

UNIVERSITI TEKNOLOGI MARA

**SOCIO-ECONOMIC ANALYSIS ON
OIL PALM PRODUCTION AMONG
OIL PALM SMALLHOLDERS IN
PONTIAN JOHOR – A CASE STUDY**

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ABSTRACT

Oil palm industry is one of the major contributors to the economic growth in Malaysia. Malaysia becomes the second oil palm producer after Indonesia as the leading exporter oil palm in the world. The industry is facing stagnant problem in terms of technical efficiency (TE). It was found there are numerous factors that contribute to inefficiency among oil palm producer especially independent smallholders. Therefore this research explores the social and economic basis of oil palm cultivation of oil palm smallholders in Johor. The data were obtained by conducting questionnaires on 99 farmers in Pontian. The main objective of the study was to estimate the levels of TE in smallholder production in the study area by using the Data Envelopment Analysis (DEA) approach. The study also attempted to determine the level of awareness on Good Agriculture Practices (GAP) together with their ability and motivation with some of socio-economic factors which influence the TE in Fresh Fruit Bunch (FFB) production. The inputs elasticities were also estimated in responsive to the TE to determine the returns to scale (RTS). Finally, the profitability among smallholders by using Cost Benefit Analysis (CBA) was calculated. The results revealed that the mean of TE is 81% with range between 52% to 99%. In the study education, experience and ability as farmers were not significant to the production oil palm. In addition the, age, awareness of GAP, motivation to increase income, fertilizer, labor utilization and land size are positively significant to the TE. The herbicide shows negative impact on the production which indicates that the farmers in study are over utilizing the herbicide. Summation of the input elasticities gives the estimated RTS is 0.84 indicating decreasing returns to scale (RTS) of oil palm production in the study area. Finally the financial viability of oil palm cultivation for farmers was assessed by calculating three financial indicators (Net Present Value, Benefit Cost Ratio and Interest Rate Return). This can be a profitable investment so long as cost, selling price and interest rate do not fluctuate substantially.

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CHAPTER ONE

INTRODUCTION

Chapter one is an important element in the research study. This chapter explained why this research is conducted and what are the impacts of the study. It highlights the importance of the oil palm industry in economic perspective and the current scenario of the industry. Research questions and objectives of study are identified from the problem statement. Scope and limitation of the study are identified and become guidelines in the data collection stage while the significance of the study explained what are the potential contributions of this research to the society and the country as a whole. The last part of the introduction is the structure of the thesis which explores how the reports are presented.

1.1 BACKGROUND OF THE STUDY

Elaeis guinnensis also known as oil palm originated from Africa but today is grown in the tropical regions of South and Central America, West Africa and Asia. Most of the countries produce oil palm for their own consumption but for Malaysia and Indonesia they produced oil palm for export purposes and become the dominant producers and exporters of oil palm in Southeast Asia.

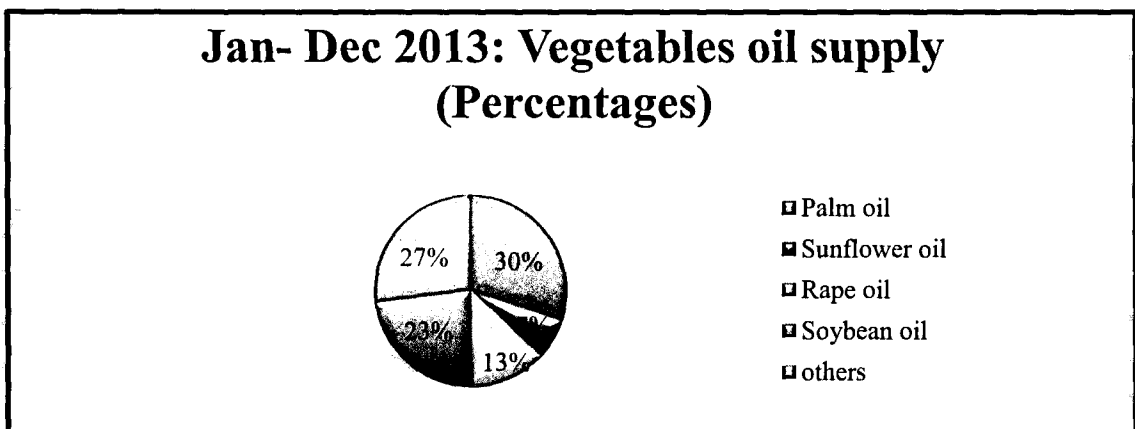


Figure 1.1: Vegetables Oil Supply in 2013
Source : Malaysia Palm Oil Council (2014)