A successful case of contract farming in Brazil

Carlos Arthur B. da Silva, Ph.D.
FAO
Agricultural Management, Marketing and Finance Service
Rural Infrastructure and Agro-Industries Division

Contents

Poultry: a success story

-In 1980, it took 7 weeks to grow a 1.8kg bird, with a feed conversion rate of 2.05 kg/kg

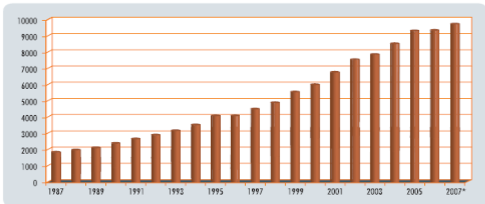
-In 2006: 43 days, 2.34 kg and 1.83 kg/kg

- Between 1990 and 2006, production increased at a rate of about 9% per year

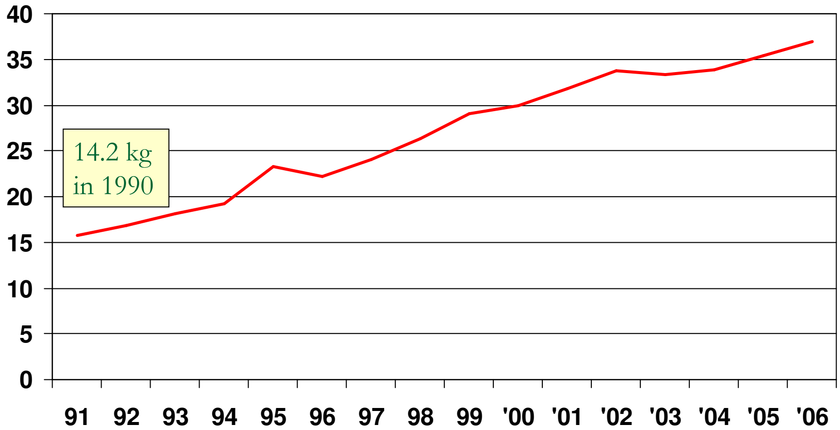
EVOLUÇÃO MÉDIA DOS COEFICIENTES DE PRODUÇÃO DE FRANGO DE CORTE NA AVICULTURA BRASILEIRA

Ano	Peso frango vivo (g)	Conversão alimentar	Idade de abate – semanas/dias
1930	1.500	3,50	15 Semanas
1940	1.550	3,00	14 Semanas
1950	1.580	2,50	10 Semanas
1960	1.600	2,25	8 Semanas
1970	1.700	2,15	7 Semanas
1980	1.800	2,05	7 Semanas
1984	1.860	2,00	47 Dias
1988	1.940	2,00	47 Dias
1994	2.050	1,98	45 Dias
1998	2.150	1,95	45 Dias
2000	2.250	1,88	43 Dias
2001	2.300	1,85	42 Dias
2002	2.300	1,83	42 Dias
2003	2.350	1,88	43 Dias
2004	2.390	1,83	43 Dias
2005	2.300	1,82	42 Dias
2006	2340	1,85	43 Dias

PRODUÇÃO DE CARNE DE FRANGO EM 20 ANOS (em mil toneladas) – 1987/2006

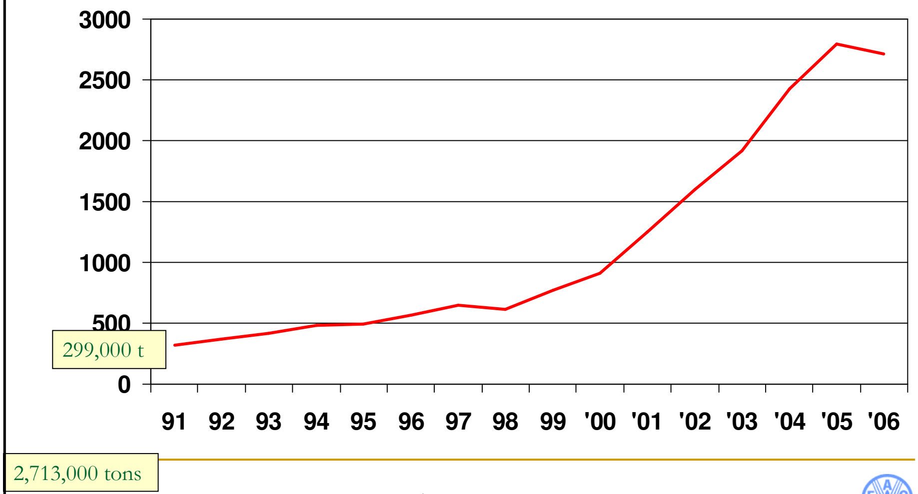


Poultry consumption is rising at 6.2% a year

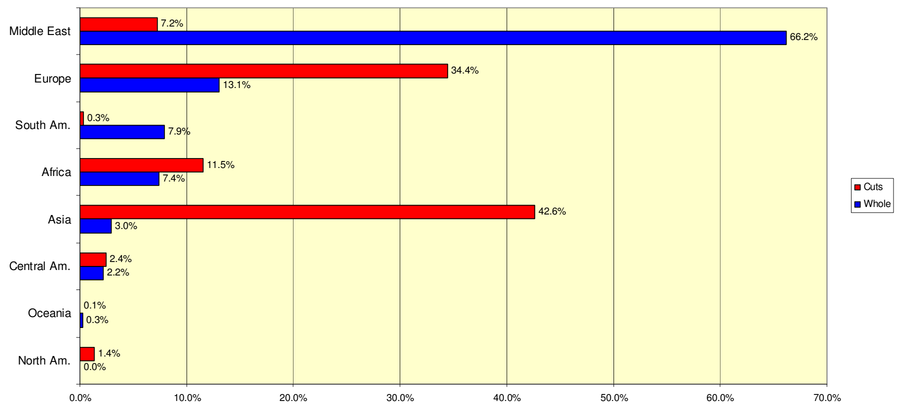


36.9kg
in 2006

Exports also keep rising: 15% per year



Growing exports of poultry cuts: 1637 thousand tons in 2006; US$1.9 billion

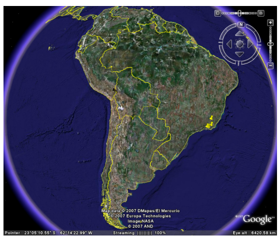


Chain organization

- Most production under closely coordinated integration contracts (75% x 25%)
  - small and medium sized producers predominate
- Highly concentrated processing sector: 4 largest firms control 38% of production; 8 largest: > 50%
- Geographical concentration in the southeast, with tendency for expansion in the central-western states

The Case of Pif-Paf Alimentos

- Mid-sized company located at Southeastern Minas Gerais State, Brazil
- Produces broilers under contracts with some 600 farmers
  - Slaughters 170,000 birds/day
- Has developed an effective contract design linking payment to production performance
  - farmers have incentives to continuously improve technical performance



How the contract works

- Pif-Paf provides one-day chicks, feed, veterinary inputs and technical assistance
- Farmer invests in the facilities and is responsible for production costs in items such as labor and energy
- Pif-Paf guarantees the purchase, under a pre-agreed price determination system

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How the contract works

- Price is established through a punctuation system, taking into account the following variables;
  - Death rate (%)
  - Feed conversion
  - Daily weight gain
  - Loading time during broiler delivery
  - Quality of management
  - Injuries (%)
- Final Price/kg = Total points obtained x base price negotiated previously to the growing cycle

Death rate (%)	1	1.2	...	3.2	3.4
Points	40	38	...	18	16

Feed Rate (kg/kg)	1.9	1.92	...	2.12	2.14
Points	115	110	...	60	55

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Main benefits for farmers

- Pre-financed inputs
- Technical assistance
- Guaranteed market
- On-farm use of manure
- Increased credit worthiness

Why it works

- Firm negotiates prices and discusses punctuation tables with producer’s association
- Firm is rigid with regard to non-performance: non-performing farmers are replaced: 5% are eliminated every year
- Firm provides incentives for improved technical efficiency, via the punctuation system;
- Firm creates a “depreciation” fund, depositing a percentage of the revenues in a farmer’s account, which can be used for facility maintenance and upkeep
- Farmers have the added incentive to utilize a by-product in additional agricultural enterprises
- Disputes are mediated by the producer’s association
- Trust has been built

Critical success factors

- Basic tenet
  - contractual relationships will only be sustainable if partners perceive that they are better off by engaging in it
  - Corollary: contract farming will fail if parties do not develop mutual trust and reciprocal dependency (SYNERGY is the key word)
- The importance of the enabling environment
  - No successful contracting scheme can exist or remain sustainable where the institutional and political setting is not conducive to it

Critical success factors

- Minimization of contractual hold-ups
  - farmer: enhancement of bargaining power via collective action
  - firm: group negotiation; improved communication; quality and scope of services provided; strict treatment of defaulters; extended contract duration
- Need to countervail uneven balance of power
  - promote farmers association
  - mediation, instead of legal action

Conclusions

- Contract farming can be a very effective way to promote value chain financing
- FAO is developing a web based "Contract Farming Resource Center"
  - for more information, check www.fao.org/ag/ags/index_en.html

Thank you!

Carlos.DaSilva@fao.org