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FAKULTAS EKONOMI UNIVERSITAS ANDALAS

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Masyhuri Hamidi
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The Emergence of Contract Farming System as A Tool to Eradicates Poverty Profile of Rural Areas In Sabah, Malaysia

Mansur Tola[1]
Masyhuri Hamid[2]

Abstract

This article discusses about the emergence of contract farming system in Sabah in general. Basically, the attempt is to discuss the function of contract farming system as a tool to bring about success of poverty eradication agenda in rural areas in Sabah. Moreover, this article is also to review the incident of poverty profile in Sabah.

Key Words: Contract Farm, Agricultural Development, Poverty Eradication, Rural Development.

INTRODUCTION

Sabah is predominantly a rural agricultural society with more than sixty percent of the people live in rural areas and depending on farming as a source of livelihood. Sabah which is a multi ethnic-society, characterized by its traditional cultural and social patterns. The basic social unit in a village or "*kampung*" is the family unit that consists of a patrilineally extended household. The extended family system symbolized the harmonious form of "kampung" life. Many extended families broke apart as sons or daughters separated from parents and brothers and sisters from each other. At the time of separation, the family property was equally divided among sons and/or daughters. If parents were alive, they each received a share.

Family separation generally occurred in cases where the head of household was less assertive and domineering, when the father died, or when all the sons and daughters married. Unmarried sons/daughters normally did not separate from their parents. However in case if the parents were deceased, unmarried sons/daughters usually stayed with their older brother. Family separation has always resulted in a division of family landholdings; landholdings were extremely fragmented, both geographically and socially. Sometimes, family separation and resulting land fragmentation turned into a bitter feud and led to legal disputes.

Normally, kampung societies in Sabah maintains strong ties to family and relatives, which family life is valued more highly as compared to individual accomplishments. Seniority became the important characteristic of Kampung society in Sabah that is the eldest male of family is generally greeted first and frequently sits in the best seats. Family members in kampung society of Sabah, which consists of children, parents, grandparents and other relatives addressed according to their traditional position. Normally the men is the head of the family and the women take primary responsibility for the care of their children, although the extended family helped with childcare traditionally, married women usually moves to the home of her husband family. This was confirmed that the female role in rural society in Sabah is too narrow and often left behind in any decision-making process. Women in male-headed households often must depend on the male head for access to resources (Habibah, Musalmah & Yaacob, 2000; Fortmann, 1990). They also have no priority in land ownership due to the belief that women when married would leave parents to serve her husband that provided their home consumption needs.

Rural society in Sabah actually have abundant land and water (physical capital) and that is the strong social ties (social capital) but they often lack of education and skills (human capital) and organization to mobilize their natural resources into economic resources, although there is social capital (trust, social relation, network) which is an important indicator in poverty alleviation objectives. Larger kinship network that occasionally

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involves sharing food is existed is important factor for meeting farm labor. Villagers occasionally pool their resources and labor together to implement village-level development project, such as building "*Balai Raya* ", which is called "*gotong royong*" or mutual help (Mai, 1994). It was confirmed that the degree of solidarity and neighboring feelings characterize the kampung society in Sabah. Wilson (1967) in his study on Malay rural society found that kampung is best characterized by the interlocking of social relations among villagers. Moreover, Wikipedia (2007) and Firth (1966) recited that a kampung is not normally an administrative unit or religious unit but it is a social unit with some degree of solidarity and neighboring feelings.

Although farming is traditionally ranked among the most desirable occupation, villagers frequently encourage some of their children to leave in search of civil service or other non-agricultural employment opportunities. Individual migration was often the result of a family decision and an important economic strategy. This not only served as a safety valve for growing population pressures but also generated cash incomes that would resolve economic crisis in the family. Village families also pushed their children to civil service jobs as a means of climbing the bureaucratic ladder and of developing valuable connection with the elite political structure.

Besides that, recent decade have shown major change in agricultural technologies as a consequence of international and national programs for agricultural development in rural areas of Sabah. Villagers in Sabah have always been receptive to new agricultural technologies that promised to improve their standard of living, and the present time is no exception that can make them stay in *kampung*. As a reflection from the promotion of new agricultural technologies, many people in rural areas in Sabah now work with a mix of traditional and modern technologies. Along with the adoption of modern technologies, there has been a rapid transformation to cash economy among rural areas in Southeast Asia especially Sabah (Rahimah, 2000; Marten, 1990).

However, most farmers or villagers in Sabah produced almost entirely for home consumption, although there are other economic activity done by rural peoples in Sabah such as small-enterprises known as "*kedai kampung*" or rural shop that is registered under the local registration authority. This means, meeting basic household food needs is still the priority of most farmers in Sabah. Most of them produce as much surplus as possible to meet cash needs generated by expanding public education, rural electrification, modern communication (e.g. Radio and Television), and modern transport. It is confirmed that most rural societies in Sabah still run their subsistence agricultural economy as compared to cash economy, which generally in farm activities, men do the major task and the women do the very minor task.

Alongside with the fact that most rural society in Sabah involved in agricultural economy, the rural population especially among youth has declined. This means that human force for agricultural sector has declined as well. Rural population in Sabah is declining due to migration of younger-age groups. Outward migration among them was caused by the economic purposes such as to find non-agricultural financial resources (work in government sector either in the white or blue collar jobs). As according to Bryden (2000) villagers often migrated because of the trend in agricultural income that was reported as lower than the income from other economic activities. Some of them have migrated to urban areas when they employed as the non-government professional executive level and further their education. Some women also moved to follow their husband.

In short, they migrated because of work-related reason and to get social fulfillment in the form of further education, social amenities and family reason. This phenomenon in the future, out migration of youth will leave the youngsters and old folks to maintain the village and at the end, the population at rural areas in Sabah will be increasingly independent. Village-base economy especially agricultural production will suffer when the active youth have left for the town. In the other hand, the rural poverty profile that is currently high will increase. Hence, commercialization of agricultural sectors in rural areas is assumed as the best resolution to improve villager's standard of living that would bring about transformation of rural agrarian society from the traditional society to modern

agrarian society. This will also make younger-age group stay in their village to work in their own farm.

ERADICATE RURAL POVERTY PROFILE THROUGH AGRICULTURAL IN SABAH

It was often attribute that the success in reducing the evidence of poverty was due to the rapid economic growth enjoyed by the nation (Nik Mazlan, 2003; Yaakub, 1991). Meaning that, there need not be any direct negative correlation between growth and incidence of poverty. What this would imply is that; there must be determined government effort to eradicate poverty in Sabah.

According to Japan Bank for International Cooperation (2001), Zulkifly (1989) and Yapp *et al.* (1988) the problem of poverty in Sabah has been viewed essentially as a rural problem. Although its prevalence cuts across both ethnic and sectoral lines, the poverty incidence has been the highest and more prominent in the backward rural areas. The existence of poverty has been widespread, particularly in traditional agriculture sector and subsistence rural economy, since the times of the British North Borneo Company. The lack of effective exchange economy in this sector, the polarized development with the limited benefits trickling beyond the economic enclaves, and the slow off take of traditional and subsistence agriculture and related rural activities in the first decade of independence have done little to redress the poverty problem (Department of Agricultural, 2000; Ishak, 1995). As of late 1960`s and early 1970`s, Sabah`s rural population were generally poor and lives in poverty. Using a monthly household income of RM 280.00 as the poverty line, about over ninety percent of poor households in Sabah were in rural areas and about over seventy percent were engages in agriculture, forestry and fishery (Japan Bank for International Cooperation, 2001; Sabah, 1995).

Kadir Hadi (2000) and Zulkifly (1989) then recited that the incidence of poverty has been widespread and concentrated among paddy farmers, rubber and coconut smallholders, shifting cultivators and fisherman. The major ethnic groups or households traditional agricultural sector and the subsistence rural economy, the Kadazan-Dusun households have the highest incident of poverty. They accounted to 64.2 percent of poor households in the rural sector and the majority in relation to various rural production productivities. The incidences of poverty are also high for the Bajau and the Malay, which these poverty profile accordingly agriculture and the related rural activities and they are primarily the indigenous groups.

However, over the last decade, particularly since late 1970s they have been indication of improvements in rural household's income. The significant decreases occurred in the incidence of rural poverty in Sabah that declined from 36.8 percent in 1993 to 32.4 percent in 1995, and 27.7 percent in 2000 (see Table 1).

This significant decline in poverty is reflected from the development in agricultural sector (Nik Mazlan, 2003; Department of Agricultural, 2000; Yaakub et al, 1991). The structural dimension that generally divide the agricultural and rural sector into estate and plantation and the traditional subsistence sectors, and the transformation of some section of the traditional subsistence rural and agricultural sector into an advanced and modern component such as the large-scale land development areas, portray, among other, existing differences in production functions and factor endowments within agriculture and the other rural economy, including that of the traditional subsistence sector.

Table 1: Incident of Poverty in Sabah

	1993			1995			2000		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Poverty Rate (%)	33.2	19.8	36.8	28.5	14.5	32.4	20	6.3	27.3
Number of Poor Households (`000)	123.9	15.8	108.1	121.4	13.5	107.9	84	9.6	74.4
Total of Households (`000)	373.1	79.9	293.6	425.9	93.3	332.6	419.8	147.3	272.5

Source: Yearbook of Statistics, Sabah (2001), Outline Perspective Plan of Sabah (1995)

Besides, incident of poverty in rural areas compared to the urban areas as shown as in Table 1 is approximately high. As according to Gunting *et al.* (1991), this gap of poverty between rural and urban areas in Sabah is exacerbated by several factors including the following:

1. Idle land is not being utilized in the rural areas due to lack of awareness, technical know-how, and market and capital. It is estimated that there are 1.4 million hectares of land with high agricultural potential remain underdeveloped Sabah,
2. Adherence to traditional agricultural practices and customs constitutes to inhibit progress, and
3. Rapid logging activities have adversely affected the traditional lifestyles primarily supported by shifting cultivation, fishing and hunting.

Hence, rural poverty, if not checked immediately, can lead to discontentment and socio-political instability. It will cause rapid rural-urban migration, which will lead to overcrowding of major towns and increasing demand for employment. Moreover, decreasing rural population will lead to further decreases in productivity and underutilization of resources in the rural areas. In order to alleviate rural poverty, the state has to undertake various development programs to increase rural productivity, by opening idle land for agriculture and imparting technical skills to the poor farmers.

AGRICULTURAL COMMERCIALIZATION IN SABAH

The emphasis given by Sabah state government to agricultural and rural standard of living improvement has created considerable rural society structural modernization. The *in-situ* agricultural development, related rural activities, large-scale land development and the development of related socio-economic infrastructures and institutions as well as agricultural support services have generally stimulated the process of reorganization of the structure of traditional agricultural sector, the subsistence rural available physical and human resources, and facilitated the gradual transition in production activities from finally subsistence to united, diversified and specialized farming. Improvement towards greater access with other development requisites, particularly social and public overall changes in the socio-economic environments in the rural areas is also being the most important part (Nik Mazlan, 2003; Zulkifly, 1989).

An important development program accompanying the policy counter math and substantial public investment in agricultural has been the gradual transformation of considerable parts of traditional agricultural sector and the subsistence rural economy. The orientation of

agricultural sector and rural production has indicated a new scenario in the pattern of land-use and economy activities in Sabah's agricultural and rural economy.

Following the development and enhancement of land resources with oil palm, rubber, livestock, and food crops (paddy), the rural population who were basically shifting cultivators and subsistence agriculturalist or fisherman has entered into the economic production of diversified and mixed as well as specialized agriculture. This development coincided with the reorganization of the structure of traditional agricultural and the rural economy through intensification and diversification of agricultural towards the procreation of crops of economic value. They are complemented by improved infrastructure and services, accessibility to capital and technical inputs, and significant technological improvement (Fatimah, Mad Nasir, 1997; Sinajin *et al.*, 1996).

An area of remarkable economic transformation and structured change in traditions agricultural and subsistence rural economy in Sabah is the large-scale land development. The program involves the opening up of new contiguous extensive areas for smallholder development of agricultural. These land development areas are usually organized along the structure and production patterns of plantations and concentrate on "specialized production", primarily oil palm, rubber and cocoa.

These development programs "transplanting of estate culture" particularly in terms of organization, management inputs, provision of services and facilities, land utilization, and "work culture". It creates a new structural dimension in agricultural activities such as providing ownership of an "economic size" farm holding to create productive employment and enhance capacity to earn a reasonable level of income among the participating rural communities.

As a large-scale production operation, land development creates an advantage of economic of scale, both in cultivation and post-harvest activities, which are not normally available to traditional subsistence farming communities. In-situ agricultural development also facilitates structural transformation and modernization in traditional agricultural sector and the subsistence rural economy. Particularly through the development of irrigation and drainage, intensification of on-farm agricultural development, diversification of agricultural production activities, and the provision of essential agricultural services and facilities, the in-situ agricultural development has made possible double cropping in rice production activities, and broadened the production base in agricultural and rural economy (Zulkifly, 1989).

The development agencies that are involved in developing Sabah are Sabah Rubber Fund Board (SRFB), Federal Land Development Board (FELDA), Department of Agriculture (DOA), Department of Fisheries (DOF), Department of Veterinary Services and Animal Industry (DOVSAI), Department of Drainage and Irrigation (DID), Lembaga Padi Negara (LPN), Federal Agricultural Marketing Authority (FAMA), Rural Development Cooperation (RDC), Cocoa Malaysian Board (CMB), Sabah Marketing Authority (SAMA), Farmer's Association Board (FAB), Sabah Land Development Board (SLDB), Bank Pertanian (BP) and private companies (Golingi *et al.*, 1988). These development agencies have been incorporated by the both or Sabah State Government and Federal Government (Malaysia Government). The main objective in institutionalizing these development agencies is to bring about sustainable development in Sabah.

As a consequence, there has bean a gradual reorganization of production structure and practices towards modernization of farming techniques and the transition of production activities from purely low-productivity subsistence activities to a mixed, diversified and even specialized higher-productivity activities. Traditional production practices have been gradually eroded, while commercial and other economic-value agricultural has been greatly enhanced to provide for greater capacity towards improved productivity and income.

However, traditional agricultural practices are still been seen as major economic activities in Sabah. The modernization of agriculture practices is evident that they have yet to be sufficiently satisfactory to have a significant impact on poverty and efficient resource utilization. Modernization of the sector has yet to be widespread while the existence of

inherent socio-economic constraints has been acknowledge, the continuing accelerated development is deemed essential and pertinent to facilitate reorganization of rural and agricultural economic structure, enhanced utilization and productivity of physical and human resources, and promote gradual transition in production activities. Continuing development efforts should be comprehensive to include not only physical, economic and social aspects, but also changes in attitude and behavior of the general rural populace. All these aspects are the most important topics to be examined.

THE EMERGENCE OF CONTRACT FARMING IN SABAH

The use of contract farming is gaining interest as a vehicle for developing rural areas in Malaysia. It can be geared to local needs, and provide them certain benefits. Moreover, the contract-farming system usually has the potential to improve the welfare of family smallholders and of course would transform rural society into new society, which is considered as more develop as compared to the previous rural society.

In Sabah, smallholder will obtain the benefits by entering contract farming as well as to improve their standard of living, which can be measured by income level, saving, property ownership, family employment, and entrepreneurship development. Direct benefits from contracting accrue to smallholders from improved access to markets including improved technology, better management of risk and opportunities of employment of family member. Indirect benefits occur from empowerment of woman and increased commercial accruement on the part of smallholder.

Malaysia's government has identified and implemented the contract farming programs to eradicate poverty profile in Sabah, especially in rural areas. The main reason in promoting contract-farming system in Sabah is a stem belief that the participants will receive economic benefits, predominantly in the distribution of income (Gunting *et al.*, 1991). This program would definitely bring about improvement of the rural standard of living.

The implementation of contract farming system in Sabah is reflected by the National Agricultural Policy, 1992-2010 (NAP) launched by the former Prime Minister of Malaysia on February 1, 1993 (Tun Dr. Mahathir Mohamad). The 1992 NAP replaces the 1984 NAP. In contrast to the 1984 NAP, the 1992 is not oriented towards rural-urban migration. The 1992 NAP hopes to intensify human resource development programs for rural youths. Consistent with its objective of increasing efficiency in the agricultural sector, the 1992 NAP proposes that agricultural credit should only be offered on commercial terms and subsidies, except for rice farmers, should be gradually phased out. The government is also expected to gradually withdraw from providing processing and marketing services at subsidized rates while extension services will be expanded to train rural entrepreneurs. The government also withdraws from new land development but rely on the private sector for new land development. To facilitate a greater role for the private sector, the government gradually deregulates and liberalizes the factor markets so that the resources will be allocated to their most valued user (Sivalingam, 1993).

The State Agricultural Policy (SAP, 1992-2010) also plays greater roles to bring about implementation of contract farming system in Sabah. According to Yapp *et al.* (1999) concentrated with the objective of increasing agricultural production to meet the target as set by the state government and as contained in the SAP (achieving 100 percent self-sufficiency level), Sabah government have been promoted the following strategies:

1. Efficiency and maximum utilization of existing agricultural activities.
   a. Improve and upgrade existing facilities such as irrigation and drainage;
   b. Provide agricultural facilities such as irrigation, drainage, roads and bridges (if these are not yet available);
   c. Improve and upgrade existing farm infrastructure such as farm roads and farm bridges. These will allow for the effective use of farm vehicles, tractors and other heavy duty farm machinery;
   d. Strengthen and streamline co-ordination between the various agencies, departments and authorities;

e. Government to upgrading production to a commercial level. Ensuring that farmers receive inputs such as tractors, combine harvesters, high-yielding seeds and fertilizers, training, advice and supervision pertaining to the various stages of the farm activities.

2. Improving efficiency and productivity
   a. Educate, encourage and assist farmers to adopt modern methods;
   b. Continue to subsidize the part of the cost of production;
   c. Strengthen extension services to improve transfer of research findings and farm technology to farmers;
   d. Intensify and expand research and development to include high-yielding agricultural varieties, agronomic and cultural practices and pest and disease control;
   e. Assist farmers single or jointly to own and operate farm machinery;
   f. Introduce and develop appropriate technologies and mechanization to suit local agricultural production conditions;
   g. Educate farmers on the importance and appropriate way of farm resources management.

3. Land resources
   a. Identify areas suitable for selected commodity for large scale commercial cultivation;
   b. Seek the advice and assistance of the federal government to upgrade selected areas.

4. Greater participation of the private sector
   a. Government to be more encouraging and facilitating private sector participation in commercial agricultural activities;
   b. Government to create a conducive environment that will encourage and facilitate private sector to venture into the support services sector especially in the contractual services;
   c. Farmers' organizations to play a more active role in mobilizing and organizing farmers to venture into commercial cultivation through group farming or mini estate production system.

However, in the early stage, there is confusion as to whether the property rights (land) belong to the ministries, civil servants, the people or the private companies. Therefore, it is clear that the property right belong to the individual to whom the right is allocated by the law. Then, the delineation, allocation and protection of private property rights are necessary conditions for creating a market in property right. A market must also exist for the buying and selling of these property rights. The creation of markets with many buyers and sellers is important for transactions to take place. These transactions, in the form of written contracts, must be protected by law and must be enforced by the law. For transactions to be costless, institution are created to ensure the free flow of accurate and reliable information. Effort has done to ensure that there is no insider trading and the perfect and complete information is easily available to all interested parties in a transaction. In this way, transaction costs are minimized.

According to the 1992 NAP, the task of transforming agriculture into viable agribusiness and commercial undertakings and one that is dynamic and competitive in both world and local markets will involve the predominant role of the private sector. The regulatory incentives and policy framework will be supportive of the strategy that aims at building up the growth and development of agricultural sector (Ministry of Agriculture, 2000, 1993).

Warning *et al.* (2000) then recited that the impact of contract farming on the standard of living generally depends on who participates in the schemes and the benefits they receive from participation. He has modeled a contract-farming system as a principal-agent game in which a firm (the principal) works with growers (the agent) to produce crop. The firm chooses growers with whom it would like to contract and sets the contract terms.

The growers, in turn, choose whether to participate. The combination of these choices describes the selection process for the contract-farming system. The benefits participants accrue will depend on the terms of the contract and their own characteristics. To the extent that growers than to smaller growers, the scheme will reinforce income stratification. To the extent the opposite is true; the scheme will have an equalizing effect. In accordance with the benefits that participants or farmers obtained from contract farming system, total participants of this farming system are expected to increase. .

Therefore, contract-farming system have been implemented in Sabah and that implementation of the programs as mentioned as above have been brought success in eradicating the poverty profile in Sabah. This is of course bring about transformation of rural society into a new rural society that is based largely on agricultural activities and with appropriate standard of living. In other words, it would mean that the government's policies and strategies for promoting development in Sabah have high level of quality and validity.

CONCLUSION

Agricultural resources in Sabah are diverse, and so are rural and traditional wisdom, which made the concept of sustainable agriculture, must be adjusted to suit with the different contexts. Therefore, at least, five main patterns of sustainable agricultural system were found in Sabah. They are integrated farming system, organic farming system, natural farming system, agro forestry and contract farming system.

Besides that, contract farming system can be referred as a market-oriented farming system. In this farming system, a central processing or exporting unit purchases the harvest of independent farmers and the terms of the purchase are arranged in advance trough contract. This farming system is includes the contractor and out growers as the partner. The contractor would frequently provide credit inputs and technical advice in the earliest stages. The contractors would also become buyers of the produce in the harvest stage.

In accordance to the discussion about contract farming system and its importance, it should be noted that there is the potential for many other kinds of farming system suitable for small-scale farmers, depending on local resources and environmental conditions, as well as the culture and values of farmers in each area. However, one of the most suited farming systems to the Sabah people is the contract farming system. This is because the contract farming is considered to bring improvement to the rural people's standard of living.

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