

The Economics of Tobacco Farming in Indonesia

Main Findings

- Despite a comparatively strong year for tobacco farmers in 2018, non-tobacco farmers were still doing better overall due to the more consistent performance of other crops even in poor farming years.
- After experiencing losses farming tobacco, farmers who switched to non-tobacco crops typically gained in profits.
- Tobacco farmers incur higher agricultural costs per hectare of farms than non-tobacco farmers.
- Most tobacco farmers grossly overestimate their return on investment. Specifically, farmers tend to greatly underestimate the costs of tobacco cultivation.

Most tobacco farmers live below the national poverty line.

The opportunity costs of growing tobacco are high: on average, growing tobacco requires twice the household labor hours of non-tobacco crops, which are lost opportunities for farmers to pursue other economic activities.

Many tobacco farmers continue to use child labor and most exhibit symptoms of green tobacco sickness (acute nicotine poisoning).

Recommendations

- The national and local governments have several policy options that they can pursue to promote non-tobacco crops among tobacco farmers.
- Identification of viable alternative crops in each region.
- Improvement of existing agricultural extension services.
- Promotion of linkage between farmers and agri-industries.
- Provision of financial incentives and credit schemes tied to non-tobacco farming.
- Improvement of farming infrastructure to promote non-tobacco crops farming.
- Improvement of infrastructure to support transportation of agricultural products.
- Encourage farming corporations or community enterprises.



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