



Research project of counterparts funded at UNJA

Name	Counterpart	Title
Edison, Ira Wahyuni	C08	Financial feasibility study of smallholder oil palm in Sungai Bahar sub-district Muaro, Jambi District, Jambi Province

Background

Sungai Bahar sub-district Muaro has the largest area of household oil palm. Nevertheless, both the quality and the quantity produced are still low compared to private and state oil palm. Average household palm oil production is 9.93 tonnes per hectare per year. Thus production is less than a tonne per hectare per month. Almost all household production of fresh fruit bunches yields less than non-household forms of palm oil production. This is caused by many factors, from using bad seed to poor maintenance and also a weakness of state management. The problems of low production level, and also other problem such as the inability of household palm oil producers to bargain for a suitably high price. Thus, household oil palm faces many financial problems. The OBJECTIVES of the study were 1) to identify the production costs for farmers of household oil palm, 2) to identify the annual income of farmers and 3) to analyze the financial feasibility of household oil palm in the research area.

Results

Smallholder oil palm plantations in the research area had an average production cost of Rp. 9,961,585 per ha per year. The average income from the oil palm plantation business per ha per year was Rp. 19,118,532 and the average income from the oil palm plantation business per farmer per year (area of 2.5 ha) was Rp. 25,412,602. Based on the value of the above three investment criteria, the net present value (NPV) is positive (NPV>0) with a value of Rp. 30,113,603. This indicates that the oil palm plantation business is a feasible form of cultivation and yields a profit of Rp. 30,113,603. An internal rate of return (IRR) of 24.50% indicates that the business is able to survive an interest rate of up to 24.50%. In other words, this business has a breakeven point at the interest rate of 24.50%. The value of IRR obtained at 24.50%>12.75% (bank interest applicable) means that it is feasible to carry out an oil palm cultivation business.

The cost benefit ratio obtained was 2.934. This means that oil palm cultivation is feasible for smallholders because every Rp. 1.000 of expenditure yields Rp. 2.934. By looking at these three financial analyses it is clear that smallholder oil palm plantation business is feasible in the research area.