

ECONOMIC ASPECTS OF TRACTOR AND ANIMAL USE IN LUWU,
SOUTH SULAWESI, INDONESIA: A QUADRATIC
RISK PROGRAMMING APPROACH

A Dissertation Presented in
Partial Fulfilment of the
Requirements for the
Degree of Master
of Economics

by

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July 1984

Abstract

Quadratic risk programming was used in this study to evaluate farmers' choices between tractors and draught animals for the preparation of rice land. A case study approach was adopted, with separate models being developed for each of six farm-household units in three categories of tractor and animal use in one Indonesian village.

Mean-variance (E,V) frontiers were obtained for two versions of the quadratic risk programming models. In the first version, variance-covariance matrices were computed by combining historical price data with farmers' subjective probability distributions for rice yields with and without tractor use. A second version was then created for the purposes of sensitivity analysis. This involved using an alternative variance-covariance matrix calculated from historical yield and price data in which no distinction was made between tractorised and non-tractorised rice production.

It did not prove possible to elicit usable utility functions from the case study farmers. Consequently, a single utility-maximising farm plan for each farmer could not be identified. Instead, a range of plausible levels of risk aversion was suggested, based on the findings of other researchers. It was concluded that, ceteris paribus, practical alternatives to the risk neutral farm plans would generally only be adopted if the farmers were extremely risk averse.

Sensitivity analyses were conducted with the linear (risk-neutral) versions of both 'subjective' and 'historical' models. Factors which were investigated included the supply and cost of family and hired labour, the ownership and value of cattle, the supply of land, the cost of tractor hire and assumptions concerning rice yields with and without tractor use. The last of these was found to be the most important. Tractor use was generally inferior to animal use (in terms of utility) except when tractorised rice yields were assumed to be higher than

non-tractorised rice yields. An expected yield increase of slightly more than ten per cent was necessary for fully tractorised land preparation to be optimal on all sample farms.

This finding corresponded closely with the actual tractor use patterns of the case-study farmers. The three farmers who hired a tractor for land preparation in the wet season of 1983 all expected their mean rice yields to be considerably higher than if they were to use draught animals instead. The expected increase ranged from 13 to 25 per cent. On the other hand, the three farmers who did not use a tractor in 1983 all expected their mean yields to be the same with or without tractor use.

These results suggest that the farmers' expectations concerning the effects of tractor use are an important determinant of their choice of land preparation technique. Since there is no clear evidence that tractor use in Luwu actually increases rice yields, it seems possible that non-optimal decisions are being mistakenly encouraged.

I certify that:

1. the substance of this dissertation has not already been submitted for any degree and is not being currently submitted for any other degree;
2. any help received in preparing this dissertation and all sources used have been acknowledged herein.



Julie C. Delforce

Acknowledgments

The preparation of this dissertation was greatly facilitated by the generous assistance of numerous people in both Australia and Indonesia.

I was fortunate in having Dr Gordon MacAulay as supervisor during 1983 and 1984. He was always willing to provide guidance and stimulus, in spite of his heavy workload. His perfectionist approach was much appreciated.

Associate Professor Brian Hardaker is to be thanked for initially investigating the feasibility of research in South Sulawesi and for assistance in obtaining financial support. His continued interest in the project and enthusiasm for discussion and advice have been of great benefit.

I have also had useful discussions with other staff and students of the Department of Agricultural Economics and Business Management, University of New England. I am grateful to George Antony for typing most of the references. My husband, Bob, provided valuable editorial assistance and cheerfully sacrificed many evenings to give general help.

The fieldwork for this dissertation was conducted during a three month visit to Hasanuddin University, Ujung Pandang. This was made possible by a grant from the Australian Universities International Development Program (AUIDP).

My time in South Sulawesi would have been considerably more difficult had it not been for Dr Kustiah Kristanto, Dean of the Faculty of Economics at Hasanuddin University. She ensured that the necessary letters of permission were obtained for my research, introduced me to people in my academic and geographical area of interest, and also accepted me into her home as one of the family. In addition, we had valuable discussions about my research aims and methods, and she spent long hours helping to translate my questionnaire into Indonesian.

During the period of data collection in Luwu, I received valuable assistance from the staff of Project Luwu in Palopo. The project director, Drs Heru Susanto, deserves special mention, as does Mr Tampubolon, who helped to administer the preliminary survey on my first visit to Sidomukti. The cooperation and hospitality of the staff of Checchi/DMJM Consultants in Palopo, particularly Mr Cliff Nunn, Mr Steve Cochrane and Mr Wayne Rude, was also much appreciated.

The staff of the Farm Cooperative Centre in Bone-Bone, the Camat of Kecamatan Bone-Bone and the Kepala Desa of Sidomukti village were very helpful during the period of intensive farmer interviews. I am grateful to Ibu Opu Baleng for allowing me to stay in her home in Bone-Bone during this time. Andi Anton Pangerang must be thanked for being my interpreter and research assistant in Bone-Bone and Sidomukti. Finally, I owe a great debt of gratitude to the eight Sidomukti farmers whom we interviewed. They and their families not only provided us with the answers to the questionnaire, but they also gave warm hospitality and friendship and made the data collection a pleasantly memorable experience.

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