I. INTRODUCTION

- Indonesia is well known as an agricultural country
- Agricultural area comprised around 46.9 million hectares or around 74.68 percent of the total area
- Agricultural commodity is classified into food crops, horticulture, estate crops and livestock
- Agricultural sector is one of the important economy sectors in Indonesia
- In order to increase competitiveness, Indonesian Farmers have made improvement in various aspects of agriculture
II. OVERVIEW OF CONTRACT FARMING IN INDONESIA

- Firms involved in contract farming

<table>
<thead>
<tr>
<th>Agribusiness Firms</th>
<th>Commodity covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Garuda Food</td>
<td>Peanuts</td>
</tr>
<tr>
<td>PT BISI</td>
<td>Maize</td>
</tr>
<tr>
<td>PT Toyota Bio</td>
<td>Sweet Potatoes</td>
</tr>
<tr>
<td>PT BAT Indonesia</td>
<td>Tobacco</td>
</tr>
<tr>
<td>Agribusiness Firm</td>
<td>Commodity covered</td>
</tr>
<tr>
<td>--------------------------------</td>
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</tr>
<tr>
<td>PT Sungai Budi</td>
<td>Cassava</td>
</tr>
<tr>
<td>PT Multi Agro Kencana Prima</td>
<td>Rubber</td>
</tr>
<tr>
<td>PT Minanga Ogan</td>
<td>Palm oil</td>
</tr>
<tr>
<td>PT Pacet Segar</td>
<td>Vegetables</td>
</tr>
</tbody>
</table>
• Contract Farming Pattern

FIGURE 1
FIGURE 2
• Contract Farming Mechanism

COMPANIES/AGRICULTURAL BUSINESSES

Installment payment

AVALIST

BANK

Business feasibility aspects

MEMORANDUM OF UNDERSTANDING

Net income of farmers

PRIMARY COOPERATIVE

Production inputs, etc.

FARMERS/FARMER’S GROUP

Product marketing

FIGURE 3
• Contract Farming Agreement

The companies obligations:
- To give cultivation guidance,
- To provide production inputs (seed, fertilizers, pesticides),
- To control the harvesting and post-harvesting management,
- To purchase the farmers’ crops,
- To act as the avalist
The farmers obligations:
- To prepare their land for plantation,
- To control the harvesting and post-harvesting management,
- To use the production input properly as stated in credit proposal,
- To sell the whole production to the company, and
- To sell their production at an agreed price
III. THE ROLE OF GOVERNMENT IN PROMOTING CONTRACT FARMING

- To act as facilitator, mediator and regulator
- To increase technical and managerial skill of farmers
- To facilitate providing working capital to the farmers
- To conduct business meeting
- To conduct research and development
- To conduct extension of new technology to the farmers
IV. CASES OF CONTRACT FARMING IN INDONESIA

- Contract farming on tobacco
- Contract farming on peanuts
V. ISSUES/CHALLENGES IN CONTRACT FARMING IN INDONESIA

- Inefficient management and marketing
- Weak accessibility to capital, technology, and market
- Low productivity, quality, and quantity of the products
- Price fluctuation
- Low technical and managerial skill of the farmers
- Lack of facilities, new technology, etc.
VI. CONCLUSION

• Contract farming system has been widely developed in Indonesia
• Some efforts need to be carried out to promote contract farming in Indonesia
• Government has an important role to promote contract farming
• Contract farming is profitable for farmers and companies