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## Contract Farming as a Feasible Tool for Agri-Food Chain Development in Pineapple Production: Case Study of North Tapanuli

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### Abstract

The research was carried-out in North Tapanuli regency, North Sumatra province during the May and June 2006. Majority of local population is extremely poor, living in rural areas, and practicing traditional agriculture techniques. Their poor living conditions have not been caused by low level of social development only, but also due to insufficient information on market opportunities, as the development process is now spreading into all parts of Indonesia. Thus, survey was aimed at monitoring of fruit production and trade, and ascertaining the overall living conditions of local farmers. Only areas of pineapple production were examined, as initial monitoring showed that in higher amount only this crop is cultivated. Data were gathered through observation, interviews, and questionnaires with farmers, traders, and representatives of local pineapple manufacturing company. Pineapple is cultivated only in five out of 15 sub-districts (Sipahutar, with 75 % of the production, Pangaribuan, Siborong-borong, Tarutung, and Garoga). Pineapples are sold directly on the field to traders and passed on within a network of traders until they reach local market or local export-oriented manufacturing company. Contract-farming is used as a method to obtain the production from farmers. Agreements are also set between a small number of traders and processing company. Economically weak farmers (average farm-size for growing pineapple is less than 1 hectare) are responsible only to grow the crop, and have stable incomes due to assured pineapple sales, while their transaction costs are reduce to minimum. Hence, they are more opened to adoption of more risky, high-value-crops such as pineapple, even under the situation the purchasing-prices are lower (700–1,000 IDR) in comparing to the local-market price (1,500 IDR). The research in this upland region proved that it is possible to create a functioning agribusiness activity, based on local production and labour force, with working supply chain also under local specific social, economical, and natural conditions. Such a process of emergence of small scale industries is optimal for sound economic development tendencies of rural areas, while the strong, but sensible support of local authorities is evident.

**Keywords:** Agri-food systems, contract farming, Indonesia, North Tapanuli, pineapple production, rural areas