The agriculture sector contributed 8.3% amounting to RM20.7 billion share of the Gross Domestic Product (GDP) in 2004 (2003: RM18.9 billion: 8.2%).

In terms of employment, the sector employed 13.3% of the total labour force (2003: 17.7%).

The productivity growth of the agriculture in 2004 was 2.5% as compared to 1.9% in 2003.

In terms of export earning, the agriculture sector recorded an export earnings of RM27.4 billion in 2004 (2003: RM21.6 billion).
Contract Farming in Malaysia

- The contract farming was developed to provide alternative markets for small farmers and guarantee consistent supply to the markets.
- In Malaysia initiated by a public farming began in 1980’s. The scheme started with commercial broiler farm total of company based on poultry.
- Started with five companies in 1985 total of companies involved increased to 29 in 2004.
- The broiler chicken industry continues to expand. In 2004 the production of broiler was 414.3 million birds.

The Local Poultry Industry

- Chicken is a staple with most households in Malaysia including it in their diet at least once per week either at home or in local restaurants.
- It is also a major component of the growing fast food industry i.e. KFC, Burger King and McDonalds together have a growing number of outlets in the Federation.
• It is not surprising therefore that Malaysia’s Third National Agricultural Policy (1998-2010) included as one of its goals, ensuring an adequate domestic supply of eggs and poultry. In order to do this, effort to vertically integrate the industry and to stimulate efficiency gains among the small farm sector were singled-out as strategies.

Public Contract Farming

• Sarawak, Malaysia’s largest state at 123,449 square kilometers is only slightly smaller than England (130, 439k²) but with one twenty fifth of the population. With only 2.2 million inhabitants it carries one of the lowest population densities in all of Southeast Asia.
• The central player in the creation of the public poultry contracting environment is the Sarawak Economic Development Corporation (SEDC) which was set up over thirty years ago in 1972 as a state-owned statutory body with the aim of promoting the commercial, industrial and socio-economic development of Sarawak.

• The Corporation acts as a catalyst for investments in Sarawak by providing one-stop advice on business opportunities and, where necessary, serves as a joint venture partner in a broad spectrum of industries.
• The SEDC currently runs three contract farming projects, including cattle fattening, organic farming and poultry production.

• Under the poultry scheme farmers adopted into the training scheme raise broilers specifically for, and under contract to SEDC who then on sell them to a subsidiary, who in turn sells them directly to outlets controlled by the State (police, schools and hospitals).

• Interested farmers who wish to raise broilers under contract with SEDC must first apply for a trial.

• The proposed site is inspected for suitability by SEDC staff and the applicants themselves are assessed.

• If both are suitable then the farmers are accepted for a trial period during which they engage in what is referred to as “community” farming which only limited stocks and facilities are used.
The key steps and features of the scheme are depicted in Figure 3.

- Farmer applies for project
- Inspection of proposed site by SEDC staff
- Farmer applies for project
- Application rejected
- Application approved
- Contract between SEDC and farmer
- Farmer prepares farm (shed and equipment)
- Delivery of feed and DOC
- Raising of chickens (45-48 days)
- Marketing of chickens (< 70 days after birth)
- Assessment of profits and losses
- Next Cycle
- Payment of net profits to farmers (after deductions for operational Costs, loan, and previous Losses (if any))

Unlike the private poultry contract the State contract is designed to both raise farm incomes and to confer training and education with also absorbing much of the risk which in the private market would be borne by the farmer.

SEDC extends credit to adopted farmers to meet the costs of building the chicken “sheds” to specified standards, hire labour and purchase farm equipment.
• In addition SEDC provides technical support and veterinary services. The contracts specify that these services are supplied solely by SEDC and its allied and subsidiary companies.
• Output is then purchased by a subsidiary of the SEDC where it is processed and sold back to the SEDC who then distributes the stock to schools, police and army bases around the State.

• While the contract is similar to that which dominates the private part of this sector the major difference is the availability of credit and subsidised input costs. Under the private contract schemes credit is only extended over collateral.
• The land requirements for the SEDC poultry farming scheme are modest; only two acres, owned either formally with legal title or through native customary rights.

• The large majority of the farmers in the scheme are located relatively close to SEDC Head Quarters in Kuching which reduces the costs of regular contact with trainees and reduces transport costs to the major market.

• Where the composition of the household allows, individuals shared tasks further enabling income to be supplemented by outside work.

• Partly for this reason the majority of farmers who farm commercially within the scheme are married and rely on their wives and other family members to feed their flock of broilers, clean feeding equipment and keep an eye on the flock while the husband/father is away performing other duties.
• One of the primary incentives of the SEDC contract farming scheme is to raise the perceived and actual standards of living of bumiputra entrepreneurs operating in rural areas.

• The majority of farmers were earning an average monthly income of RM426 (from an average of 2000 broilers).

• Furthermore, when profits are low or even negative farmers under the SEDC scheme are not required to pay back the credit advanced extended by SEDC, instead the credit payment is carried forward to the next season.
• Nevertheless as farmers gained more experience both they and SEDC gained greater confidence in their raising the number of birds under their care.
• It is generally believed that mortality rate fall with farm size and hence profit rates rise. There is also a scale economy associated with the fact that an individual working full time can generally look after about 5000 chickens, so the distribution of optimal broiler production sizes is likely to be step-like with the addition of each additional full-time person.

• Relatively new to poultry farming, in general, these smallholders with relatively little formal education, even with some training, are far from ready to face a poultry market controlled almost exclusively by the major contractors. These contractors have already developed trading relationships with almost exclusively ethnic-Chinese farmers with legal title who have demonstrated an ability to manage much larger poultry stocks.
• Both the farmers and the agencies involved have a vested interest in demonstrating success. This joint commitment has an important backward linkage to the selection process itself so that farmers not achieving targets. At the same time, there are bureaucratic and political incentives to expand such schemes in order to broaden their coverage and foster their continuance.

• The purpose of the “community” or trial phase is both vetting and training. The trial consists of a test period of three or four cycles each involving about 300-400 chickens per cycle. Suitability is judged primarily on the ability of the farmer to carry out the steps necessary to bring the day old chicks (DOC) to maturity within the 45 day period at an acceptable mortality rate (seven percent mortality is the maximum acceptable.
• Training is both on-site and by course: broiler health management, chicken-slaughtering and processing, motivation, book-keeping and management, chicken slaughtering, disease prevention.

• While most deal directly with the specifics of poultry farming some are clearly generic such as those on motivation and book-keeping which can be carried over to other settings.

Benefits

• Firstly, most poultry contractors within the protected public sector were able to report net additions to their income.
• Secondly, most who were accepted into the scheme are still trading.
• Thirdly, their performance has improved each year.
• Fourthly, few are actually entirely dependent on income from the scheme, with most using it to supplement income from a variety of other sources, most notably off-farm employment.
• Fifthly, the poultry contracting scheme has put considerable money back into the bumiputera rural sector, money which not have been there without the scheme.
• Taken broadly each of these results is quite consistent with SEDC’s responsibilities, namely “to function as a trust agency to uplift the economic status of the Bumiputra community in Sarawak”.

Push for Productivity, Go for Quality
• In terms of the international literature on contract farming the SEDC initiative is instructive. It shows that the contracting of smallholders to supply commercial crops can help provide a support framework for farmers who might otherwise have few networks from which to learn, to borrow and to otherwise support their initiatives. The value of the contracting arrangements in the public sphere is that the network it creates has been used to raise production levels of farmers who would otherwise hover around the official poverty line, albeit within a protected commercial environment.

• The scheme is also worthy of on-going attention in a state of the Federation in which reductions in income disparities both within the rural sector and between ethnic groups have been slowest.
• Notwithstanding the real politics of agricultural production, the public farming contract clearly has considerable potential as an instrument for addressing both uneven resource access and uneven opportunity faced by minorities in the rural sector.
Thank You

Push for Productivity, Go for Quality