ASSESSING THE TECHNICAL EFFICIENCY OF MALAYSIAN COCOA PRODUCTION

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MASTER OF SCIENCE
UNIVERSITI PUTRA MALAYSIA

2011
ASSESSING THE TECHNICAL EFFICIENCY OF MALAYSIAN COCOA PRODUCTION

By

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Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Master of Science

June 2011
Especially dedicated to my dearly beloved:

Husband,

Ibrahim Sjah bin Hj. Padu

Children,

Muhammad Anas Hilmi Syah
Muhammad Akmal Syah
Muhammad Asyraaf Syah
Muhammad Umar Haziq Syah
Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Master of Science

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June 2011

Chairman: Professor Mad Nasir Shamsudin, PhD
Faculty: Agriculture

The growth of the cocoa upstream industry is considered relatively slow, largely because of the continuous decline in the cocoa output. The rate of decline in the cocoa output was 74.2% on the average between 2000 and 2009, thus requiring serious measures that should be undertaken to safeguard the cocoa production sector. Malaysia’s cocoa production structure, which is currently comprised largely of smallholders, faced with a challenge on improving the productivity to increase the production. Due to this, the key of addressing the challenges of increasing the cocoa production in Malaysia is to focus on the efficiency in the cocoa smallholding sector. This study is conducted to determine the efficiency of cocoa production in Malaysia and to analyze the contributing factors to the efficiencies, particularly among the cocoa smallholders. This study will also serve as a guideline for the industry in recommending strategies to be adopted to improve the smallholdings sector.
The Stochastic Frontier production approach was used to measure the level of efficiency in this study due to its consistency with theory, relative ease of estimation as well as versatility. The empirical model employed in this study is the Cobb-Douglas as a frontier production function. It was found to be suitable in representing the sampled data and gave better estimates of technical efficiency than the Translog model.

The results indicated that variance caused by variables of technical inefficiency is larger than the variance caused by the uncontrolled factors related to the production process. The average computed technical efficiencies for Peninsular Malaysia was 0.47, while in Sabah was 0.44 and Sarawak, 0.20. The large efficiency differentials among these cocoa smallholders were an indication of a substantial potential for efficiency improvement in the cocoa production in the three regions. The economic implication of the study reveals that efficiency among the cocoa smallholders in Peninsular Malaysia could be increased by 53%, followed by Sabah (56%) and Sarawak (80%).

From the findings, it can be concluded that there exist a high level of technical inefficiency of about 63 percent, which implies that input utilization is far below the optimum level. There is also a need to introduce a higher-level of technology, planning and training to improve resource allocation as well as adopting the technology of best-practiced farm. The extension services, which are currently implemented should be enhanced and improved as these services is a significant role in improving technical efficiency in the cocoa production in Malaysia. Increasing efficiency of the cocoa production may encouraged the increase in capital investment hence influence more people to invest in the cocoa planting as well as stimulate growth of cocoa production in Malaysia.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains

MENILAI KECEKAPAN PENGELUARAN KOKO DI MALAYSIA

Oleh

HARNIE HARUN

Jun 2011

Pengerusi: Profesor Mad Nasir Shamsudin, PhD

Fakulti: Pertanian

Penyelidikan ini menggunakan pendekatan pengeluaran *Stochastic Frontier* untuk mengukur tahap kecekapan memandangkan pengganggaran menggunakan pendekatan tersebut adalah lebih mudah dan konsisten. Model empirikal yang digunakan untuk mengkaji isu-isu berkaitan kecekapan teknikal dalam pengeluaran koko di Malaysia adalah model *Stochastic Cobb-Douglas*. Ini adalah berikut dari kesesuaian model tersebut untuk mewakili data dalam sampel kajian disamping memberi penganggaran yang lebih baik berbanding model *translog*.

Penemuan dari penyelidikan ini juga menunjukkan perbezaan yang disebabkan oleh faktor-faktor ketidakcekapan dalam pengeluaran adalah lebih besar daripada perbezaan yang disebabkan oleh faktor-faktor yang wujud di luar kawalan proses pengeluaran. Kecekapan teknikal yang diperolehi di Semenanjung Malaysia menunjukkan nilai purata sebanyak 0.47, manakala di Sabah sebanyak 0.44 dan Sarawak sebanyak 0.20. Implikasi ekonomi dari penyelidikan tersebut menunjukkan wujudnya jurang perbezaan kecekapan yang besar di ketiga-tiga wilayah Semenanjung Malaysia, Sabah dan Sarawak dan potensi untuk memperbaiki kecekapan dalam pengeluaran koko di wilayah-wilayah tersebut adalah masing-masing sebanyak 53 peratus, 56 peratus dan 80 peratus.

Penemuan dari penyelidikan juga menunjukkan bahawa secara purata, ketidakcekapan dalam pengeluaran di Malaysia dianggarkan pada kadar 63 peratus. Ini menunjukkan bahawa pekebun-pekebun kecil perlu diberi pendedahan dari segi kepentingan dan penggunaan input yang optimum, teknologi dan inovasi terkini, latihan bagi memperbaiki pengagihan dan peruntukan sumber yang lebih cekap serta menggunakan teknologi pekebun kecil koko yang terlatih dan berpengalaman sebagai
faktor pendorong menyumbang kepada peningkatan dalam produktiviti tanaman. Aktiviti-aktiviti pemindahan teknologi yang dilaksanakan perlu diperbaiki serta diperkukuhkan memandangkan aktiviti tersebut memainkan peranan yang penting dalam meningkatkan kecekapan pengeluaran koko di Malaysia. Peningkatan kecekapan dalam pengeluaran koko bukan sahaja menyumbang kepada peningkatan kepada pelaburan modal, malah menggalakkan lebih ramai pengusaha untuk melabur dalam penanaman koko seterusnya merangsang pertumbuhan industri koko di Malaysia.
ACKNOWLEDGEMENTS

Alhamdullillah. Thanks to Allah S.W.T for giving me all the courage and competence to reach this level.

I am grateful to the Dean of the Faculty of Agriculture, the Head and members of the Department of Agribusiness and Information System and the School of Graduate Studies for their assistance during my graduate study at Universiti Putra Malaysia.

Deepest appreciation is extended to my principal advisor and mentor, Professor Dr. Mad Nasir Shamsudin, the Dean of Agriculture Faculty, for accepting me to the masters program in the Faculty of Agriculture. His continuous guidance and encouragement right from the beginning to the completion of the thesis was commendable. His critical comments, though looks painful at times, are constructive and worthy in the end. Without having him as a supervisor, it would be difficult to reach this level within this time for a person such as myself, with a very challenging task as a student and at the same time fulfilling my responsibility as a full time government employer.

I gratefully acknowledge my co-supervisor, Dr. Alias Radam for his ideas, comments, guidance and technical support. His modest approach and constructive comment are wonderful and encouraging.
I would also like to extend my gratitude to the Director General of Malaysian Cocoa Board, Dato’ Dr. Azhar Ismail, who is also the member of my supervisory committee for giving me an opportunity to continue my graduate study. Sincere gratitude is also due to my organization, Malaysian Cocoa Board for providing the scholarship during my three years postgraduate study. My sincere gratitude is also due to my colleagues, Ms. Jenny F. Donsia and Ms. Rasyiqah Sulaiman for their support and assistance.

I am also indebted to the cocoa farmers, who shared their precious time to respond positively to the lengthy questionnaires during our cocoa smallholders’ census interviews in the three regions.

Most importantly, my deep appreciation goes to my beloved husband. At all times, worst and best, he stands by me. His devotion, affection and inspirations are commendable. Besides providing me with all the necessary support, he has encouraged me to focus on my work. My children are the sources of my inspiration and wisdom. Finally, my deep appreciation goes to my beloved parents and siblings for their invaluable encouragement and support.
I certify that a Thesis Examination Committee has met on 16 June 2011 to conduct the final examination of Harnie binti Harun on her thesis entitled “Assessing the Technical Efficiency of Malaysian Cocoa Production” in accordance with the Universities and University College Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science.

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This Thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of **Master of Science**. The members of Supervisory Committee were as follows:

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Date: 8 September 2011
DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

___________________
HARNIE HARUN

Date: 8 September 2011
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