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Contract Farming in Tobacco Production: Opportunity for Small-Holders? Comparative Study from North Sumatra

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Abstract

The paper presents results of the research focused on impact of tobacco cultivation, processing and selling on socio-economic situation of small-holders in three districts in central mountainous part of the North Sumatra province: Karo, Tapanuli Utara and Tapanuli Tengah. Tobacco cultivation has a long tradition in lowlands but in some mountainous areas small-holders recently uncover the tobacco ability to generate a regular negligible income. Farming system is there subsistence-oriented and highly specialised on crop production. Poor infrastructure and less developed mechanisation make these small-holders dependent on their own or local market products. Tobacco production became very popular among those farmers due to increasing demand by both local people (population growth, high unemployment rate etc.) and international trading companies. Research was carried-out during May and June 2006. Two different ways of production chain, which have been developed in the region, were investigated. The first one is naturally realised by the farmers: collection from the field, processing at the common place and transport to the market. The second one is based on the world-wide-spreading endearment of contract-farming even without properly developed infrastructure, market and social structure but with existing just one company setting the prices. Using PRA's methods, semi-structured questionnaires with tobacco growers and secondary data analysis from different statistical sources, relevant information were collected on total tobacco production, processing, purchasing price and credit and inputs access were supplemented by the area observation. Results show that despite of very similar social background (education, family status etc.) farmers under contract farming (Tapanuli districts) have faced more serious socio-economic oriented problems (fluctuation of cash-inflows, poor input supply, urgency of off-farm activities), further, the way of tobacco processing is inadequate and purchasing prices are considerably lower (US\$ 0.75–1.60 per kg) as compared with Karo district (US\$ 4.10 per kg). This could be explained especially because of the farmers' remoteness from each other and from the market, lower farmers' negotiating power in the time of signing the contract and less developed social capital in those districts what has a negative impact on higher income generation and inputs supply.

Keywords: Contract farming, North Sumatra, smallholders, tobacco, traditional market chain