

Profit Efficiency of Palm Oil Processing in Osun State, Nigeria

CO Idiaye

Department of Agricultural Economics, University of Ibadan, Ibadan, Nigeria

TO Owolabi

Department of Agricultural Economics, University of Ibadan, Ibadan, Nigeria

IB Oluwatayo

Department of Agricultural Economics and Agribusiness, University of Venda, South Africa

Abstract

This study estimated profit efficiency among palm oil processors in Osun state, Nigeria. It examined the costs and returns in processing and the factors contributing to profit inefficiency. Data was collected from 120 respondents. Descriptive statistics were used to profile the socioeconomic characteristics of the processors, budgetary analysis was used to determine the costs, returns and profitability, while the stochastic frontier profit function was used to estimate profit efficiency and its determinants.

The results revealed that palm oil processing was dominated by women (85.8%), majority of whom were between the ages of 31-60 years (73.3%). Moreover, most of the processors did not belong to any cooperative groups (82.5%), lacked credit access (91.7%) and operated small scale commercial enterprises (70%). The analysis of costs and returns showed that palm oil processing was profitable in the area with positive gross margin and net income. A profit efficiency of 0.622 was estimated showing that there remained a considerable scope of 37.8% to increase profitability. The regression analysis showed that increase in educational attainment of processors, credit access and storage access tended to decrease profit inefficiency.

It was concluded that the profitability of palm oil processing can be increased in the study area as well as in the country as a whole by proper policy to empower processors and proffer solutions to the challenges identified by them.

Keywords: Efficiency analysis, Nigeria, Palm oil processing, Profitability, Stochastic frontier.

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