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Judul Artikel: ASSESSING THE PERFORMANCE AND FACTORS AFFECTING ORGANIC RICE AGRIBUSINESS SUSTAINABILITY , Penulis: \*1 D. Yadi Heryadi, 2Trisna Insan Noor, 2Yosini Deliana and 3Jajang Sauman Hamdani, Nama Jurnal: International Journal of Development Research, Volume Jurnal: 8, Nomor Jurnal: 11, Tahun Terbit Jurnal: 2018, Halaman: 24110-24115, ISSN: 2230-9926, Penerbit: IJDR (International Journal of Development Research), DOI: <https://doi.org/10.37118>

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Jumlah Penulis : 4 orang  
 Status Penusul : Penulis Pertama

Identitas Karya Ilmiah

a. Nama Jurnal : Jurnal of Development Research  
 b. Nomor ISSN : 2230-9926  
 c. Nomor/Volume : 11/8  
 d. Edisi/Bulan/Tahun : 2018  
 e. Penerbit : Czestochowa University of Technology  
 f. DOI artikel : 10.17512/pjms.2019.20.1.27  
 g. Alamat Web Jurna : <http://www.ijournaljdr.com/archive/201811>  
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LEMBAR  
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d. Edisi/Bulan/Tahun : 2018  
e. Penerbit : Czestochowa University of Technology  
f. DOI artikel : <http://do.org/10.37118>  
g. Alamat Web Jurnal : <http://www.journalijdr.com/archive/201811> ; <http://www.journalijdr.com/sites/default/files/Issue-pdf/14484.pdf>  
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# ASSESSING THE PERFORMANCE AND FACTORS AFFECTING ORGANIC RICE AGRIBUSINESS AGRIBISNIS

*by* D. Yadi Heryadi

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**Submission date:** 12-Oct-2020 03:12PM (UTC+0700)

**Submission ID:** 1412683919

**File name:** E\_AND\_FACTORS\_AFFECTING\_ORGANIC\_RICE\_AGRIBUSINESS\_AGRIBISNIS.pdf (326.83K)

**Word count:** 5672

**Character count:** 32501



ISSN: 2230-9926

Available online at <http://www.journalijdr.com>

# IJDR

International Journal of Development Research  
Vol. 08, Issue, 11, pp. 24110-24115, November, 2018



ORIGINAL RESEARCH ARTICLE

OPEN ACCESS

## ASSESSING THE PERFORMANCE AND FACTORS AFFECTING ORGANIC RICE AGRIBUSINESS SUSTAINABILITY

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### ARTICLE INFO

#### Article History:

Received 06<sup>th</sup> August, 2018  
Received in revised form  
19<sup>th</sup> September, 2018  
Accepted 06<sup>th</sup> October, 2018  
Published online 28<sup>th</sup> November, 2018

#### Key Words:

Organic rice, Performance,  
Agribusiness system,  
Sustainability.

### ABSTRACT

The sustainability of organic rice agribusiness is determined by the performance of the agribusiness system consisting of subsystems providing production inputs, on-farm subsystems, processing/ handling results subsystems, marketing subsystems and supporting element subsystems. In Indonesia, especially East Priangan is known as an area of organic rice development. Currently, the development performance shows a decrease in indicators including productivity, production, planting area and the number of farmers involved in organic rice cultivation. The purpose of this study is to describe the actual performance of development while analysing the factors that influence the sustainability of organic rice agribusiness. The survey method was used in this study of cluster random sampling technique on 280 organic rice farmers in 4 districts/cities of East Priangan, West Java Province, Indonesia and applying the Structural Equation Model (SEM) approach using the LISREL analysis tool. It can be concluded that the development of organic rice agribusiness in the study area obtained sufficient performance and the whole agribusiness subsystem which consists of production input sub-system, on-farm subsystem, handling/processing subsystem, marketing subsystem and supporting element subsystem affecting the sustainability of organic rice agribusiness.

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Citation: D. Yadi Heryadi, Trisna Insan Noor, Yosini Deliana and Jajang Sauman Hamdani. 2018. "Assessing the performance and factors affecting organic rice agribusiness sustainability", *International Journal of Development Research*, 8, (11), 24110-24115.

### INTRODUCTION

The growth of organic agriculture is growing rapidly in the world marked by an increase in the area of organic land from 15 million hectares in 2000 to 50.9 million hectares with over 2.4 million of producers (Willer and Lernoud, 2017), whereas the value of world trade in organic products reached 36.2 billion euros in 2007 (IFOAM, 2009), and climb to more than 60 billion euros in 2014 (FiBL Survey, 2016). Organic agriculture growth is triggered by the changing preference and lifestyle of consumers who want their food to be healthy and safe also because organic agriculture offers more advantages compared to conventional agriculture, which can protect/maintain the health, physical, fertility and biological properties of the soil. Furthermore, by applying organic agriculture the ecosystem could acclimatize to change the climate, and increase the potential for carbon sequestration from the soil (Karki, et al, 2011; Widiarta, et al, 2011; Surekha, et al, 2013;

Pathak et al., 1992; Carpenter Boggs et al., 2000; Bhooshan et al., 2011). Besides, there was a rise in farmers' income through higher productivity and premium price of the yields rather than conventional rice (Surekha, et al, 2013; Reddy, 2010). While social contributions are a variety of hazard avoidance related to loss of fertile soil, water pollution, and erosion of biodiversity, greenhouse gas emissions, food insecurity and pesticide poisoning which can eventually promote a healthy society (Scialabba, 2013). Organic farming has been proposed as a crucial method to achieve these goals (Seufert, 2012). In Indonesia, although organic farming, including organic rice, was long known to have many advantages and benefits from multiple aspects the expansion is relatively slow (Mayrowani, 2011). Likewise, in East Priangan, West Java Province, the development of organic rice was categorized as stagnant and tend to decline (Heryadi and Noor, 2016). The conditions that occur in organic rice agribusiness in the East Priangan Region are the fluctuation problems and the indication declining in organic rice agribusiness including 1) Relatively small percentage of Organic rice field area compared to conventional

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rice field area in East Priangan (3.17 percent in 2015); 2) Fluctuations, slowdowns and decreases in productivity, especially from 2014 as much as 74.85 kW / ha to 74.66 kW / ha in 2015, even the average research results were only 50.70 kW / ha Dry Grain / DUP; 3) Decrease in Organic rice production, compared to conventional rice production, approximately 8.32 percent (31,812 tons) from conventional rice production of 382,143 tons; 4) The number of organic rice farmers decreased dramatically, in 2009 there were 2,435 farmers, and only 427 farmers by the end of 2015. The diverse phenomena and the underlying causes of developing a sustainable organic rice business in East Priangan derive from the dynamics and problems that are still about the agribusiness system. Although organic rice agribusiness is a system. Nowadays, organic rice development in the research area has been in line with the farmers' understanding and has not yet referred to an integrated development model. These problems determine the development, performance will eventually have an impact on its sustainability. Sustainability is a long-term concept and includes various aspects of the social, economic and environmental. The main focus of this study aimed to measure the performance and sustainability aspects of the development of organic rice agricultural business in the East Priangan region and the factors that influence its sustainability. The subject of this research is part of the author's essay to develop a model of sustainable organic rice development in the East Priangan region. It is believed that the model made can increase the level of income of all stakeholders, especially organic rice farmers.

## MATERIALS AND METHODS

This study is a quantitative study with survey methods, which conducted to obtain facts from existing symptoms and find factual information from a group or a region (Nazir, 2005). This research is also an explanatory research, causality explains a relationship between variables through hypothesis testing (Gozali, 2004). The location of the research was carried out in the East Priangan Development Area which included the City of Tasikmalaya, Tasikmalaya Regency, Ciamis Regency, Garut Regency, Banjar City and Pangandaran Regency with the Organic Rice Farmers research unit in the Region. Determination of the location of the research was carried out by purposive sampling based on the consideration that this region was an agrarian region that the development was based on the agricultural sector and was an area of rice production centers in the West Java Province. Both primary and secondary data were analysed. Primary data were obtained through field survey, questionnaires, and expert interviews (independent interviews) with the stakeholders involved in the development of organic rice in the East Priangan region. Secondary data are obtained through research results, literature studies, reports, and documents from various agencies related to the research field. Data collection methods used in this study are interviews, observations. The population size in this study was 427 organic rice farmers in the East Priangan region. Sampling with probabilistic techniques, cluster random sampling was applied so that all members of the population have the same opportunities to be chosen as samples. Part of this study applies the Structural Equation Model (SEM) approach so that for this purpose a minimum number of samples are needed at least five times the number of indicators used (Sekaran, 2003). The number of indicators used in this model is 28 units. After being tested for validity and reliability, the sample taken was 10 times the number of indicators, so

that a total of 280 people were obtained. Then proceed with proportional sampling to find out the number of samples to be taken from each research area. The amount of the composition of the sample size of organic rice farmers taken can be seen in Table 1.

**Table 1. Sample Size of Organic Rice Farmers**

No	Area*)	Sample Size (people)	Organic Rice Farmers
1.	Kab. Tasikmalaya	320	210
2.	Kabupaten Ciamis	43	28
3.	Kabupaten Garut	34	22
4.	Kab. Pangandaran	30	20
	Total	427	280

\*) 2 Areas doesn't have organic rice farmers

In this study, the variables that influence the sustainable organic rice agribusiness are based on the results of previous studies by considering the suitability of the situation and conditions in the study area. T<sub>5</sub> also refers to the opinion of Bellows B (1994) stated that **although many indicators have been developed, this does not cover all 5 aspects of sustainability.** In addition, because of variations in biophysical and socioeconomic conditions, indicators used in one country are not necessarily suitable for other countries. The contents of the indicator system differ from each other for different countries, regions, and stages of development, and of great subjectivity. Agribusiness system variables used in this study adopt and adapt various opinions including Ristianingrum (2016); Widiarta, et al, (2011); Wulandari and Wahyudi (2014); Herawati et al., (2014); Heryadi and Rofatin (2016); Rahayu, (2011); Stone & Lieblein, et al., (2008); Mayrowani, (2012); Septian, (2010); Hosseini and Shariati, (2003); Sidemen, et al, (2012) which are grouped into several sub-systems as follows: Sub production input system, the indicators consist of: organic fertilizer, rice seeds, organic pesticides, water sources. Production/farming sub-system, the indicators consist of land conversion, labor, organic rice technology. and Continuity of production. The sub-system of handling and processing, the indicators consist of Food additives, facilities, and processing infrastructure and fulfilment of general requirements for organic quality. The marketing sub-system, the indicators consist of: Ease of marketing, organic certification costs. Organic market information While the supporting system sub-system, the indicators consist of: government policy, capital assistance from financial institutions, counselling/training, organic farmer groups, and technology information sources.

The sustainability of organic rice agribusiness will be analysed in 3 dimensions as stated by Ristianingrum, (2016); Widiarta, et al., (2021); Zhen and Routray, (2003); Becker, (1997); Van Schooten et al. (2003); Hunkeler et al., (2008); Hosseini et al., (2010); Hayati et al (2010) which are the economic dimensions, social dimensions and environmental dimensions. Sustainability status of organic rice agribusiness from the Economic dimension, the indicators consist of Organic rice productivity, Organic Rice Prices, Revenue. Then from the Social dimension, the indicator consists of Pattern of communication between farmers, Farmer Empowerment, and Family Support. Whereas from the Environmental dimension the indicators consist of Organic rice land zoning, Water use efficiency, Farmers' awareness of the environment. In order to answer the problem about the actual performance of the development of organic rice agribusiness in the East Priangan

region, descriptive analysis was used by applying descriptive statistics. This presentation is in the form of size, tables, graphs, images and so on (Algifari, 2013). The size that will be used in this explanation is the average value obtained. While analysing the factors that influence the sustainability of organic rice agribusiness development is carried out by analyzing the agribusiness system which consists of various organic rice agribusiness subsystems to sustainability by applying Structural Equation Models (SEM) with LISREL.

## RESULT AND DISCUSSION

**Research Area Characteristic:** The East Priangan area was 9,051.37 km<sup>2</sup> or around 24.35 percent of the total area of West Java Province, the height of the place between 0 - 2830 m above sea level and the air temperature ranges from 20oC to 30°C. This agro-climate is suitable for organic rice that grows optimally at altitudes between 0-1000 m above sea level and temperatures around 27°C (Agricultural Information Center, 2018).

quantity or quality of something produced or the services provided by someone who does the work (Luthans, 2005). The performance of organic rice agribusiness development in the East Priangan region is explained by descriptive analysis which is processed by grouping, tabulated using the average number and percentage then given a narrative explanation to provide an empirical description of the primary data that has been collected from respondents of organic rice farmers. Descriptive analysis is done to find out whether the independent variables are one variable or more (independent) without making comparisons or connecting with other variables. The performance status of organic rice agribusiness development is discussed using an agribusiness system approach consisting of production input subsystems, production / on-farm subsystems, handling and processing subsystems, marketing subsystems and supporting facility subsystems. Synthesis of the achievement of the performance of the Organic Rice agribusiness system in the East Priangan region by using a complete average index can be seen in Table 2.

**Table 2. Synthesis of Achievement of Organic Rice Agribusiness System Performance in the East Priangan Region**

Subsystem	Variable	Average Index of Area (IRW)					IRW Priatim	Performance
		Kab Tsm	Kab Cms	KabGrt	Kab Png			
1.Production Input	X1.1 Organic Fertilizer	1,76	1,30	1,93	1,79	1,70	Poor	
	X1.2 Rice Seed	4,04	4,04	4,16	4,03	4,06	good	
	X1.3 Organic Pesticide	3,49	3,26	3,70	3,46	3,47	good	
	X1.4 Irrigation	3,50	3,23	3,62	3,48	3,46	good	
Total performance score Sub-Input Production system		3,19	2,95	3,35	3,19	3,17	Fair	
2.Production/On-farm	X2.1 Conversion Period	3,65	3,47	3,62	3,50	3,56	good	
	X2.2 Labour	1,61	1,40	1,69	1,47	1,54	poor	
	X2.3 Cultivation technology	3,98	3,82	4,23	3,90	3,98	good	
	X2.4 Continuity of production	3,55	3,53	3,77	3,73	3,64	poor	
Total performance scores of Production / On-farm sub systems		3,19	3,05	3,32	3,15	3,18	Fair	
3.Handling and Processing	X3.1 Additional Materials	4,32	4,18	4,30	4,18	4,24	Excellent	
	X3.2 Processing Facilities and Infrastructure	4,04	3,98	4,41	4,33	4,19	good	
	X3.3 Fulfilment of General Quality requirements	4,11	4,13	4,23	4,15	4,15	good	
Total performance score of the Handling and Processing Sub system		4,16	4,09	4,31	4,22	4,19	good	
4. Marketing	X4.1 Ease of Marketing	3,30	2,66	3,17	2,71	2,96	Fair	
	X4.2 Certification	3,06	2,82	3,18	2,91	2,99	Fair	
	X4.3 Market Information	2,57	2,27	1,68	2,03	2,13	low	
Total score of Sub Marketing system performance		2,97	2,58	2,67	2,55	2,69	fair	
5.Supporting elements	X5.1 Government policy	3,71	3,56	2,53	3,32	3,28	fair	
	X5.2 Capital	1,57	1,54	1,39	1,50	1,50	poor	
	X5.3 Counselling and Training	4,11	4,02	4,04	4,00	4,04	good	
	X5.4 Farmers Resources	4,07	3,89	4,55	4,02	4,13	good	
	X5.5 Resources	4,20	4,09	4,18	4,15	4,15	good	
Total performance score of the Supporting Element Sub-system		3,53	3,42	3,34	3,40	3,42	Good	
TOTAL PERFORMANCE SCORES ORGANIC RICE AGRIBUSINESS SYSTEM			3,40	3,21	3,39	3,30	3,33	Fair

Note :Kab. Tsm = Kab. Tasikmalaya; Kab.Cms : Kab. Ciamis; Kab. Grt : Kab. Garut; Kab.Png :Kab.Pangandaran; Priatim : PrianganTimur

The population is 5,805,658 people and around 12.25 percent of the total population in West Java Province as many as 47.38 million people with a population growth rate of 1.20 percent, a population density of 1,191 people / km<sup>2</sup>. The harvested area of rice in 2015 was 352,130 Ha, contributing 20.13 percent of the harvest area of West Java Province of 1,748,620 Ha. The productivity of 60.79 percent is lower than the productivity of lowland rice in West Java Province at 62.09 kW / Ha. While the production of lowland rice amounted to 2,234,342 tons and contributed 20.59 percent to the production of lowland rice in West Java Province as many as 10,856.438 tons.

**Agribusiness System Performance:** Performance is the result or output of a process (Nurlaila, 2010). According to the behavioral approach in management, performance is the

The average index in the form of a total score of the performance of the production input subsystem shows sufficient performance. This is the contribution of the implementation of organic rice cultivation, with the majority of respondents using local varieties of rice seeds and not using hybrid rice seeds or other genetically modified seeds, sufficient availability, easy to obtain and the price is the same or cheaper when compared to the price of hybrid rice seeds or engineered other genetics. Other contributions from the habits of farmers who only use biological/vegetable pesticides to eradicate pests and diseases of their organic rice plants, ease of implementation, low cost, ease of manufacturing process and biological / vegetable pesticide raw materials are easily obtained in the local environment. The last contribution came



from the water source used by organic rice which has been separated from conventional rice farming and the respondents' understanding of the purpose of separation to avoid contamination with chemicals. The biggest problem in this sub-system is the limited supply of organic fertilizers, the difficulty of transporting organic fertilizer to the location/rice fields which cause organic fertilizer to be not according to recommendations. Another obstacle is that farmers find it difficult to separate irrigation water between organic rice farming land and conventional rice fields. In the production / on-farm sub-system, the average index in the form of total scores shows sufficient performance. The problem in this sub-system is that many respondents work on their farming with only a small amount of energy in the family to save production costs, whereas for organic rice this requires more labour, especially to transport organic fertilizer and tillage. This is the same as that presented by Pimentel et al. (2005) that labour input, on average, is 15% higher in organic agriculture than in conventional agriculture. While Crowder and Reganold (2015) stated that organic farming has a higher labour cost, but their total costs are not much higher. With a family workforce that eventually ends up working less than perfect land which results in productivity that is not optimal. The amount of labour for organic rice cultivation is 40 percent more than conventional rice cultivation, so it becomes an additional burden for the cost of organic rice production. Another fact is the availability of labour is very limited. Limitations and scarcity of labour when needed results in a delay in the planting schedule so that it affects plant growth, productivity, and product quality. The additional fulfilment of this workforce is usually waiting for other workers from the surrounding rice fields or bringing in from outside the area.

In the handling and processing sub-systems, the average index in the form of total scores shows good performance. This is a contribution from the respondent's good understanding about not being able to provide supplementary food preservatives to maintain the quality of organic rice including the control and destruction of plant pests & diseases. Others are a good understanding of the need for respondents to meet the general quality requirements required in the organic rice trade. Most respondents already have tools to process organic rice into organic rice. The problem in this sub-system is that many respondents process grain into organic rice in the Rice Milling Unit (RMU) together with conventional rice grain, so the results still have the possibility to mix so that the quality of organic rice is not guaranteed. In the marketing sub-system, the average index in the form of total scores shows sufficient performance. The achievement of this performance is the contribution of farmers from the Association of Farmers' Groups (GAPOKTAN) and exporters who easily market their products and all organic rice products produced are sold. Other contributions come from farmers' understanding of the need for certification, farmers understand rice certification requirements. The problem with this sub-system is that there are respondents who have joined the Farmers Group Association but their products are not absorbed due to financial limitations. Most of the independent respondents said that it was difficult to market their products and there was no marketing agency specifically handling the marketing of organic rice. Many of them sell directly to end consumers in the form of bulk rice / not specifically packaged as organic rice. Another obstacle is that farmers claim that the cost of organic rice certification is too expensive, the certification surveillance period is too short for one year, organic rice

market information is not available at all times, especially the development of organic rice prices and limited information sources on the organic rice market which ultimately results in performance in this sub-system marketing is not optimal. In the sub-system of supporting elements, the average index in the total scores shows good performance. This comes from the contribution of farmers' understanding of the adequacy of alignments and the many government policies on organic rice and their harmony with the program to increase food production that is being promoted by the government. One of them is felt that counselling and training are very important to improve the performance of organic rice farming which is implemented in the frequency of attendance in following the extension of organic rice technology. Other contributions came from the understanding of farmers that the existing Farmers Group was very instrumental in the development of organic rice in facilitating farmers to grow organic rice. It is also felt that information on organic rice farming technology is very important to improve its farming performance and the information sources obtained are still dominantly sourced from government institutions compared to others. The most prominent weakness of this sub-system is the lack of capital assistance. Organic rice cultivation requires considerable costs, such as being confirmed by Krause J., Machek O. (2018) that although previous research is inconsistent, organic agriculture seems to have higher costs, while the ability of farmers' capital is very limited and requires additional capital. Capital assistance provided by Financial Institutions (Banks) is very limited and the accessibility of farmers to get assistance is minimal. Conclusion the results of research on agribusiness systems show sufficient performance. These results have not shown the most optimal achievement, meaning that there are still many weaknesses/constraints in each subsystem that must be met so that this organic rice agribusiness system can run as expected. This is consistent with Oelviani's (2013) statement that good agribusiness performance will be influenced by the development of the upstream agribusiness subsector, primary agricultural subsector, downstream agribusiness subsector and the simultaneous and harmonious supporting services subsector. If this subsystem does not work well, it will result in the failure of the agribusiness system.

#### **Factors Affecting the Sustainability of Organic Rice Agribusiness in the East Priangan Region**

Based on the results obtained structural equation:  $\eta_2 = -0.150 \xi_1 - 0.153 \xi_2 - 0.0381 \xi_3 - 0.298 \xi_4 + 0.237 \xi_5$ , all Subsystem Performance variables are Production Input Sub-system Performance ( $\xi_1$ ), Production Sub-system / On-farm Performance ( $\xi_2$ ), Performance of Sub-system of Handling and Processing ( $\xi_3$ ), Performance of Sub-Marketing System ( $\xi_4$ ), and performance of Sub-system Supporting Element ( $\xi_5$ ) can determine the variation of Sustainability Variables ( $\eta_2$ ) with coefficient of determination  $R^2$  0,414 or 41,40 (Table 3). Performance of Production / On-farm Subsystems ( $\xi_2$ ) and Performance of Handling and Processing Subsystem the effect is insignificant. Production Input Subsystem Performance Variables ( $\xi_1$ ) and Marketing Subsystem Performance negative and real influence on Variables Sustainability ( $\eta_2$ ). This indicates that in the East Priangan region of West Java, the performance of the production input sub-system and marketing sub-system performance does not support the sustainability of organic rice agribusiness.



**Table 3. Path Coefficients and Significance of Agribusiness Performance Variables on the Sustainability of Organic Rice Agribusiness in the East Priangan Region**

Variable Latent	Path Coefficients( $\gamma_i/\beta_i$ )	t Value	Status
Influence on Organic Rice Agribusiness Variables( $\eta_2$ )			
Sub-system Performance Production ( $\xi_1$ )	-0.150	-2.553	Significant***
Production Sub-system / On-farm Performance ( $\xi_2$ )	-0.153	-0.572	Not Significant
Performance of Sub-system of Handling and Processing( $\xi_3$ )	-0.038	-0.450	Not Significant
Performance of Sub-Marketing System( $\xi_4$ )	-0.298	-2.165	Significant***
Performance of Sub-system Supporting Element( $\xi_5$ )	0.237	2.924	Significant***
<b>R<sup>2</sup> = 0,414</b>			

Note: (\*\*\*) significant with the level of trust99%

Note: (\*\*) significant with the level of trust95%

Note: (\*) significant with the level of trust90%

Source: primary data 2017

This is in line with the problems that exist in the production input sub-system, including farmer difficulties. In the supply of organic fertilizer raw materials, the difficulty of transporting to the planting location so that the amount provided has not met recommendations so that it has an impact on low productivity. Data in the field shows that the average productivity of organic rice reaches 5.20 tons/ha and this average productivity is still lower than the average productivity of conventional rice in the study area that had reached 6.19 tons/ha (Prov. Central Statistics Agency Jabar, 2016). This result is in line with what Moudry et al. (2008), Mader et al. (2002), Udin (2014), Merfield et al (2015) that organic farming yields are generally around 20% lower than conventional agriculture. If this productivity component is not in line with farmers' expectations, the sustainability of organic rice farming is questionable. In the sub-system of marketing, problems are also still being addressed so that they are less supportive of the sustainability of organic rice agribusiness, including the majority of respondents stating the difficulty of marketing the product, there is no marketing agency specifically handling the marketing of organic rice, the cost of organic rice certification is too expensive and the surveillance period for certification. Organic rice is too short for one year, organic rice market information is limited and access is very limited. While the performance variable supporting elements ( $\xi_5$ ) has a positive and real effect on the Sustainability Variable ( $\eta_2$ ). This indicates that in the East Priangan region of West Java, the performance of the elemental subsystem has a good influence and supports the sustainability of organic rice agribusiness. This is supported by various variables that show good performance so that it has a good effect on the sustainability of organic rice agribusiness including variables of government policies, counseling & training, the existence of farmer groups and sources of information. The government has encouraged organic rice farming to develop from before, and other activities that encourage sustainability are counselling and training to improve the performance of organic rice farming, the existence of farmer groups, availability of information Organic rice farming technology and its source of information is very important in improving their farming performance and this has a good effect on the sustainability of organic rice agribusiness.

## CONCLUSION

- Based on the agribusiness system approach consisting of sub-systems of production, production / on-farm input, handling and processing, marketing and supporting elements indicate that the development of organic rice agribusiness in the study area obtained sufficient performance.

- All agribusiness subsystems consisting of production input sub-systems, on-farm subsystems, handling/processing subsystems, marketing subsystems and supporting element subsystems influence the sustainability of organic rice agribusinesses.

## Acknowledgement

To the Director General of Research and Development Strengthening Cq Director of Research and Community Service who has provided funding facilities to carry out this Doctoral Dissertation Research which is very useful for the smooth and accelerated Research Doctoral Program.

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