Exploring Contract Farming as a Business Model for Commercial Expansion of the Indigenous Poultry Subsector

Research Into Use
TANZANIA

Policy Brief 2

About the policy brief

This policy brief discusses contract farming as a potential business model for transforming the indigenous poultry subsector into a viable commercial enterprise. Using experiences from the Research-Into-Use (RIU) Indigenous Poultry Commercialisation Project, it demonstrates that contract farming can be highly beneficial to rural poultry farmers, poultry input suppliers, the contractor and the public sector in general. It shows that contract farming increases access to credit for farmers and drives production scales; opens up markets and increases income; provides farmers with price insurance against fluctuations; enhances extension services and use of new knowledge; improves business management skills of farmers; and stimulates rural development through multiplier effects for employment creation, infrastructure and market development. Consequently the policy brief advocates for promotion of contract farming in the indigenous poultry subsector. In doing so, it remains conscious of the widely-documented concerns about contract farming especially the challenge of contract enforcement, unequal bargaining power between the contract and smallholders, and monopsony control by the contractor. Thus, the policy brief holds that measures to maximise the benefits of poultry contract farming should be prioritised alongside strategies to mitigate latent risks and unfavourable effects to both smallholders and the contractor. In particular, it recommends promotion of poultry contract farming as a matter of policy, promotion of public private partnership in contract farming schemes, and establishment of innovative mechanisms to address the traditional concerns about contract farming.

Why contract farming in the rural poultry subsector?

Contract farming is recognised globally as an institutional arrangement for facilitating and accelerating agricultural commercialisation. It entails a contractor providing farmers with input supplies, technical advice, in-kind credit, and market services; while the farmer commits to produce a specified quantity and quality of an agricultural product which is sold exclusively to the contractor, usually at a pre-determined price.

Contract farming is widely perceived as a pro-poor arrangement that enables rural farmers to participate in a market economy through establishment of forward and backward linkages. Forward linkages constitute distribution chains connecting producers or suppliers with customers, while backward linkages create channels through which information, material, technical support, and credit flow between a contractor and its suppliers, leading to a network of economic interdependence.

This production system is increasingly viewed as a feasible option for commercial transformation of agriculture subsectors of developing countries especially those found in transitional economies such as Tanzania’s, often characterised by institutional and market and failures. Institutional failure is largely associated with economic transformation from a socialist central control system to a market-driven system; while market failure arises from endemic lack of information on market demand, price, production technology, and credit, all of which mainly stem from low-level of infrastructure development.

Tanzania's indigenous poultry subsector is indicative of both institutional and market failures. The subsector's growth and development has over the years been impaired by poor poultry husbandry, as chicken are mainly kept under the free-range low-input management system; poor infrastructure in rural areas leading to difficult access to input supplies and market for poultry products; inadequate extension support leading to high chicken mortality and low productivity; inadequate access to market information and limited business knowledge among rural producers; and difficult access to liquidity for smallholders; hence the low scales of production and stumpy commercial value of the subsector.

However, the Indigenous Poultry Commercialisation Project implemented by Research-Into-Use (RIU) in Tanzania has demonstrated that through contract farming, it is possible to overcome some of the systems challenges and transform the rural poultry subsector into a viable commercial enterprise, and contribute to employment creation, income growth and improved livelihood especially for the poor poultry-keeping households in rural areas. Table 1 below highlights common constraints to the rural poultry producer, which contract farming can help to address.

Table 1: Rationale of contract farming

Constraints to rural poultry producer	Contract farming as a solution
Poor poultry husbandry lowers productivity of indigenous chicken.	Contractor can provide extension support, monitor production efforts and improve productivity.
Limited access to liquidity hampers commercial production.	Contractor often provides in-kind credit in form of input supplies including day-old chicks.
Inadequate market information and volatile prices discourage commercialisation.	Contractor often guarantees market for mature birds and offers price insurance.
Poor infrastructure raises cost of inputs, constrains market access and lowers revenue from the poultry business.	Contractor sometimes delivers inputs and collects products from the farmers.
Inadequate business knowledge among rural producers hinders effective management of the poultry enterprise.	Contractor sometimes provides basic entrepreneurship skills training to improve management of the poultry enterprise.

The project employed the contract farming approach through KukuDeal, an initiative of RIU-Tanzania established to deal with overall systems challenges along the indigenous poultry value chain. The aim of KukuDeal is to stimulate and organise the indigenous poultry value chain by acting as a go-between stakeholders in various commercial activities geared towards sustainable expansion of the indigenous poultry subsector. The initiative works directly with rural poultry farmers as well as urban producers and entrepreneurs to tap and harness commercial potential of the indigenous poultry subsector. Through its contract scheme, KukuDeal provides poultry producers with interest-free investment capital in form of 200 day-old chicks payable upon selling mature chickens, extension support through household poultry advisers, entrepreneurship skills training, and a ready wholesale market by buying mature chickens from the farmers in bulk and selling them in urban markets.

What benefits make contract farming a desirable option for commercial expansion of the indigenous poultry subsector?

The RIU-KukuDeal experience demonstrated that contract farming can be highly beneficial to rural poultry farmers. It increases access to credit and drives production scales; opens up markets which would have otherwise remained inaccessible to the rural farmer; promotes risk-sharing and risk reduction; improves extension support and use of new knowledge; increases income, creates employment and improves livelihood; and stimulates rural development. Contract farming can also be highly beneficial to agri-business companies and the public sector in general.

Increasing access to credit and driving production scales

Access to liquidity is a major problem in the agriculture sector where the bulk of rural populations continue to make their living. The higher transaction costs to financial institutions associated with dispersed populations and inadequate infrastructure coupled with the particular needs and higher risk factors inherent in agriculture, results in the under-provision of financial services in rural areas. Furthermore, where services are available, products are often designed without consideration for the needs and capacities of rural households and agricultural producers.

The inability of households and enterprises to access capital on competitive terms to undertake profitable investments or take advantage of market opportunities means that incomes and growth are lower than they need be. Without market instruments to insure against risk, rural households and enterprises may even retreat from profitable projects for which they have adequate liquidity. The absence of competitive savings instruments and other financial services in rural areas leads to less productive forms of savings that cut further into households' scarce liquidity and dampen local growth prospects.

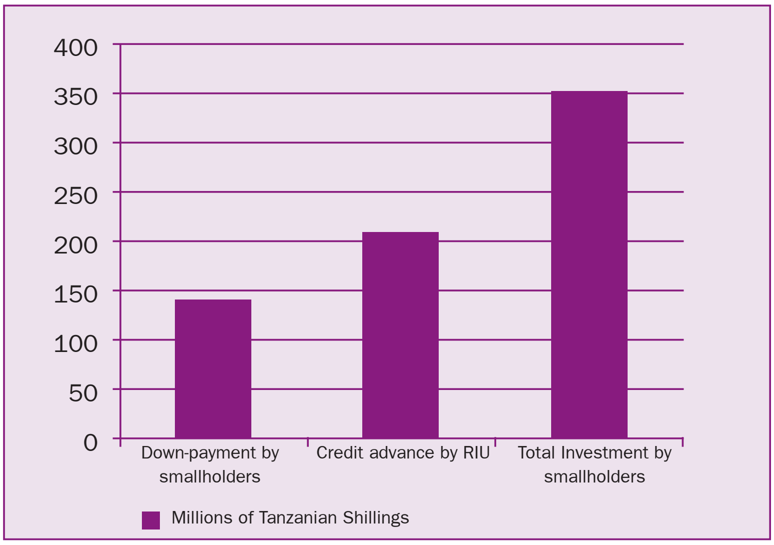
Provision of credit is a vital part of contract farming and is one of the major incentives for smallholders to join contract farming schemes. The credit can be given in cash, in kind, or in the advance of services or capital inputs, and recoveries made from sales of agricultural products, as is the case with the RIU-KukuDeal contract farming scheme. In some instances, farmers may obtain loans separately from an existing national credit agency for a particular agriculture subsector or a bank, in which case the contract itself could serve as collateral. However, experience has shown that contract farming puts agri-business firms (contractors) in a better position to provide credit than banks since they usually possess greater ability to monitor and enforce credit and therefore overcome problems caused by financial market imperfections.

The RIU experience demonstrated that provision of in-kind credit can stimulate investment in the rural poultry industry and increase production scales. Over 3,500 poultry farmers who joined the project managed to increase their production scales sharply from 5-10 birds to 100-300 birds each, as well as the number of production cycles from only 1 in 12-18 months to 3 in 12 months. By providing a total of Tsh.210 million as unsecured interest-free loan in form of day old chicks to the 3,500 farmers, the project made it possible for the farmers to invest a total of Tsh.350 million in chicks alone in the first round of production[1]. Volumes of investment in poultry production are even higher under the KukuDeal contract scheme where farmers are provided with 200 day old chicks as

1 The investment capital for 100 chicks was Tsh.100,000. Each farmer was asked to pay 40% of the amount (Tsh.40,000) prior to delivery of the chicks. RIU provided the remaining 60% as a loan to the farmers, payable upon selling mature chicken. Thus, the total investment capital in chicks alone by the 3,500 farmers was Tsh.350 million, out of which Tsh.140 million was paid by the farmers prior to receiving the chicks and the remainingTsh.210 million covered by RIU in form of a loan for the first round of production.

in-kind interest-free credit. Thus, poultry contract farming acts as an incubation facility to resource poor farmers willing to embark on new scales of production using new knowledge and skills. It puts the farmers in a favourable position to access the necessary support to start a commercial enterprise and grow in the business until they are able to manage on their own.

Figure 1: Investment in day old chicks in the first cycle of production



Providing access to markets and increasing income

Limited market access and unfavourable pricing remain major barriers to economic empowerment of the rural farmer. A study commissioned by RIU in May 2010 showed that the current market system for indigenous chickens is such that the rural poultry farmer can either sell chickens to a village poultry trader (trader 1); or go to a secondary market at a nearby urban centre to sell to a retailer (trader 2) or hawk the chickens to individual households in the urban centre; or take the chicken to a nearby primary livestock market in the village (*mnada*). The farmer also has the option of selling directly to tertiary markets in major towns such as Dar es Salaam, Mwanza, Arusha, etc. However, the tertiary market has not been a feasible option for the rural producers due to stumpy scales of poultry production and high cost of transportation associated with poor infrastructure. Currently, most rural poultry farmers sell their chickens to the village trader (trader 1) at Tsh.3,200 per fully grown chicken. Trader 1 in turn sells the chicken to the secondary market at Tsh.4,500 - Tsh.6,000. Trader 2 sells the chicken to the tertiary market at Tsh.6,000 - Tsh.7,500. The consumer price for a mature indigenous chicken in the tertiary market is Tsh.9,000 for live chicken and Tsh.9,300 when dressed.

The RIU experience showed that contract farming minimises the role of middlemen and promises the rural poultry farmer a steady and increased income from an assured market. Contract farming helps to link farmers to distant markets where demand and price for produce are often more favourable. It also helps to lower consumer prices by increasing production scales and minimising the role of middlemen. The high consumer price of indigenous chickens prevalent in urban markets is largely associated with undersupply of the chickens and number of middlemen in the supply chain, each adding a margin for commercial gain. By limiting the role of middlemen, KukuDeal has been able to lower the consumer price for indigenous chicken from Tsh.9,000 to Tsh.6,000, and increased buying price at the farm level from Tsh.3,200 to Tsh.5,000, allowing the rural producers to earn much more from their production efforts. Thus, the KukuDeal pricing scheme represents a much higher end-market price gain (83%) for the rural poultry farmer, compared to 36% if the farmer was to access the tertiary market through a chain of middlemen by selling to the village poultry trader.

Providing insurance against price fluctuations

In agriculture, prices can fluctuate drastically from one region to another within a short production period. The RIU market study (May 2010) showed that consumer price for chicken (both indigenous and exotic) has been increasing over the years. The increase is owed to the growing inflation rate which crossed into double digits (10.35%) in September 2008, up from 5.6% in 2006, effectively pushing up prices of poultry inputs and increasing production cost (see figure 2 below). By December 2011, the annual inflation rate had reached 19.8%. However, analysis of price elasticity and cross elasticity of demand of poultry products indicated that consumer price for the indigenous chicken is likely to fall with increased production, and demand for the chicken will be affected by the price of its immediate substitutes including exotic chicken, beef, mutton, goat meat, among others. In the event of drastic changes in the market structure and prices, the rural farmer who generally has limited access to market information can be greatly disadvantaged due to inability to make informed pricing decisions based on the prevailing market scenario.

Conversely, under contract farming, a pre-determined price for mature chicken negotiated at the beginning of a production cycle would insulate the farmer from unforeseen losses associated with market behaviour. In this regard, farmers can lower their price risk while enjoying increased market access and income from bulk sales. It is widely documented that contract farming is a way of allocating risk between the contractor and the farmer. While the farmer assumes most of the risks associated with production, the contractor assumes the risks of marketing the final product. Total risk reduced is relative to a noncontract situation for the product.

Figure2: Trend of inflation in Tanzania Mainland (at 2001 baseline year)

Source: Tanzania Bureau of Statistics

Enhancing extension services, production quality and traceability of products

A contractual agreement between a contractor and smallholders provides the contractor with an assurance that it can appropriate a share of the benefits from the investments it makes in production at the farm level. This is most apparent in the areas of extension support and input provision. Since the contractor wants high-quality, low-cost produce, it takes direct interest in providing effective extension services and monitoring the production process. Public extension services have no such incentive and regulate their performance in accordance with bureaucratically defined criteria, often based on number of farmers receiving services and/or quantity of outputs distributed. Experience has shown that such criteria are less effective in assessing performance and providing incentives than the profit-related criteria used by contracting companies. Thus, one would expect the quality of extension support provided in contract farming to be superior to that found in a purely public system. It is instructive therefore, that KukuDeal uses private household poultry advisers to provide extension support to rural producers especially in areas where government extension services are severely constrained by shortage of skilled extension personnel. Quality extension support is critical to securing the increased investment in larger poultry flocks, sustaining new scales, enhancing production efficiency and improving productivity of indigenous chickens.

Moreover, contract farming allows traceability of products. The high and middle-level income earners who constitute the bulk of the indigenous chicken market in urban areas are particularly discerning and health conscious consumers. Most of these consumers want to be assured of the source and quality of poultry products. With contract farming, products can be easily traced and production quality controlled right from breeding and hatching of chicks, as well as production and use of other essential inputs including feeds, vaccines and medicines. Traceability of products would be even more important if the indigenous poultry industry was to target the export market.

Strengthening technical and business management skills of rural farmers

Even though production techniques learned through contract farming can be highly specific to a particular product line and may not be transferable to commodities, management skills learned through participation in contract schemes are more widely applicable. Such skills include basic accounting practices, negotiation skills, awareness on importance of quality and contract provisions, as well understanding of export markets especially if the commodity in question targets external markets. Experience has shown that there tends to be some transfer of contract-farming-induced production and management skills to other agricultural commodities and the farm enterprise in general.

Management skills are most likely to be developed in schemes where producer prices closely reflect quality and final market prices; where farmers receive detailed accounts of the contractor's payments for products and deductions for inputs; and where farmers are given substantial responsibility for managing their operations, rather than operating within schemes where control is highly centralized (*David Glover, 1994*). This approach, adopted by KukuDeal and backed up with entrepreneurship skills training for new entrants in its contract scheme, is envisaged to serve the rural farmers well not only in poultry production but in other commercial activities as well.

Stimulating rural development through market development, employment creation and infrastructure improvement

Underdevelopment of rural areas, especially poor infrastructure is a major impediment to agricultural production and a known cause of low investment in a sector that supports 80% of the population. Poor infrastructure raises production costs, limits market access, and diminishes returns on investment in agriculture. Food poverty is highest in rural areas, at 18.4% compared to the national average of 16.6%, while progress on reduction remains low, at (-) 2.0% compared to the national rate of (-) 2.1% (*Ministry of Finance and Economic Affairs, 2010*). However, in the face of these challenges, contract-farming promises multiplier effects for poverty reduction, employment creation, and infrastructure and market development through increased public and private sectors' investment in rural areas.

For several decades, the indigenous poultry subsector has been unable to fully realise its potential to contribute to employment creation, poverty reduction and livelihood improvement especially in rural areas due to extremely low scales of production. Rural producers have been unable to produce significant volumes because they lack relevant skills for modern poultry management, and have limited access to liquidity, essential inputs (day old chicks, feeds, vaccines and medicines), extension services and urban markets for their chickens due to poor infrastructure. On the other hand, agribusiness suppliers, extension providers and marketing agents have not been attracted to extend their investments to rural areas due to poor infrastructure and low demand for inputs and extension services, as poultry production is largely subsistence-based, with chickens free-ranged, chicks naturally bred, and birds hardly vaccinated nor treated when sick. This has resulted in a major demand and supply deadlock in moving the indigenous poultry industry to large-scale production.

The RIU-KukuDeal experience has clearly demonstrated that contract farming can help to mobilise volumes to organise the indigenous poultry market and link the poor rural producers to urban dynamics. Through KukuDeal, farmers are supported to raise 200 indigenous chickens every production cycle lasting 4 months. The increased production scales have triggered demand for input supplies and stimulated agribusiness in rural areas. For example, the number of hatcheries producing indigenous day old chicks has increased from 2 to 13 and their production scales gone up from 500-2,000 chicks to 6,500-10,000 chicks per hatchery. Bytrade Tanzania Limited which was contracted by RIU to supply vaccines and medicines to the project is considering strengthening its distribution network in the project area to be able to tap the emerging business in the rural poultry subsector. The company's representatives have started visiting poultry farmers in rural areas to provide technical guidance on disease control and use of vaccines and medicines, alongside provision of the supplies.

However, the cost of doing business with rural producers would still be high for the agribusiness suppliers without contract farming. For example, a chick producer would be forced to manage many business relationships with widely-dispersed rural producers who can only buy chicks in batches of 200 birds after 3 to 4 months upon selling the previous batch. Moreover, the chick producer may not have the means to synchronise the purchases and get farmers to pay at the same time, yet chicks are live commodities which cannot wait for farmers to get organised.

KukuDeal has demonstrated that through contract farming, it is possible to synchronise poultry production and demand for inputs covering many villages, as well as mature chickens entering the market, since all the rural producers under contract are obliged to sell to the contractor. This, on the one hand, has allowed poultry input suppliers to sell in bulk to KukuDeal and minimise their cost of doing business, and on the other hand, enabled KukuDeal to negotiate for highly competitive prices for input supplies based on the principle of economies of scale, further reducing the cost of production and income from the poultry enterprise. It is instructive therefore, that KukuDeal has been able to increase the farm price of alive indigenous chicken from Tsh.3,200 to Tsh.5,000 for the rural producer, and reduced consumer price for the chicken in the tertiary market from Tsh.9,000 to Tsh.6,000, allowing more consumers to enjoy the highly nutritious delicacy.

As the number of rural farmers joining poultry contract farming increases and the numbers of agribusiness companies doing business with the subsector goes up, there is no doubt that the intervention is creating employment and improving livelihood in rural areas. Even though no study has been conducted to determine the social impact of the RIU project, general feedback from the beneficiaries indicates improved livelihood for the indigenous poultry-keeping households, resulting from increased income come from the poultry enterprise and consumption of the local chickens. Under the contract farming scheme, KukuDeal buys 75% of the 200 chickens raised by the rural producers and leaves 25% for domestic use.

Apart from market development and employment creation, experiences from other large contract farming schemes in remote areas of East Africa have shown than such schemes can have broader rural development impacts. Examples include sugarcane schemes in Western Kenya and Tea schemes in Tanzania. To some extent, both schemes have performed well in terms of opening up underdeveloped areas in which they are located, and acted as growth poles (*David Glover, 1994*). Construction of roads and other infrastructure and expansion of interregional trade have been some of the direct consequences of the establishment of contract farming schemes.

Thus, while infrastructure is a precondition for many contract farming schemes and a driving force of agricultural commercialisation, it is also sometimes the case that the growth potentials of commercialisation push infrastructure development, which may then result in further benefits of infrastructure. It is envisaged therefore, that widespread use of contracting farming for agricultural commercialisation including poultry farming, could offer an opportunity to unblock the infrastructure deadlock which has continued to block the path for many rural households to economic development and self-improvement through agriculture.

In view of the above benefits of contract farming, this policy brief strongly recommends promotion of the scheme as a business model for commercial expansion of the indigenous poultry subsector. However, in doing so, it remains conscious of the following concerns about contract farming with considerable policy implications:

Contract enforcement: Non-compliance with terms and conditions of contracts is a common problem in contract farming. Common contractual problems include side selling by farmers, refusal by the contractor to buy a product at the agreed price, failure by the contractor to purchase the pre-agreed quantities, and downgrading or under-weighing of produce by the contractor, among other malpractices. Side selling is widely documented as the greatest problem constraining growth of contract farming. It is commonly associated with increase in the number of willing buyers. When alternative markets develop and competing buyers offer competitive prices, farmers are given the incentive to break their contracts, often failing to repay input credit to the contractor.

Unequal bargaining power: Contractors usually possess more information, resources, and organisational ability than smallholders. They invariably have stronger bargaining power which they tend to use to their financial advantage. In situations where farmers are not well organised, or have few alternative buyers for their products, or are not in a position to change to another product with ease, there is a likelihood that the farmers may not get a fair deal due to their weak bargaining power. Some contractors may try to take advantage of the weak barging power to change pre-agreed standards, downgrade and/or under weigh produce, or overprice inputs and transport provided to the farmer, in order to pay less for the produce.

Monopsony control: Contract farming has been criticised for its exploitative effects of monopsony control, whereby by farmers are caught up in a situation in which they can neither switch to a new product nor another contracting company easily, due to contractual requirements or nature of the production process which leaves them with little time and no financial resources to engage in any other economic activity. Consequently, if the contractor does not meet its contractual obligations, farming households may be left highly vulnerable in terms of income and even food security.

Shifting burden of labour management to smallholders: Although contract management may reduce labour management for the contractor, in effect this burden is transferred to the poor farming households. The act of purchasing directly from farmers rather than hiring wage workers shifts the burden of labour recruitment and control onto the producer. In this respect, although agri-business firms may benefit from reductions in labour management and land costs, such practices may also lead to exploitation of family labour which is inclusive of women and children.

Increased risks and demand for skilled management to the contractor: Contract farming arrangements place a significant share of risks burden on the shoulders of the contractor. Most contracts stipulate that the firm will purchase all the produce, often at a price higher than the prevailing market price. The firm may bear the price risk as well as the risk of production failure due to poor management or environmental factors. To avoid potential losses, the firm may maintain a tight control over management and offer seasonal or annual contracts so as to exclude unproductive farmers from future contracts. In this regard, contract farming requires high-level management skills on the part of the contractor. Although the level of supervision is likely to be significantly less than that required by large-scale operations, highly skilled management is needed to properly supervise the farmers. Poor management and lack of communication among contractual parties could lead to farmer-dissatisfaction and a breakdown in the contractual agreement.

Which way forward for contract farming in the indigenous poultry subsector?

Considering the tremendous benefits of contract farming as demonstrated by the RIU project, this policy brief recommends promotion of the scheme as a business model for transforming the rural poultry subsector into a viable commercial enterprise. Measures to maximise the benefits of contract farming should be prioritised alongside strategies to mitigate latent risks and unfavourable effects to both smallholders and contractors. In particular, the policy brief recommends promotion of poultry contract farming as a matter of policy, encouraging public private partnership in contract farming schemes, and establishing innovative mechanisms to address traditional concerns about contract farming, especially contract enforcement, unequal bargaining power between the contractor and smallholders, as well as monopsony control by the contractor.

(i) Promoting contract farming as a policy issue

The mission of Tanzania's National Livestock Policy is to ensure that livestock resource is developed and managed sustainably for economic growth and improved human livelihood. With regard to poultry farming, the objective of the policy is to increase quantity and improve quality of poultry and its products to satisfy domestic demand, increase export and promote sustainable poultry production. The RIU-KukuDeal experience has shown that this objective can be attained through contract farming especially in the indigenous poultry subsector which contributes 94% of all chickens produced in Tanzania and supports 66% of livestock-keeping households as a source of livelihood. Based on the evidence from the RIU project, this policy brief recommends that the government should promote contract farming as a matter of policy and encourage both public and private sector actors including development partners wishing to invest in indigenous poultry industry to consider contract farming as a viable option for large-scale production and rapid economic gains.

(ii) Promoting public private partnership in contract farming schemes

While contract farming has shown to be an effective business model for transforming the indigenous poultry subsector into a viable commercial enterprise, it is a resource-intensive venture which requires sound investment by both the public and private sectors. The transformation witnessed in the rural poultry subsector through the RIU project would not have been possible without public funding of the initiative using resources from the United Kingdom Department for International Development (DFID). The RIU experience clearly shows that public investment in such schemes can significantly stimulate private sector investment in the rural poultry subsector and accelerate the subsector's growth and development, with multiplier effects for employment creation, poverty reduction and livelihood improvement for the rural poor.

Other critical areas for public private partnership in poultry contract farming include provision of extension support more so in areas where the existing government extension services do not suffice the growing needs of the indigenous poultry subsector; regulation and monitoring of the subsector to ensure the quality and traceability of poultry inputs and products entering the market; and overall market development through value the chain approach.

(iii) Establishing innovative mechanisms to address traditional concerns about contract farming including contract enforcement, unequal bargaining power and monopsony control.

While availability of a supportive legal environment is paramount for sustainable implementation of contract farming schemes, successful implementation of such schemes largely depends on moral will of the parties involved to comply with contractual terms of conditions. Therefore, beyond formulating relevant laws and regulations to support contract farming, there is a need to establish innovative mechanisms to deal with the traditional concerns regarding contract farming including contract enforcement, unequal bargaining power between the contractor and smallholders, and monopsony control by the contractor, all of which have a bearing on sustainability of such schemes.

Such mechanisms should include incentive packages to promote compliance with terms and conditions of a contract. For example, despite KukuDeal providing rural poultry producers with 200 chicks as interest-free in-kind credit alongside extension support, business management skills training and a ready market for mature chickens; it was decided that farmers will not be compelled to sell all the 200 birds back to KukuDeal upon maturity. Instead, KukuDeal buys 75% of mature chickens and leaves 25% with the farmers for domestic use. This, on the one hand is meant to promote consumption of chicken meat at the household level for health and nutrition benefits, and on the other hand serve as an incentive to minimise side-selling by the farmers. Therefore, this policy brief envisages that development of innovative incentive packages will go a long way to promote contract enforcement.

Farmer associations are also increasingly being viewed as potential avenues to promote the concept of self-regulation and compliance with recommended contract farming practices. This approach envisages that the farmer associations, if well empowered, can be in a better position to establish a system for rewards and punishment to promote and safeguard growth and development of the industry, by championing interests of loyal members working in the best interest of the industry and reprimanding errant members working against overall good of the industry. Such associations could also come in handy in enhancing bargaining power of the smallholders by advocating for their rights in contracting farming agreements, and checking negative effects of monopsony control by the contractor. The government can support such efforts by facilitating formation and effective management of the associations.

Likewise, contract poultry farming agencies could also be encouraged to form a self-regulating network to promote ethical practices in management of contract farming schemes. Through the network, members can share information about errant smallholders who do not have the disciple to work within basic parameters of contract farming agreements, and recommend appropriate corrective measures including blacklisting of such smallholders by all contractors. The network can also be instrumental in censoring members who engage in unethical practices that boarder on exploitation of smallholders and undermine overall good of the industry. The government can support such efforts by making membership in such a network a mandatory requirement for issuance and annual renewal of trading licence to contract farming agencies, as well as public financing of poultry contract farming schemes.

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