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## **Establishment of Regional-owned Food Business Entities as a Means to Eradicate Poverty and Increase Economic Growth**

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### **Abstract**

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East Java is a large province in Indonesia with the population of more than 39 million people and has economic dominance in the agricultural sector. Huge agricultural sector resources in East Java have high comparative advantages. Regional-owned Food Business Entities is one of the strategic policies that become a bridge for the agricultural production sector with its market. It is hoped that the welfare of farmers can be improved and will have an impact on poverty reduction and economic growth in East Java. This study aims to: 1) Provide a description of the role of Regional-owned Food Business Entities and its prospects based on the perspective of farmers in East Java; 2) Analyze determinants of poverty and economic growth as the ultimate goal of food enterprises, through the agricultural sector approach. The method used in this study was panel data analysis with the data from Central Bureau of Statistics year 2010-2018. The results showed that almost all farmers supported the establishment of Regional-owned Food Business Entities with the prerequisites for price certainty that benefited farmers. Furthermore, the results of the estimation of multiple linear regressions in the poverty model and the economic growth model show that poverty is strongly influenced by the quality of human resources, as well as the economic growth model. Before realizing the Regional-owned Food Business Entities, benchmarking was recommended to find out best practices and feasibility studies in various aspects.

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## INTRODUCTION

The economic capacity of a region can never be separated from policies issued by the government, one of which is in the agricultural sector (Nicholls, 1964; Woś, and Grochowski, 1977; Zejnullahi, 2016; Blanco, 2018). The government orientation at the beginning of development is in the aspect of production (first generation problem) due to higher demand than supply. Furthermore, when supply has started to increase even if it reaches a surplus, then the agricultural development policy taken is market oriented (second generation problem). In the end, the strength of competitiveness will increasingly require economies of scale from an institutional aspect to a further development orientation in the agricultural sector (third generation problem).

One of the provinces in Indonesia that supports national food needs is East Java. East Java can afford a surplus in almost all agricultural commodities, except soybeans. Based on data from the Department of Agriculture and Food Security (2018), the estimated surplus of rice, maize and shallots is 2.45 million tons, 6.02 million tons and 0.13 million tons, respectively. Meanwhile, the population of cattle, dairy cows and laying hens is the largest in Indonesia each with around 4.63 million head, 0.28 million head and 50.54 million head. East Java is also ranked as the second largest in Indonesia for a population of goats and broilers, namely 3.48 million and 263.35 million respectively. The contribution of East Java meat to the national needs is 20 percent, while the contribution of eggs and milk is 29 percent and 57 percent respectively.

In addition to the potential of primary food agriculture, meat, eggs and milk, the potential for horticulture of fruits, vegetables, ornamental plants and biopharmaceuticals is very large in East Java Province. East Java Bureau of Statistics data show production contributes significantly to national production for commodities mango, banana and tangerine, respectively by 28, 52 percent, 20, 89 percent, and 41, 31 percent. Vegetables, large chilies, and cayenne pepper each contribute 25, 51 percent, 24, 38 percent, 15, 7 percent of Indonesia's total production.

The agricultural sector has inelastic product characteristics both in demand and in its offer (Troskie et al, 2000; Vukadinović et al 2017). This is a challenge for producers of agricultural products to be careful in making production decisions. This is because excess production in the market will have an impact on lower prices that are relatively far greater. Furthermore, the production surplus will have an impact on decreasing farmer income. Finally, price fluctuations in agricultural products are relatively very high and have a negative impact not only on producers but also on consumers.

How an agricultural product reach its consumers will have an impact on food security and nutrition and subsequently produce outcomes in the form of healthy and productive human resources involving a concept known as supply chain management (SCM). Monczka et al. (2002) convey that SCM covers all activities related to the flow and transformation of goods from the raw material (extraction) stage to consumption by end users, as well as related information flows both up and down the supply chain.

The behavior of the production and marketing of agricultural products above is also a reason why poverty in East Java and nationally occurs in rural areas. The

poverty map of East Java is rural areas by 15, 30 percent and in urban areas by 7, 06 percent. This is the importance of the Province of East Java to take strategic steps in improving market and marketing performance as well as efficiency to realize the increase in farmers' income and finally poverty alleviation. Specifically about food agriculture, certainly it has its own strategic role because food is one of the basic needs of life.

The presence of the government in the agricultural market has actually been noticed by the existence of Law Number 12 of 2018 on Food. Article 115 states that the government is present by building a food information system for the community. In particular, the Government of East Java also responded to the important role of the government in the market by establishing the Regional Regulation No. 2 of 2010 concerning the management of superior agricultural and fishery products in East Java. In the Regional Regulation, it is mentioned that there is a Modern Main Market of Regional-owned Food Business Entities Company in East Java as a modern wholesale market for agribusiness products owned by the Government of East Java Province. Including the existence of the Agribusiness Sub-Terminal as a market in a certain region to accommodate and or market agricultural and fishery products which can subsequently network with the Modern Java Regional-owned Food Business Entities Main Market in East Java.

The performance of food development in East Java still requires redesign so that it has more acceleration in increasing the welfare of food producers and also increases food security for the whole community in a sustainable manner (sustainable food security development) and in the end it reduces poverty and realizes sustainable development through sustainable agriculture and market development. Several studies have found that agricultural income growth is more effective in reducing poverty from growth in other sectors because: 1) poverty rates tend to be higher in agricultural and rural populations than elsewhere, and 2) the majority of poor living in rural areas and most of them depend on the agricultural sector (Christiaensen and Demery, 2007; Ravallion and Chen, 2007).

One policy formulation are necessary in East Java is government intervention into the market through the Food enterprises. Regional-owned Food Business Entities becomes a government business institution that brings the market to food production and producer activities in East Java. Regional-owned Food Business Entities in East Java is the hope of eradicating poverty and strengthening the economic fundamentals of East Java Province. Strategic institutional transformation in the food sector is bring any a mission's discussion is important, which raises the welfare of farmers who will be a supplier for enterprises and transform agricultural products into products worth of exports both in the context of s outside East Java and abroad. Another possible achievement target is the emergence of supply chains and value chains in agricultural production activities so as to produce an efficient and highly competitive East Java economic order.

With the companies belonging to the state / Regions (State-Owned Enterprises - SOEs) which continues to play an important role in many economies, the quality of governance of SOEs increasingly attract attention because of the fundamental role as a driver of growth also often gets a lot of challenges, such as problems interfering improper politics , passive management, and inadequate transparency. These things have raised public concerns and a number of serious problems (OECD, 2005). The

establishment of the East Java Regional-owned Food Business Entities is an effort of the regional government to respond to the slow progress in the agriculture sector in the development of East Java. Poverty in many villages and also the low value added of the agricultural sector has caused farmers to be unable to move away from the basic problem of adverse production and price fluctuations.

The objectives of this study are: 1) Providing a description of the role of the Regional-owned Food Business Entities and its prospects based on the perspective of farmers in East Java; 2) Analyzing determinants of poverty and economic growth as the ultimate goal of the Regional-owned Food Business Entities Industry, through the agricultural sector approach.

**RESEARCH METHODS**

This research used primary and secondary data. Primary data were obtained from field studies in several research locations, namely in Malang Regency, Jombang Regency, Nganjuk Regency, Kediri Regency, Blitar Regency, and Tulung Agung Regency by interviewing 244 farmers. Primary data collection was used to obtain information related to farmers' perceptions on food crop agriculture, horticultural agriculture, plantations, animal husbandry, and fisheries as well as information related to the role of the formation of the Regional-owned Business Entities of East Java Province. Then, the discussion of primary data would be presented descriptively.

Secondary data in the study were obtained from the Central Statistics Agency, covering the data from 38 regencies / cities in East Java from 2010-2018, to determine the determinants that affect poverty and economic growth in East Java. This relates to the ultimate goal of Regional-owned Food Business Entities which is expected to reduce poverty while increasing economic growth. Based on this poverty model is structured as follows:

$$Y_{it} = a + b_1X_{it1} + b_2X_{it2} + b_3X_{it3} + b_4X_{it4} \dots b_nX_i \dots\dots\dots(1)$$

Explanations:

- Y<sub>it</sub> : percentage of poor population (per cent)
- X<sub>it1</sub> : labor in the agricultural sector (person)
- X<sub>it2</sub> : population growth (percent)
- X<sub>it3</sub> : population (person)
- X<sub>it4</sub> : Human Development Index (HDI)
- e : error term or disturbance.

As for the analysis of economic growth with model:

$$Y_{it} = a + b_1X_{it1} + b_2X_{it2} + b_3X_{it3} + b_4X_{it4} \dots b_nX_i \dots\dots\dots(2)$$

Explanations:

- Y<sub>it</sub> : gross regional income per regency/ city (billion Rupiah)
- X<sub>it1</sub> : labor in the agricultural sector (person)
- X<sub>it2</sub> : percent of poor population (percent)
- X<sub>it3</sub> : Gini Index / Inequality
- X<sub>it4</sub> : Human Development Index (HDI)
- X<sub>it5</sub> : average length of school (years)

e : error term or disturbance

The use of estimation of the coefficient from the above equation was formulated using an analytical method in accordance with the second research objective. The econometric methods used were Ordinary Least Square (OLS) and Maximum Likelihood Estimator (MLE).

## RESULT AND DISCUSSION

In the East Java Province Spatial Planning document (State Treasury Service Office, 2015), the East Java Province's land area is around 4.78 million hectares, divided into 29 regencies and 9 cities. The whole area is divided into four Regional Coordination Agencies, 640 sub-districts, and 8,413 villages / wards. Protected areas in East Java accounted for 11.69 percent while the rest were cultivation areas (88.31 percent).

Especially relating to agricultural land, the document noted that the wetland has an area of about 0.99 million hectares (19.08 percent), while the dry land or fields or gardens was recorded at 1.11 million hectares (23.19 percent). The plantation area is far below the agricultural area, which is 0.36 million hectares (7.52 percent). This is lower than residential areas which reach around 0.60 million hectares (12.45 percent). However, the results of the data collection and analysis of agricultural land area in the East Java document in 2014 figures recorded an average land conversion of 1,000 hectares per year. This is a serious threat to the carrying capacity of land resources for the agricultural sector. On the other hand, the agricultural sector is demanded to continue to play an important role in maintaining national food stability.

The Province of East Java carries a great goal that continues to be realized which is to become the center of advanced agribusiness in Southeast Asia. Surely this is the resultant of many factors ranging from sound agribusiness planning supported by quality human resources, stable social conditions and sustainable agricultural production construction.

It is undeniable that East Java Province is one of the centers of national agricultural production. East Java's contribution to national rice production in 2016 was 17.11 percent. Corn and soybean commodities from East Java to the national market in 2016 were 27.05 percent and 33.66 percent respectively (Regional Revenue Agency East Java, 2017). The great potential in food crop agriculture is supported by the existence of irrigation infrastructure which has irrigated around 0.9 million hectares of paddy fields, while agricultural production land which is not yet reached by irrigation flow is 0.25 million hectares. Conversion of agricultural land is believed to be one of the difficult problems that must be controlled by its growth rate if it still hopes that Central Java is the center of national agricultural production with its comparative advantage.

The development of food security in East Java is more stable in terms of availability because of the ability to create a large food surplus. East Java Province has produced a surplus of around 4 million tons of rice or around 52.56 percent of East Java's rice production in 2016. Other strategic food commodities such as corn, green beans, peanuts, cassava and also sweet potatoes also experienced a significant surplus right. In 2016, corn had the highest surplus of 97.37 percent. Soybean as

the only strategic food commodity that was still a deficit, in 2016 was recorded to have produced production that exceeded the amount of consumption so that a surplus of 4.79 percent was generated from the total soybean production in East Java of 0.44 million tons.

In addition to the center of food crop production, East Java Province is the basis for the production of several strategic horticultural commodities. Vegetable production of seasonal gates in East Java is shallots, large chilies and cayenne peppers. While fruit commodities are dominated by the production of banana, mango, avocado, *rambutan* and cashew nuts. Other commodities related to horticulture are *biopharmaca*. The dominant *biopharmaca* plants cultivated in East Java Province include turmeric, ginger, curcuma, galingale, and galangal. Ornamental plants are including the horticulture group. Potential types of ornamental plants based on Central Bureau of Statistics data include roses, chrysanthemums, savory flowers, and orchids.

### **The Role of Regional-owned Food Business Entities as Economic Fundamentals of Food Security and Reducing Poverty**

The survey in the context of the study of the Regional-owned Food Business Entities formation in East Java involving 244 respondents spreading in Batu City (48 respondents), Blitar Regency (45 respondents), Jombang Regency (20 respondents), Kediri Regency (20 respondents), Malang Regency (46 respondents), Nganjuk Regency (20 respondents), and Tulungagung Regency (45 respondents). Total survey respondents were 244 respondents. Respondents in Jombang and Malang regencies representing food crop farmers, while horticultural agriculture was represented by Nganjuk (onion), Kediri (chili), and Batu City (vegetables). Respondents representing the Animal Husbandry sub-sector were represented by respondents from Blitar Regency and Tulungagung Regency.

The first aspect observed in the analysis of primary data is problems in agricultural business. In this aspect the development of production is relatively disrupted related to business profits. This was stated by almost 84 percent of research respondents. It is realized that agricultural producers have limitations in market access to both inputs and outputs, or in other words as price taker. In this condition, farmers will feel the price less profitable and relatively high production costs. These two things undermine the business profit in agriculture. Other types of problems in agricultural business are health problems (7 percent of respondents), minimal employment opportunities (4 percent of respondents), and low education (3 percent of respondents).

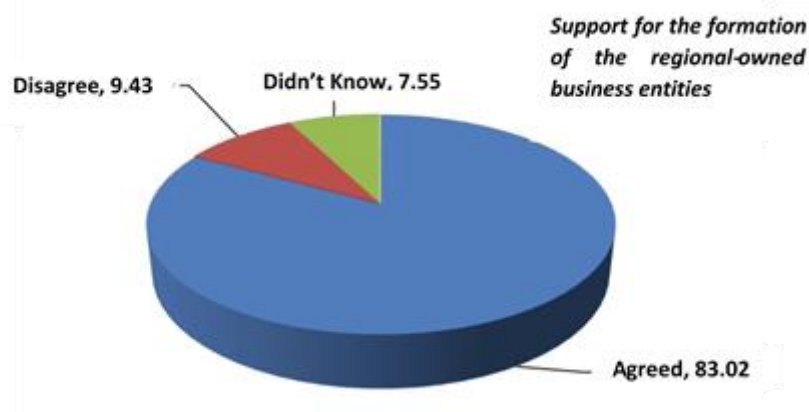
Respondents' perceptions of the factors influencing their business indicate that high production costs are a burden on their production activities. These relatively high costs, as explained previously, are realized because the producers have difficulties to escape their dependence on the input market and as price takers. In addition there are also aspects of product prices that have a relative influence on production activities in agriculture. The price aspect is the influence of the bargaining position and the level of supply of agricultural products in the market. The more unplanned production activities, there are bigger possibility for shortage and surplus to occur that harm the producers. In the position as a price taker and low bargaining position, agricultural producers will get very thin profit margins and tend to suffer

losses if the surplus is too large in the market. Not to mention if the market has started, but it is no longer in a competitive condition. Consequently, the lower the efficiency of the market will be more damaging to the manufacturers of agricultural products.

Respondents also responded to agricultural development policies, especially in East Java. The agricultural development policy is still relatively concentrated in the production sector. This has an impact on the decline of farmers due to failure to approach the market, though the market is the main signal that must be taken into account before the production activities of agricultural producers. However, the seriousness of the government in the direction of institutional and market development is increasing. This is a positive development to anticipate changes in the agricultural sector environment, although it is a little too late. One example of an institutional arrangement that is currently being done is by initiating village-owned business entities.

However, as with local institutional development programs, there have been many challenges faced. This is evident from the response of respondents or the development of village-owned business entity in the study location. Around 75 percent of respondents said that village-owned business entity development was not good. Strategic potential of village-owned business entity to increasingly educate producers in rural areas (agriculture) taking into account the market signal has not reached its optimal point. If village-owned business entities will emerge or become the partner of regional-owned business entities in East Java, it is very important to do some development of them.

Furthermore the respondent's support for the formation of the regional-owned business entities in East Java was very high. The respondents who agreed to the establishment of East Java Food Enterprises was 83.02 percent, 9.43 percent said they did not agree because of previous experiences of market regulation policies by the government which led to the absence of impact on improving the welfare of agricultural producers, and 7.55 percent said they have no clue.

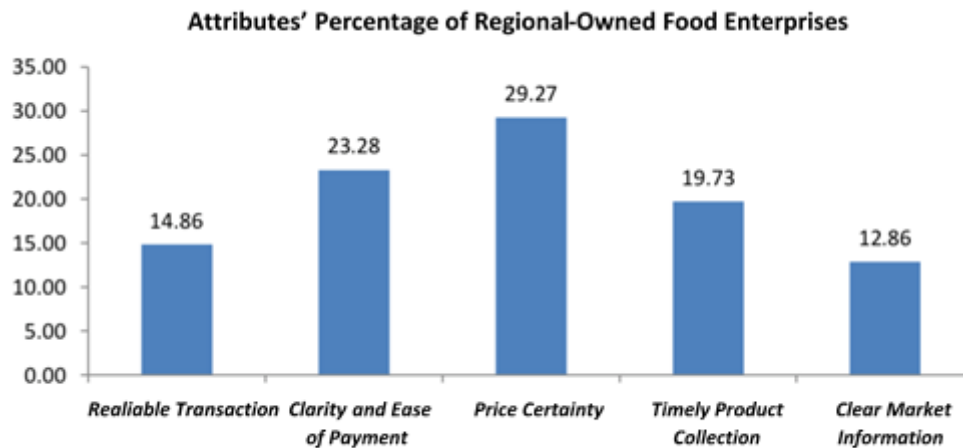


**Figure 1 . Perception of Respondents on the Establishment of Regional-owned Food Enterprises in East Java**

Source: Primary data (processed), 2019

For the high support to the establishment of the Regional-owned food enterprises, the analysis continued with what attributes were expected to be found in the Regional-owned food enterprises in East Java. Respondents responded that the

highest attribute expected by the respondent for East Java Food Enterprises was to provide price certainty at a level that would benefit agricultural producers. Furthermore, what was wished by the respondents were clarity and ease of payment (23.28 percent), timely collection of products / commodities (19.73 percent), reliable transactions (14.86 percent) and clear market information (12.86 percent). This can be seen in the following graphic image.



**Figure 2 . Market Requirements for Agricultural Products Formed by the Government**

Source: Primary data (processed), 2019

In the operation of Regional-owned Food Business Entities, it is known that its function aside from the market aspect is also expected to be able to have implications on the improvement of production techniques in agricultural producers. This means that regional business entities is not only functions in conducting purchase transactions but also functions as guidance to suppliers of small scale agricultural producers in East Java.

Another thing that is an important function of the East Java regional food business entity is the development of membership systems in its operations, fostering and strengthening commitments in sales, as well as coaching and improving quality. Another important matter which is also agreed as a function of a regional-owned business entity in its interaction with agricultural producers in East Java is related to the producer cooperation contract through a group. This can also be classified in the implementation of the contract farming system in East Java.

Supported by the results of Brawijaya University's research with the Regional Revenue Agency East Java Province (2017) with a *livelihood vulnerability index* analysis of 730 research respondents, it is known that all sub-sectors in the agricultural sector (outdoor understanding including animal husbandry, fisheries) showed a high *Livelihood Vulnerability Index* in the financial aspect (> 60). This shows that there is a low profitability signal in the agriculture sector.

The information asymmetry that occurs in the agricultural product market provides potential for *moral hazard* to the detriment of those who do not hold information and also the emergence of *coordination problems* in transactions. This is caused by no correction mechanism for wrong behavior in the market. Government power through its business units is expected to function as a *balanced mechanism*



and cause *trade-offs* in *long-run profit* decisions and *short-run profits* to end in decisions on *long-run profit* choices. Consideration of *long-run profit* can be interpreted that economic agents in business transactions will prefer to collaborate long term in their *supply chain* rather than *very short-run* transactional patterns.

Until now, the downstream programs, as initiated by the Ministry of Industry with the agro industry development program, and down streaming from ministries or agriculture services are still difficult to develop. This problem arises because the supply of downstream products cannot meet the demand specifications in the market. The market specifications in question are mostly related to continuity, quality, and quantity. The absence of good supply chain management due to dispersal patterns in agribusiness and the lack or even the absence of production plans that meet economies of scale, quality and continuity from upstream and downstream to meet existing market segments are very significant factors leading to the failure of downstream agricultural products.

Weak agribusiness development triggers poverty in the government and, even worse, has implications for the unstoppable conversion of land functions. Naturally, agricultural land is declining due to the insistence on *population growth* and the *trade-offs* with infrastructure development needs. This is exacerbated by the insistence of farmers' needs that cannot be fulfilled from their agricultural production, so that the choice to sell their land becomes a rational choice for their limitations.

### **Determinants of Poverty and Economic Growth in East Java**

Regional-owned Food Business Entities in this study is a strategic step in increasing the role of agriculture in development, generating positive *multiplier effects* from the primary agricultural sector, increasing the potential for down streaming and competitiveness of agricultural products, and other roles that can be expected to develop along with the advancement of the agricultural sector. Regional-owned Food Business Entities as expected above certainly requires the existence of good and qualified human resources to support the operation of village business unit and the partnership that is being built. As already known, one of the efforts to measure the level of human resource development is through the HDI (Human Development Index). HDI is a measurement that combines health, education, and economic indicators.

East Java Province itself shows that the increase in HDI is relatively slow and even changes are decreasing from 2015 by 68.95 to 70.77 in 2018. Seen from the highest HDI achievement at the regency / city level in East Java were Surabaya City (81.74), Malang City (80, 09), Kota Madiun (80.33), and Sidoarjo Regency (79.50). While the five regencies/ cities in East Java Province that have the lowest HDI were Sampang (61), Bangkalan (62.87), Lumajang (64.83), Probolinggo (64.85), and Sumenep (62, 25). However, from the rate of increase in HDI, Sumenep Regency showed the highest increase with an average of 1.65 percent per year, followed by Sampang and Pasuruan Regencies respectively by 1.42 percent and 1.30 percent. HDI as one indicator of the success of development requires a multi-sector approach to build it and a commitment of integration between policies, thus, the health development program, education development, and also economic development as an integration of government inter-sectoral interventions in East Java.

Following are the results of a regression analysis of the effect of labor in the agricultural sector, population growth, and HDI on poverty in East Java. The results of the economic analysis below show that the model is significant with the ability to explain changes in poverty because the four variables considered are 68.87 percent and 31.13 percent are influenced by other factors in the outer model.

**Table 1 . Estimation Results in the Poverty Model**

| No | Variable  | Coef   | t      | P>(t)   |
|----|-----------|--------|--------|---------|
| 1  | Farm      | 1.99e  | 1.74   | 0.084*  |
| 2  | Popgrowth | 0.799  | 1.16   | 0.248   |
| 3  | Pop       | -7.14e | -1.64  | 0.104   |
| 4  | HDI       | -0.750 | -17.64 | 0.000** |
|    | _cons     | 64.27  | 20.90  | 0.000   |

Note: \* significant at the 10% significance level; \*\* significant at the 5% significance level

From the coefficient analysis of each variable, it is shown that population growth does not significantly influence poverty, neither does the population. However, at a significance level of 10 percent, labor in the agriculture sector actually has a statistically significant increase in poverty, although the magnitude of the coefficient is relatively small, namely an increase of 1 percent in the agricultural sector increases poverty by  $1.99 \times 10^{-6}$  percent. This signals a statistically significant trend towards the importance of structural transformation of the workforce from the agricultural sector to other, more value-added sectors, while labor in the agricultural sector is more supported by mechanization and other production efficiencies.

Of the four variables used in the poverty model, HDI is a variable that strongly influences poverty. The analysis results above show that statistically if there is a tendency that an increase of 1 percent of the HDI index has implications for poverty reduction of 0.75 percent. Because HDI is a composite index of education, health, and economy, this also gives an indication that an integrated program over these three aspects will have a significant impact on poverty. It can be drawn in broad outline on poverty in East Java that the agricultural sector workforce and HDI have a statistically significant effect (simultaneously) at a significance level of 10% on poverty, seen from the Prob F value <10%.

For the agricultural sector workforce variable has a significant positive effect on increasing poverty even though the effect has a small percentage, while for the variable I HDI has a significant effect on reducing poverty. Statistically, there are indications that an increase in 1 HDI unit has an impact on reducing 0.75% poverty. Then the analysis continues by looking at the effect of HDI and other variables on economic growth. Economic growth is seen in Gross Regional Domestic Product (GRDP).

**Table 2 . Estimation Results in the Economic Growth Model**

| No | Variable | Coef    | t      | P> (t)   |
|----|----------|---------|--------|----------|
| 1  | Farm     | 1,205   | 1.74   | 0.084 *  |
| 2  | Pov      | -0.103  | 1.16   | 0.248    |
| 3  | Gini     | -0,461  | -1.64  | 0.104    |
| 4  | HDI      | -0,750  | -17.64 | 0,000 ** |
| 5  | Edu      | 64.27   | 20.90  | 0,000 ** |
|    | _cons    | -26,247 | -2.66  | 0.009    |

Source: Data processed (2019)

Note: \* significant at the 10% significance level; \*\* significant at the 5% significance level

Regression analysis of GRDP shows that economic growth is significantly influenced statistically very strongly by the variable number of workers (Farm ), while HDI significantly influences the significance level of 10 percent. As in Alatas (2016), education and health (HDI component) and economic growth are positively correlated. As for the influence of the poverty variable, the Gini index, and the average length of schooling do not significantly influence regional economic growth.

Workforce performance variable indicates that every 1 percent increase in the number of workers has an impact on the increase or GRDP of 1.2 percent. Although statistically the significance is higher labor, but the *magnitude* coefficient HDI is greater than the effect of workforce performance, which is every 1 percent increase in HDI, it tends to have an impact on increasing or GRDP growth of 4.67 percent, where HDI is a composite form of health quality (AHH), education (literacy and average age), and economics (per capita expenditure).

From the two models above, it is known that the quality factor of human resources (HR ) is a factor that can reduce poverty while increasing economic growth. There is a lot of literature, which reveals that one of the most important factors of economic growth is the HR factor (Mankiw et al., 1992; De la Fuente and Doménech, 2006; Riley, 2012; Pelinescu, 2015; Alatas, 2016). The quality of human resources or human capital influences growth goes through two mechanisms. First, humans directly participate in production as a productive factor. In this case, the accumulation of human capital will directly produce output growth. Second, human resources can contribute to increasing technical progress. In this way, the level of human capital affects productivity growth. Output and productivity growth will ultimately have an impact on a country's economic growth (Alatas , 2016). Economic growth will bring a *multiplier effect*, one of which is to reduce poverty.

## CONCLUSION

The study that has been produced from the results of surveys in various research areas found that the agricultural sector needs to be formed a formal institutional forum to be able to generate linkages in production, consumption, investment, and local government revenue. Development of the Province of East Java requires an investment paradigm that emphasizes the prosperity of the people. In an effort to strengthen the people's economy and at the same time strengthen the economy of East Java and nationally there have been many economic and political steps taken. One of them is the establishment of the Regional-owned Food Business

Entities that synergizes with village business units/community business units, farmer, cooperations, *Agropolitan* development programs, and others that are possible.

The study of the role of the establishment of Regional-owned Food Business Entities associated with poverty and food security, obtained from the analyzed model shows that labor in the agricultural sector influences significantly on the level of shared poverty through the Human Development Index variable. Specifically, it is important to carry out structural transformation and application of downstream agricultural products in order to get higher added value, whereas the workforce in the agricultural sector is more supported by mechanization and other production efficiencies. Furthermore, the results of the second model also show the same thing: the number of workers and HDI significantly influence the rate of economic growth. Therefore, comprehensive structural enhancement and transformation are needed so that the output can increase economic growth well.

### **RECOMMENDATION**

Before realizing regional food business entities, a number of things recommended by the author include conducting benchmarking to find out best practices and rational expectations in the future the regionally owned food business entities are formed and conducting feasibility studies both in economic aspects, market and marketing aspects, financial aspects, and others are needed, such as aspects of legislation, aspects of technology availability, and aspects of HR. Funding for this activity was sourced from the East Java Province Regional Budget.

In terms of regulations, the regions can draw up East Java Province regulations related to regional food business entities. Regionally owned food business entities are also submitted to the Minister supported by attachment (1) analysis of regional needs; (2) feasibility analysis; (3) summary of the financial statements of the East Java Regional Government for the last 3 years; (4) regional regulation documents concerning financial statements for the past 3 years; (5) Regional Medium-Term Development Plan Documents in accordance with the rules regulated in Government Regulation Number 54 of 2017 concerning Regionally-Owned Enterprises, then regionally-owned enterprises are professionally determined based on the East Java Governor's Regulation.

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