seed and cultivation sector.

The use of more local resources is predominantly show among small agribusinesses that are active in the marketing sector (53.1 %), followed by seeding and cultivation (46.8%).

Two out of four regional development indicators have been proven to associated with operating capital, these are: local tax revenue and national tax payment, while the use of local resources and the use of labor force in the process of production is not significantly related to operating capital.

Based on business turnover, it is shown that there is a difference in proportion between those paying local tax with the respondent (turn over less than 60 million rupiahs per year) and those with higher turnover.

The result shows that the contribution of small agribusiness to regional development as mean by the use of local resources based on business turnover is not significant.

#### 4. Conclusion

The result shows that small agribusinesses do contribute significantly towards regional development in the area of study. This study found that annual business turnover significantly contributes toward regional development. The main contribution of small agribusinesses is in the utilization of labor force and local tax revenues.

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