

Chicken coop collateral wins new deals

Warren Page looks at the benefits of contract farming, and who gets them



Contract farming is usually the result of smallholders being unable to enter markets, due to prohibitive upfront entry costs. High transaction costs and low savings prevent investment to fund farming ventures. Many smallholders instead enter into a contract that covers these costs.

For example, Nusantara Unggasjaya (NUJ), a company that specialises in producing pigs and poultry, uses contracts with Lombok farmers to ensure supply of broiler chickens. The smallholders must provide a chicken coop before they can enter into a contract.

Once the coop is in place, contractors receive day-old chicks to rear against the company's specifications. NUJ provides feed, veterinary products and other resources on credit. Live chickens are delivered to the company at around 38 days of

age for on-selling. Farmers receive payments by cheque, which they can convert to cash in over-the-counter transactions.

Smallholders contracting to NUJ have been revealed as better off than those farmers not engaging in contracts. The main benefit is a significant boost to household income, with the support provided by NUJ critical to ensuring the contract is profitable to the smallholder.

Contractors have more non-agricultural assets and better household facilities, including sanitation and running water. A key finding is that contractors have smaller but more diversified farms and utilise longer-term investments, such as planting trees for timber or as fruit crops.

The main barrier to entry into contracts is still insufficient income, but contractors typically also contribute more to the local community. Project

work has developed a classification scheme incorporating the structures of contract supply chains and the levels of farmer integration into them. This is helping inform policy development aimed at ensuring smallholders benefit from contracting.

Contract farming is about building partnerships that allow both parties to contribute so both can benefit.

Where benefits flow throughout the supply chain, such as in contracts with companies like NUJ, the benefits to farmers, and their communities can far outweigh the costs.

ACIAR's Technical Report 54, *Contract farming in Indonesia: Smallholders and agribusiness working together*, sums up findings relating to contract farming and is available through ACIAR's website.