Determinant Factors of Agricultural Industry Investment in Province Bengkulu, Indonesia

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Abstract

The lag in development and failure to attract investors are major problems in Province Bengkulu. Failure in creating the investment climate is also a major factor of the low investment in this province. The purpose of this study was to determine the agricultural industry investment determinant factors in Bengkulu. This study used secondary data from the Central Bureau of Statistics of Bengkulu period 2010-2013. Panel data regression analysis was used to determine the effect of GDP per capita, road infrastructure, electricity and clean water, mining and agricultural resources, educated-skilled labor and population. The all factors affected investors interest in Province Bengkulu, with the most dominant factors were GDP per capita, road infrastructure, and ownership of mining and agricultural resources.

Keywords: Agricultural industry investment; investment; regional development

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1.   **Introduction**

Bengkulu is one of provinces in Indonesia which is formed based on UU No. 9 Year 1968. It is located in the west of Bukit Barisan Mountains, of ± 1.978.870 Ha or 19.788,7 Km^2.

The eastern part of the province is hilly with lush highlands while the western part is relatively narrow lowland, elongated from north to south. This condition affects the pattern of people's income. Bengkulu's people are centralized only around the area of central and western coast along the province, while the hinterland people live in small groups and dispersed. The phenomenon lately was the development policy in determining areas that had superiority as a growing center. This policy was able to encourage the accelerated development of the growing center area, but on the other hand also caused negative impact, such as the absorption of development resources to the city centers of growth that caused the economic activities were concentrated in the centers, so that the expected trickledown effect would not happen. Province Bengkulu which consists of 9 (nine) regencies and 1 (one) city experienced the same thing, showed that the highest growth rates were in Rejang Lebong and North Bengkulu, and Bengkulu City, while other regencies relatively were left behind. The striking differences on the economic growth between Bengkulu City and Rejang Lebong compared to other regencies made people supposed that the construction was done only concentrated on that two regions, while others became as supporting regions for the three regions with the highest growth. Differences in economic growth rates between regencies were due to differences in the productivity of the primary, secondary, and tertiary sector. Availability of owned natural resources and geographical conditions that were less favorable also influenced the development of a region. The condition occurred in Bengkulu were as follows: (1) the province with lowest income among provinces in Sumatera; (2) economic growth in Bengkulu was still dominated by the consumptions, while investment was only 8.52 % from the total; (3)the gross capital growth in the last three years did not show a significant increase; (4) The coverage of Bengkulu people's needs still could not fulfilled by local producers, that shown from the high import and the minus of inventory stock; and (5) the province export was only dominated by coal while the other products could not be able to compete.

The main economic activity in Bengkulu was the agricultural sector. Unfortunately, the condition was not good as expected, such as low in productivity, potential of export, investments, and economic activities. Such conditions indicated low competitiveness of the province, whereas the regional competitiveness can accelerate the economic growth which in turn will reduce the disparities among provinces.

Based on the rating of investment climate and services of 33 provinces in Indonesia that were carried out by the Regional Autonomy Implementation Monitoring Committee (KPPOD) and the Investment Coordinating Board (BKPM), stated that Bengkulu ranked the third from the bottom after West Papua and Southeast Sulawesi. The low rank in investment climate and services indicated poor infrastructure facilities, lack of access to lands, and security support to invest was not guaranteed well. Lack of good investment climate simultaneously will make the less economic performance in a region and difficult to stimulate private sector involvement.

Beside of that, based on investment institutions side, Bengkulu also ranked as the lowest of all provinces in Indonesia. The low rating meant that province government's effort to accelerate the process of licensing and

investment approvals was low, so that its realization became less effective. The local government did not act optimal in pursuing accelerated licensing process at the provincial level, and the provincial government's effort to coordinate with regency or city's governments in accelerating the process of licensing and investment at the regency level was felt less and not optimal. This was strengthened by the KPPOD and BKPM's data that Bengkulu ranked the second from bottom list in promoting regional investment, meant that local government was unable to provide mapping data of regional investment potential, or if there was, the data was not in accordance with the needs of investors. The number of foreign and domestic investment projects which had been approved by Bengkulu's government within the period 2010 to 2013 were very low, at only 7 domestic investment projects with invested capital amounted to Rp 170,749.7 million and 66 foreign investment projects with foreign invested capital amounted to US$ 243.876 thousands.

According to KPPOD reports, macro regional developments cannot be separated from the distribution development and investment budget among regions. Institutionally, regional autonomy challenges provinces the changing role or authority in investments pasca regional autonomy that was not as much as investments before it. Although it has many limitations and problems, the province government retains responsibility to build investment climates in the region. The important role of the government is the formulation of investment policy planning in provincial level. The government also becomes the planner of regional economic development and province spatial, and also as a coordinator of economic activities among regencies and cities, including investment services. The growths of investment, economy, and export-import are indicators of regional economic performance. Low level of GDP in Bengkulu compared to other provinces in Sumatra, plus the low investment growth and high imports, stated that the economic performance of Bengkulu Province were worse and lower than others.

All activities were carried out in the development process aimed to increase people's income through an economic activity increase in Bengkulu. So that, sufficient development resources were needed, both sourced internally and externally from the region. The objective of this research is to analyze factors that influence the agricultural industry investment in Bengkulu.

2.   Literature Review

Investment activities are intended to improve the economic growth of a region, as well as employment absorption. Investments become one of income source for the region, directly and indirectly. Foreign investment, is formed as foreign or domestic investment (PMA/PMDN) to a certain region, is believed to be able to accelerate the economic growth and transformation. Besides, the existence of a direct investment, in particular in the field of manufacturing industry, becomes a source of technological development, export growth, and employment absorption.

In relation to foreign investment, the size and average growth of products, availability of skilled labor, the state revenue of foreign capital, risk ranking, and the behavior of capital markets have the important role for the economy of a country [6]. Generally, there are two main reasons for a foreign company to invest in a region. First, serve local markets better. This investment is referred as a horizontal type or search the market because it

implies duplication of production growth. Second, choose the access to lower input costs. Investments of this kind is called a vertical type, means minimize production costs. The goal is to save factors of production to maximize profits in every part of the production line [11]. In general, the purpose of investment activities is to increase profits. The rate of profit is affected by production costs, transaction costs, and the amount of goods produced. Also affected by the market size. The market size is the main determinant of investment [15]. Determination of potential foreign investment is the agglomeration of economic activity. Companies are drawn to locations that have the high quality of infrastructure and human resources [12].

Simon Kuznets stated that the economic growth of a country is influenced by the accumulation of capital (investments in land, equipment, facilities, infrastructures, and human resources), natural resources, human resources both in quantity and quality of population, advances in technology, information access, a desire to innovate and develop themselves, and work culture [17].

Neoclassical theory showed that the foreign or domestic investment can be an engine of economic growth in a region, that foreign or domestic investment has a positive influence on the formation of capital and labor[16].

Essentially investment is the beginning of economic development activities. It can be handled by the private sector, government, or cooperation between government and private sector. Local incomes are source of funds obtained the local government from resources utilization and management owned by the region that can be used to finance regional development. Labor is a potential resource as a driver, initiator, and implementer of the regional development to promote the region. These three aspects are expected to be the driving force for regional economic growth and development. Investment is meant here are the activities of foreign and domestic investment in the region.

Income per capita growth is a measure of the development progress. Development aims to increase people's income so that its growth becomes a benchmark of development progress. Income per capita is a measure of the ability of a country to increase its output in a faster rate than the population level [16]. There are two standard indicators of the regional demand, they are market size and market potential. The market size is expressed by GDP per capita as an indicator of potential demand of a region [12]. It is an indicator of the economic potential. GDP per capita reflects the purchasing power, while absolute GDP declares the size of the economy. The large size of the market will offer a large production scale, and also higher potential and purchasing power. GDP per capita was used as a proxy in this study. According to [1], the use of GDP per capita has a positive relationship on direct foreign investment. High growth rate on a region reflects the expansion of potential market so it can attract more investors to invest.

The infrastructure factor; the desired condition by investors is the economy that is supported by the good infrastructures, such as good quality of roads, adequate airports, water supply, electricity, telephone, and internet access. Poor infrastructure will increase transaction costs and decrease the rate of return on investment. Production costs will be lower in regions with good infrastructures. Therefore, the better infrastructure that is able to be provided is expected to be able to attract more foreign investors [13].

The natural resource wealth; it is not a coincidence that the resources-rich region will have more direct investment flows. Investors always look for resources and will put their company's branch there in order to secure the supply, get cheaper and more stable input of production factors and energy sources [5]. Availability of natural resources plays an important role in developing a region. The opportunity to exploit the natural resources is also attractive to investors. This study used GDP in agriculture and mining sector as proxies [13].

The educated labor; the availability of educated and skilled labor of a region in a modern business organization is recognized as an important determinant factor that encourage the flow of foreign investment [15]. This study used labor percentage data that had completed the education, minimum at diploma level, in all regencies and cities of Bengkulu.

The population; at first, many countries tried to decrease the number of their population, such as China and India. There were a positive relationship between population and capital investment, and also a positive impact between population and economic growth [10]. The condition will occur when the region with large population has educational institutions or technical institute that can develop skilled labors. This study used the number of population data in all regencies and cities of Bengkulu.

There are various opinions about the factors affect investment, including:

1. Market size, economic growth, exchange rates, return on investment, government investment policies, political stability, global strategy of the company, import-export, technology, and infrastructure [18]
2. Real interest rate, the amount of loans disbursed GDP, and the exchange rate (Report of Bank Indonesia)
3. Economic growth, infrastructure, inflation, market access, and employment
4. Factors affect the regional market, infrastructure, preferential policies, wages, education [7]
5. GDP, government size, natural resources, and institutional variables [9].

3. Research Methods

3.1. Location Research

This research was located in Bengkulu, one of the provinces in Republic of Indonesia. The province consisted of 9 (nine) regencies: South Bengkulu, North Bengkulu, Rejang Lebong, Kepahiang, Lebong, Seluma, Kaur, Central Bengkulu, Mukomuko, and 1 (one) city: Bengkulu city (provincial capital).

3.2. Data Types

The data used in this research was secondary data derived from Central Bureau of Statistic (BPS) of Province Bengkulu period 2010-2013.

3.3. Data Analysis Methods

The analytical method used was panel data regression. This model was used in this study because it combined cross section data of 9 regencies and 1 city and time series data of 2010-2013 period. The advantages of the use

of panel data model, the first, by combining time series and cross section data made observation amount to be larger and marginal effects of the explanatory variable could viewed in two dimensions (people and time), so that parameters would be more accurately estimated [20]. The panel data could provide informative data, reduce collinearity between variables, and increase the degree of freedom meant to increase efficiency. Second, panel data was better in identifying and measuring the effects of which simply could not be overcome in any cross section data or time series data only. Used techniques (models), include:

- The fixed effect model, assumed that the intercept of each individual was different among individuals while the slope was fixed (same).
- The random effect model, assumed that each company had different intercepts, where the intercept was random or stochastic variable.

To choose the right model between the fixed effect model or random effect model was used Haussman Test. Haussman statistic follows the Chi-Square distribution with the degrees of freedom (df) = number of independent variables. The used tests were:

Ho : the right model for panel regression was a random effect model, while Ha : the right model was fixed effect model.

Panel Data Regression equation in this study was:

$$I_{it} = \beta_i + \beta_2 GDP\ per\ capita_{it} + \beta_3 Infr\_L_{it} + \beta_4 Infr\_J_{it} + \beta_5 Infr\_Air_{it} + \beta_6 SDA\_A_{it} + \beta_7 SDA\_M_{it} + \beta_8 TK_{it} + \beta_6 Pop_{it} + \mu_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Table 1: Variables in Model Panel

Variable	Proxy
Investment	Investment in agricultural industry (IIP)
GDP per capita	GDP per capita
INF_L	The electric power installed
INF_J	Good quality of road infrastructure
INF_Air	Clean water infrastructure
SDA_A	GDP in agricultural sector
SDA_M	GDP in mining and quarrying sector
Labor (Lbr)	Labors with level in education: diploma, bachelor, master, and doctoral degree
Total Population (Pop)	Total population in all regencies and city
I	Unit cross section (9 regencies and 1 city (i=10)
T	The number of years studied (2010-2013)

The model was subject to statistical test as follow :

1. Test F was destined to test regression coefficient (slope) hypothesis simultaneously, or to ensure that the selected model was feasible or not to interpret the influence of the independent variable on the dependent variable. The hypothesis test used was: Ho = Prob (F statistic) > α; Ha = Prob (F statistic) < α

2. Test t was used to test regression coefficient individually. The hypothesis test used was: Ho = Prob (t statistic) > α; Ha = Prob (t statistic) < α.

3.   Results and Discussion

Investment in Bengkulu relatively mal distribution. Investors (domestic and foreign) were relatively concentrated in the northern area of the province because this area had an advantage in terms of coal mining resources. The eastern of the province had an advantage in agricultural sector, especially food crops, it was also supported by the area's geography that was a plateau. While of that, the western and southern were located on the coast of Sumatra, so that economic activity was strongly colored by economic shade and culture of coastal communities.

Agriculture was the main economic driver in Province Bengkulu, although the share of this sector in 2013 showed a decrease (Bengkulu in Figure 2014). The agricultural sector remained a major concern in the improvement of Bengkulu public welfare because, based on analysis, showed that the regencies made agriculture as a leading sector had a higher growth rate and income per capita than other regencies with no agriculture sector as a favor sector. Agricultural industry aimed to process agriculture products. The activities of that in Bengkulu were palm oil processing named Crude Palm Oil (CPO), fish processing, and coffee processing. Investment in this sector dominated by foreign and domestic investment was in plantation subsector, especially oil palm and rubber plantations.

Province Bengkulu had special quality in agriculture sector, especially in food crops and horticulture. Food crops was the biggest income contributor due to its productivity relatively increased every year. Availability of agriculture resources was the economic main foundation. It was because this sector was a sustainable source of food, clothing, and housing for the community, and also as a raw material for industry.

The development of agriculture was an important industry in Bengkulu. Investments were needed to improve agricultural and non-agricultural industry. To determine the determinant factors of agricultural investments, a panel regression analysis was used accordingly.

Two methods used were fixed effect and random effect model. Based on Haussman test, it was known that fixed effect was the best model for the agricultural industry investment (Haussman test 0:00).

Tabel 2: Hasil analisis faktor–faktor yang mempengaruhi investasi industri Pertanian

Parameter	Investasi industri Pertanian	
	Koefisien	*P Value*
C	4574330	0.720
GDP per capita	1.14	0.045*
Elecricity Infrastructure	-0.04	0.324
Road infrastructure	3522.48	0.071*
Water infrastructure	-0.26	0.451
GDP in Agricultural secto	-48.66	0.038**
GDP in minning and quarrying sector	552.25	0.000**
Labor[1]	----------	----------
Population	-33.30	0.662
Prob Haussman Test		0.000**
Prob (F-test)		0.000**

Labor[1] dikeluarkan dari model

The results stated that the factors affected agricultural industry investments simultaneously were GDP per capita, road infrastructure, electricity and clean water, agriculture resources and mining products, educated labor, and the population. Partially, only GDP per capita, road infrastructure, and agriculture and mining products significantly effected on agricultural industry investment. In the first model, labor variable (*labor[1]*) was included into the agricultural industry investment equation, but due to multicolinierity, this variable was excluded from the model.

GDP per capita affected investments, especially the agricultural industry investment, in line with [3] stated that a foreign company would decide to invest in a particular location if the target area had the potential demand of GDP or GDP per capita indicators. GDP per capita is a reflection of the level of purchasing power. GDP per capita of Bengkulu period 2010-2013 had continued to rise in the range of 4-5 million rupiahs (BDA 2014), so it can be stated that the increase of income per capita meant an increase in people's purchasing power. The result showed that the coefficient of GDP per capita had a positive sign. This meant thatthe more and better people's purchasing power or GDP per capita, the higher the agricultural industry investment. The significant influence of the GDP per capita on the agricultural industry investment could mean a real change in this investment if there was a change in GDP per capita.

If it was associated with significant analytical result between GDP per capita and agricultural industry investment, the increase of purchasing power of Bengkulu's people would raise the demand on agricultural industry products. The increase in agricultural industry's demand would encourage the increase investments in agricultural industry. Income per capita was an indicator to see the purchasing power of a region. The high income per capita in a region meant that the purchasing power of the region was also high. It showed effective domestic market, mainly to invest. Based on this, it could be stated that the GDP per capita greatly affected investments, included agricultural industry investment.

In addition to GDP per capita, regional infrastructure was one of determinant factors of the coming investor into the region. Infrastructure improvements affected the geographical distribution of economic activities [16]. Based on the estimate, the regional infrastructure divided into roads, electricity, and clean water in this study, only the road infrastructure significantly influenced the agricultural industry investment. Road infrastructure was a top priority in public investment plans. Road infrastructure played an important role for the development of agriculture [18]. Good quality of roads would reduce input costs in agriculture sector [15]. The result showed that the coefficient of road infrastructure had a positive sign. It signified the better quality of road infrastructure, the more increase in agricultural industry investment. Changes in the quality of road infrastructure were a significant effect on changes in the agricultural industry investment.

Based on data from BPS Bengkulu, the length of national roads in the province in recent years had not changed, that was fixed along 774.82 km, meaning there was no change in the new national road. But, in general, the quality of the national road along year 2010-2013 improved, notably in recent years. For example in 2010, the good quality of national road was 54.55 %, the medium was 29.21 %, and the poor were 16.24 %. In 2013, the good national road rose to 76.57 %, the medium quality was down to 6.64 %, and the poor quality rose to 16.79 %. In 2013 national road conditions in Bengkulu were categorized as severely damaged, were most in regencies of Mukomuko (29.10 km), North Bengkulu (20 km),Central Bengkulu Regency (15:34 km), and Bengkulu City (3:43 km). The number of national roads damaged in these regions because of traversed by many freight vehicles with cargo exceeding the road class tonnage. National roads existed earlier were only in the class III.

Based on PLN 2014 report for electricity supply, electricity consumption per capita in Bengkulu was the lowest in all provinces in Sumatra, at 283.41 kWh/capita. For clean water supply, It relatively was still low that could be seen from the low share of this sector in total GDP of Bengkulu. As it did so, Firdaus 2008 in Permana and Alla 2010 stated that the supply of electricity and social infrastructure significantly influenced the investment attractiveness of a region. Therefore if the infrastructure circumstances existed in Bengkulu still had not experienced significant improvements, it would be one of the causes of low competitiveness and investment attractiveness.

Agriculture share on GDP also had a significant effect on improving the agricultural industry investment. Condition occurred in Bengkulu was agriculture share coefficient to GDP marked negative showed an opposite change direction between the change of agriculture share on GDP and agricultural industry investment. The greater agriculture share on GDP would result a decrease in the agricultural industry investment. Based on Regional Investment Coordinating Board (BKPMD), this occurred because the agricultural industry investment was dominated by plantation sector, especially palm oil and rubber plantation. On the other hand, based on data from BPS Bengkulu, agriculture products in Bengkulu were dominated by food crops. So that the increase of plantation area would decrease the increase food crop production area, such as what was happened in Kaur Regency. This difference goal was because of discrepancy in dominant factors of agricultural GDP that dominated by food crop products such as rice, maize, cassava, peanuts and horticulture, while agricultural industry investment was dominated by plantation sector, such as oil palm, rubber, coconut, and tea. The development of the plantation sector allowed the tradeoff between agriculture and plantation land. A research on Agricultural Technology Innovation Seminar of Specified-Location, cited that conversion from food crop lands

into plantations was happened. These conditions caused Bengkulu government should supply the food needs, of rice particularly, in new residential areas. If this continued, it would turn into food insecurity, especially rice. The land conversion into plantations, such as oil palm, would disrupt the environmental balance such as soil microorganisms and soil water availability.

Mining share of GDP had a significant influence on changes in the agricultural industry investment. The coefficient on this variable showed a positive sign, which meant changes on mining products increase that would encourage the increase in agricultural industry investment. Mining products in Bengkulu province were dominated by the coal and iron sand. The mining's GDP coefficient as a proxy of the natural resources in mining sector had a significant effect in the same changes direction (positive). mining activity had a positive impact on the economy of the majority of communities, especially who lived near by the mining area, but it also gave negative impact on the environment [7]. Theoretically, the region had mining resources was relatively richer seen on local income side, but it did not happen in Bengkulu. The mining areas (eg, coal) such as North Bengkulu, Seluma, and Central Bengkulu did not have a higher local income (PAD) compared to areas without mining area. In addition, the regional budget realizations of North Bengkulu and Central Bengkulu were deficit (Bengkulu in Figures 2014). Generally, people who lived in mining region would have a positive impact on their economies. The labors in mining sector relatively had higher income that labors in agriculture sector. This income increase caused the higher purchasing power that would encourage the increase of agricultural industri investment. This was consistent with the estimation which implied a direct and significant influence between mining's GDP and agricultural industry investment.

The dominance of agriculture in Bengkulu had not been able to absorb the labors in large numbers. The majority labors in this sector came from farmer family and did not have special skill of agriculture or farming. So that skilled labor factor was not a significant influence in this sector.

Industry processing generally was considered able to absorb labors in large numbers. In Bengkulu, the developing industry was still dominated by micro or household industry that had not been able to absorb a lot of labor and tended to employ only family members. The lack of agricultural industry investment caused the lack of labors absorption.

Population factor had no a significant effect on industry investment, both of agriculture or non agricultural industry. Population could impact both positive and negative for the economic growth of a region. The negative impact came from the large population in numbers only, and the positive impact came from a lot of people with high income and was in upper middle class [8].

A growing industry in Bengkulu generally was dominated by micro or household industry that did not absorb many labors as they tended to employ only their family members typically. The less of existing industry investment resulted in low levels of labors absorption. The significant influence of skilled labor on non-agricultural industry might imply that the development of non-agricultural industry was in desperate need skilled labors. The differ condition on agricultural industry investment which skilled labors had no significant influence on the investment, because agricultural industry oriented on primary products such as logs, sawn

timber, processing of fishery products, and others. Table 2 showed that Rejang Lebong had the highest agricultural industry investment and Central Bengkulu was the lowest among other regencies.

The low investment of agricultural industry in Central Bengkulu because this region did not favor the agriculture sector as a leading sector. Central Bengkulu, North Bengkulu, Mukomuko, and Bengkulu City had negative constant values of agricultural industry investment model. These regencies had no longer favor the agricultural industry but the mining and processing industry. The biggest constant value owned by the regions that made agriculture as a leading sector, such as Rejang Lebong, Kepahiang, and Lebong regencies.

4.   Conclusion

GDP per capita, road infrastructure, electricity and water, agriculture and mining shares, and population simultaneously had significant effects on the changes of agricultural industry investment. The development of the agricultural industry in Bengkulu was partially influenced by GDP per capita, road infrastructure, and the share of agriculture and mining on GDP that had a significant influence on agricultural industry investment. No significant electricity infrastructure and clean water were still low due to the role of both types of infrastructure investments in the development of agricultural industry. Natural resources of the abundant agricultural and mining products had a highly effect on the investor interest to invest his in the region. The types of natural resources owned also had an effect on it. The region that had agriculture GDP dominated by food crops were less able to attract investors to the region. That was because the main orientation of investors into Bengkulu was the plantation sector. The existence of the private plantation would reduce the production of main food crops because of the land conversion. Beside of that, the people's interest in the form of purchasing power would be able to attract investors into the region, if the purchasing power was supported by the income they had.

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