

## **Agribusiness partnership performance in empowering broiler breeders**

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### **Abstract**

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This study aims to identify and analyze partnership models of broiler (i.e., chickens raised for meat) farms, their performance and the extent of the government's role in the empowerment of farmers in the agribusiness partnership system, using a qualitative descriptive research approach based on expert judgments. The findings show that partnership contract farming in South Sulawesi in every variation is essentially different from the basic concept of partnership. The government's role in empowering farmers in the partnership system of broiler farms in South Sulawesi is to encourage and create a business climate that is conducive and stimulating for the development of broiler farms in South Sulawesi. Several forms of support from the government are suggested.

*Keywords:* broiler farms; partnership; empowerment

### **Introduction**

The Indonesian livestock industry is growing very rapidly with increasing purchasing power and experienced a peak in 1996. Developments have been less encouraging since the economic crisis around 1997. Along with population growth, increased revenue and increased public awareness of nutrition in Indonesia demand for livestock products are expected to continue to rise. The consumption of animal protein has been widely met from broiler (i.e. chickens raised for meat) consumption, which accounted for 67% of the total consumption of animal protein; cows only contributed 16% (Utomo, 2013). This is a business opportunity that is an incentive to increase the productivity of broiler farms.

Broiler farms in Indonesia are a breeding business; there are major obstacles, including not taking into account the economic and business scale, and the modest use of technology, so that productivity is low and quality varies. The position of broiler farms such as these are weak and are sensitive to changes, mainly in marketing their products (Patrick et al., 2004). Therefore, development interventions

need outside forces, such as capital, market creation, organization, and technical guidance. Responding to this problem, the government issued a policy in the form of Presidential Decree No. 99 of 1998 on the field or type of business open to medium businesses or large enterprises on the condition of the partnership, one of which is a partnership of broiler farms.

Eaton and Shepherd (2001), Sriboonchitta and Wiboonpongse (2005), Bijman (2008), Mansur et al. (2009), Swain et al. (2012), Priscilla et al. (2012), and D'Silva et al. (2012) distinguish five models of Contract Farming (CF); centralized model, core plantation model, multipartite model, informal model and intermediate model. This model differs in the type of contractor, product type, vertical coordination intensity between farmers and contractors, and the number of key stakeholders involved.

Under the Multipartite Model, a joint venture between legal entities and private companies contracts with farmers. Also public or private of credit providers, extension, and input can be part of the arrangement. As part of the liberalization process in the 1980s and 1990s, many

governments in developing countries actively invested in agricultural contracts through joint ventures with private companies (Little and Watts, 1994).

From several models that have been pursued, one that has been considered to assist the development of livestock agribusiness in terms of capital, the supply of raw materials, marketing and technical guidance of technology development is the partnership pattern of Agribusiness Operations Cooperation (Sulaeman and Eriyatno, 2001). The development of KOA partnership patterns in South Sulawesi shows a very positive trend, especially in the last 10 years. At the beginning of development in South Sulawesi, broiler breeders were dominated by the two largest feed industry companies in South Sulawesi, namely a partnership under PT Japfa Comfeed Indonesia (JCI) with partnership of PT Primatama Karya Persada (PKP), and Kemitraan under the auspices PT Charoen Pokphand (CP) with partnership of PT. Bina Pratama Satwa (BPS), which at the beginning of its development has only partner farmers in the city of Makassar, Maros regency, Gowa and parts of Takalar district. The development to date of existing partnership partners has reached twenty-seven companies, excluding from the count local partners with small populations, with an expanding working area including almost all districts in South Sulawesi (Ridwan, 2015).

The development trend of the partnership is quite rapid, indicating the need for partnership concept in Broiler Agribusiness development in South Sulawesi. Partner companies benefit from contract farming partnership models because: 1) politically contract mechanisms with farmers are more acceptable than self-employed; 2) they can overcome the problems of land constraints by partnering with a number of landowners; 3) more secure production yields when compared to buying on the open market; 4) minimizing risk by not moving in the field of cultivation; 5) the quality is more secure than if must buy in the open market (Seker et al., 2006). The same thing was conveyed by Swain (2008), Dhillon and Singh (2006), Seker et al. (2006) that contract farming can provide benefits to farmers in terms of: 1) input and production services usually given by partner companies, 2) the existence of credit facilities; 3) enabling to learn new skills especially when contract farming introduces new technology; 4) price risk can be reduced by the initial contract; 5) market guarantees. One of the keys to its success is the guarantee of business risks, both in the form of production and marketing risks from partner companies (Hedge and Vukina, 2003).

Despite the partnership model, there are still some problems remaining in its development, especially in terms of optimizing the revenue received by breeder partners.

Empowerment carried out by the partners is helping to revive the farming slump due to the economic crisis; however, this is not yet giving hope to propelling farm businesses forward, economically and independently, and the subordination of financiers was strong (large businesses) to farmers/ranchers (small business). In many cases, these partnerships make small farmers increasingly dependent, as they can no longer be competitive without access to the services provided by contract farming companies (FAO, 2001, in Begum et al., 2011). On the other hand, evidence from various countries shows that most contract farming schemes exclude small farmers (Singh, 2000, in Begum and Alam, 2005). Generally, intensive farming with large capital causes a barrier to the entry of small farmers into the contract system because of high transaction costs and economies of scale (Begum and Alam, 2005). In some partnerships farmers become weak partners, vulnerable to exploitation. Agribusiness companies can extract the monopoly rents in the output market, and extract the monopoly rents in the input market (Warning et al., 2002). There is concern that excessive dependence of farmers with credit systems in partnership companies can lead them to prolonged debt problems making it difficult to escape (Brithal, 2008).

Generally, small farmers in Bangladesh as well as in Indonesia cannot take advantage of market opportunities and often have difficulty accessing credit; obtaining information about market opportunities or new technology; purchasing inputs such as DOC, feed, and vaccines; and accessing output markets. Even when the market is accessible, farmers often experience fluctuations in the price or the price is not fair. This is an obstacle to the development of the commercial poultry sector outside of partnerships and represents the 'bottleneck' in the development process (Begum and Alam, 2005).

Therefore, one of the challenges in the development of farmers from a low position into a higher position in the third world is how to help them organize themselves as an effective pressure group. As is the case in Western countries, farmers need to achieve a sufficient position to be able to be on an equal footing as well as to deal with various other institutions in the structure of egalitarianism (Brinkerhoff and Goldsmith, 1992; Sumardjo, 2001). Implementing agribusiness development is expected to develop self-reliance of farmers so that the relationship of the structure of the system is not a position of subordination, but rather a relationship of dependence (interdependence) of mutual support and mutual benefit.

Improving the performance of the partnership system in broiler agribusinesses in South Sulawesi requires the implementation of an appropriate strategy that is competitive

and comprehensive and in line with the nature of their initial goals. In order to establish an appropriate, competitive and comprehensive management strategy, the first thing to do is to measure the performance of the developed partnership system. Syahyuti (2003) states that performance measurement plays an important role in ensuring the success of a strategy run by an organization or institution. This research purposes to identify and analyze models of broiler farm partnerships that have developed in South Sulawesi, understand and analyze the performance of the broiler agribusiness partnership model in the empowerment of broiler breeders in South Sulawesi, also identify and analyze the extent of the government's role in the empowerment of farmers in the agribusiness partnership system of broiler farms in South Sulawesi.

## Research Methods

### Approach and Type of Study

This study uses research paradigm constructivism with descriptive qualitative research (Sugiyono, 2009).

### Location and Time Research

This research was located throughout the district/city, the center of agribusiness partnership broiler operations in the province of South Sulawesi. Collecting data in this study took place in 2015, with duration of about 6 months.

### Types and Sources of Data

Types of data collected in this study were derived from primary and secondary data (Huberman and Miles, 2009).

1. Primary data were obtained from in-depth interviews with a number of informants/participants as well as direct observation of the object studied.

2. Secondary data were used as supporting data and were obtained from various sources such as library documents (book report on the implementation of partnership, research reports, and reports from various relevant agencies).

### Data Collection Technique

#### *Deep Interview*

In-depth interviews were conducted with a number of informants and experts/specialists consisting of groups of farmers, the government, academia and the private sector (companies/associations of livestock/partnership management institutions broilers). The determination of experts was based on them having a deep knowledge of the issues examined, along with extensive experience in the field of partnership contract farming for broilers; this experience is not only associated with one of the factors of resources,

but also to other related sectors. Besides this, the experts were also chosen because they are already working for the government and private organizations and are involved in operations, as well as academic activities, especially those focused on livestock (Saaty, 1987; Marimin, 2004).

### *Observations*

In this study, researchers used a non-participant observation method, in which researchers not directly involved in the daily activities of the community act as independent observers.

### *Secondary Data Collection*

Secondary data were used to support the analysis and interpretation of the primary data in this study. These data were in the form of written data or images containing data on breeders, planned partnership activities and the types of activities that have already been done, results of relevant studies, as well as archives and other related agribusiness partnership activities.

### Data Analysis

Technical analysis of the data in this study used qualitative data analysis. To improve the quality of studies regarding the selection of alternative partnership models, the software Expert Choice AHP 12 was used.

## Results

### *Overview of Model Partnership Broiler Farms in South Sulawesi*

In the poultry business, partnerships are not new, especially in South Sulawesi. Poultry businesses with partnership models have evolved over many years; however, the problems of broiler partnerships are still a topic of conversation or debate that is interesting to study because, despite various models of partnerships having been developed, the results are still far from the expectations. Broiler breeders, as the main focus of the farming sector, remain in a very weak position.

Actually, partnerships between poultry farm breeders and the corporate field of animal husbandry have been introduced by the government since 1984, which is known as PIR poultry. PIR poultry implementation was a follow-up of Presidential Decree No. 50 of 1981. The core aspects of Presidential Decree No. 50 of 1981 are: 1) the poultry farms are allowed to move in the upstream industry of broilers (seed, feed, drug) or downstream industries of broilers (slaughtering and trading of broilers), while the cultivation of broilers is only allowed for small farmers, and 2) farm

scale cultivation is limited (750 units/cycle for broilers or 5000 units/cycle for laying hens), to prevent excess supply.

To ensure the upstream market of the broiler industry, while ensuring the provision of poultry production facilities and marketing results for farmers of the population, the government set broiler development patterns in 1984, known as PIR poultry. As an operation, PIR poultry exists in three forms, namely: 1) PIR with plasma agreement, which guarantees the provision of poultry production facilities and the marketing of products, 2) PIR with plasma ratio, i.e. the plasma core system price ratio between the price of feed DOC and the selling price of broilers, and 3) PIR with plasma Mandiri (without any deal or price ratio).

Recent developments in regulatory support have been provided by the government with the enactment of the Government of the Republic of Indonesia No. 6 of 2003. This focused on the empowerment of farmers by providing

convenience to farmers in an effort to empower farmers, such that certain types of farmers and below a certain number of herds do not require a business license.

Table 1 shows that of the three partnership models developed in Indonesia today, as reinforced by the explanation of Article 29, Paragraph 2 of the partnership model in PP 6 in 2013 regarding the Empowerment of Farmers, only a partnership model contract farming/contract grower (100%) was developed in Southern Sulawesi; the model involving the management fee and profit-sharing is not well developed in the region. It is not clear why the partnership model has not been developed there, while in other places, especially in South Sumatra, both models are well developed. In conjunction with the partnership model of contract farming, the partnership management fee dominates (50%) over the contract farming model (40%) and the remainder (10%) for the model results (Sharif, 2010).

**Table 1**  
**Partnerships model and main actors partnership broiler in South Sulawesi**

No	Company Partnership	Partnership Model		
		Management Fee	Contract prices	Profit sharing
1	JAPFA Group	–	X	–
2	Charoen Pokphand Group	–	X	–
3	Patriot Group	–	X	–
4	JASS	–	X	–

Source: Research data processed in 2015

**Table 2**  
**Comparison of model contracts broiler farming partnership in South Sulawesi**

No	Description of Partnership	Company Partnership			
		JAPFA Group	Pokphand Group	Patriot Group	JASS
1	Operating costs by breeders	X	X	X	X
2	Affected the market price	X	X	X	–
3	Fee DOC in	–	–	–	–
4	Fee DOC out	–	–	–	–
5	Marker price incentive affected Breeder:				
	a) Performance incentive (IP/IPX)	X	X	X	X
	b) Incentive Death	–	–	–	–
	c) Achievement EEF	–	X	–	–
	d) Incentive FCR	X	X	X	–
	e) Incentive Markets	X	X	X	–
	f) Healthy Broiler Incentive	–	–	–	X
6	Compensation prices sick broilers	–	–	–	X
7	The risk of sick broilers	–	X	X	X
8	Compensation cost of living	–	–	–	–
9	For the period end results	–	–	–	–
10	Risks Sharing:				
	a) Losses incurred Core	–	–	–	X
	b) Losses are borne by farmers	–	–	–	–
	c) Losses are shared	X	X	X	–

Source: Research data processed in 2015

Based on the study results on the three models (presented in more detail in Table 2), the model contract price is the model with the least risks for company partnership, because the risk is borne by the farmers' partners. This is unlike the partnership model that was developed by JASS Corp., where all of the risks are borne by the company. With conditions that are less risky, this allows suboptimal production facilities to be provided, such as Day Old Chicks (DOC), feed and medicine-vaccine-chemical (OVK), along with the quality and service field workers less than the optimal. Many complaints have been made by breeder partners in South Sulawesi, namely about the quality of DOC and feed, as well as service field technical officer lacking the ability to give guidance in cultivation.

Table 2 shows the outline of the three main partnership broiler companies in South Sulawesi, which has a base feed industry; DOC and OVK have characteristic partnership

models, and are almost the same; the difference is the type of incentive given to farmers' partners, although this is basically the same as the main basis of the calculation, just with different names. The real difference is indicated by a partnership with JASS Corp., running a business partnership, and is not based on industrial means of the production of feed, DOC and even OVK who are willing to risk without burdening breeder partners. On the other hand, they do not give incentives to the market; there is an incentive to improve the price of broilers in the market, so the opportunity to get different prices for improved conditions is not possible while the partnership is developed by industrial feed production facilities; DOC and even OVK provide the profit opportunity. It appears that each of the existing models has strengths and weaknesses, which generally still favor the interests of the core company in the base model selection decision (Table 3).

**Table 3**  
**Strengths and weaknesses of the partnership model**

No	Partnership Model	Advantages	Weaknesses
1	<i>Contract Farming (CF):</i>		
	1) JAPFA Group	The cost is borne by the company's core poultry production facilities There is an incentiveso that there is a potential market income higher when market prices improved (above the contract price) Many variations incentives (market incentive, IP, FCR)	Fixed contract, no negotiations Operational costs are borne by farmers Breeders participate bear the risk of loss unless special conditions/mass and not human error Quality poultry production facilities less assured.
	2) Charoen Pokphand Group	The cost is borne by the company's core poultry production facilities Variations many incentives (Incentive IP, FCR, Acf EEF)	Fixed contract, no negotiations Operational costs are borne by farmers Breeders participate bear the risk of loss unless special conditions/mass and not human error Quality poultry production facilities less assured.
	3) Patriot Group	The cost is borne by the company's core poultry production facilities There is an incentive so that there is a potential market income higher when marketprices improved (above the contract price) Variations many incentives (Incentive markets, IP, FCR)	Fixed contract, no negotiations Operational costs are borne by farmers Breeders participate bear the risk of loss unless special conditions/mass and not human error Quality poultry production facilities less assured.
	4) JASS	The cost is borne by the company's core poultry production facilities Companies bear the risk of losses breeder	Fixed contract, no negotiations Operational costs are borne by farmers Unable to take advantage of improving market prices (more above of the contract price) Variations relatively less incentive, the incentive is only IP and healthy broiler
2	Management Fee *)	Operating costs given the company's core (eg: USD 500 / Doc in and Rp 300-500 / units harvest) The company's core risk for loss breeder There is an incentive feat (IPX)	Unable to take advantage of improving market prices. Variation less incentive, the incentive only IPX
3	Profit Sharing *)	Operating costs given the company's core (eg: USD 500 / Doc in and Rp 150 / units harvest) The company's core risk for loss breeder There is a 35% incentive achievement of profit	Unable to take advantage of improving market prices. Variation incentive less, only incentive accomplishment

Source: Research data processed in 2015

From the description above, efforts have been made to provide maximum opportunities to earn better profits for the farmers' partners. With standard contractual mechanisms, there is no negotiation; operational costs are borne by farmers, and participating breeders bear the risk of losses unless special conditions/mass and not human error, compounded by the quality of the means of production which is less assured as they have no other alternative because the monopoly of the means of production feed DOC and OVK. Under these conditions, it is not an exaggeration to say there has been breeder exploitation. Incentives promised, even with all of the formulas, seem half-hearted.

The tendency above indicates the effort of the company partnership to seek maximum benefits by choosing alternatives to this model. The company-based industrial means of feed production, DOC and even OVK have already taken advantage with a monopoly of production facilities feed, seed and even OVK so in general, they have a very small chance of losing money, but the fact remains to choose the safest position, so that alignments or goodwill grow together through win-win partnership solutions based on the principles of openness, fairness and mutual benefit far short of expectations.

### **Broiler Model Evaluation Partnership in South Sulawesi**

Partnership models with some variations were developed by broiler partnerships in South Sulawesi; the results have identified several criteria for selecting a model with the following weights (Table 4).

Table 4 shows that the contract price is the most important criterion; if the contract price is good, the potential profits will also be improved, in addition to the quality of the means of production (feed, DOC, and OVK), which is also a matter of no less importance, as it will largely determine production performance. Quality seed and feed largely determine the final performance of maintenance; however, the efforts of farmers to implement good farming inputs, especially if the quality of seed and feed are not good, will produce end results reflecting poor inputs.

Next to partner requirements, incentives offered, compensation risks and equality and openness, as well as the period and time of harvest, are important matters that also have effects and are taken into consideration when choosing a model of partnership. Based on these criteria, the consideration of the weight of each model is analyzed in detail in Table 5.

**Table 4**  
**Selection criteria weight partnership model**

No	Criteria	Score
1	Terms partnership	0.163
2	The quality and quantity poultry production facilities (DOC, feed, and OVK)	0.217
3	Contract price offered	0.259
4	Equality and openness recapitulation of the maintenance contract and the breeder (RHPP)	0.064
5	Period and time of harvest (age and distance between harvests)	0.045
6	Incentive offered	0.118
7	Compensation risk	0.089
8	Responsiveness field officer	0.045

Source: Research data processed in 2015

**Table 5**  
**Weight assessment partnership models**

No	Alternative Partnership Model	Weight	Ranked
<i>Existing Models South Sulawesi</i>			
1	Contract Farming JAPFA Group	0.238	2
2	Contract Farming Pokphand Group	0.172	3
3	Contract Farming Patriot Group	0.121	4
4	Contract Farming JASS	0.062	6
<i>Existing Models outer South Sulawesi</i>			
5	Management Fee	0.263	7
6	Profit sharing	0.090	5
<i>Alternative Model</i>			
7	Contract Farming proposal*	0.054	1

\* = Contract Farming Cooperative based agribusiness

Source: Research data processed in 2015

Table 5 shows that of the four alternative models for contract farming, two models are comparable undeveloped in South Sulawesi, but are growing in other areas along with alternative models. There is a tendency towards alternative models being able to provide the increased income of farmers in agri-business partnership systems in broilers in South Sulawesi, as shown by the highest weight in the model.

#### ***The role of government in developing a partnership model for broiler farmers***

The role of the government through various policies and programs is expected to encourage and create conducive business climate and to stimulate farmers and the private sector so that businesses can thrive. In this case, the government acts as a facilitator, regulator, and motivator, and should match relationships between those involved so that actors can interact proportionally and exploitation will be contradictory.

In accordance with mandate PP. No. 6 in 2013 on the empowerment of breeders, the involvement of central and local government in this partnership is to provide guidance in the implementation of partnerships, treating farmers as an asset that must be maintained and nurtured properly. The empowerment of farmers should be from the government down to the local level, which aims to improve independence, provides convenience and progress of the business and improve the competitiveness and prosperity of farmers.

Increased value added to livestock through business partnerships will be more effective if there is proper support from the government in the form of political will and political action. There are forms of government support for establishing business partnerships in the field of animal husbandry, among other things. First, this is the application of laws and regulations that do not hamper the development of livestock businesses when building business partnerships. Second, the government should be able to develop and improve the infrastructure to develop business partnerships. Third, the government should provide protection for breeders from exploitation in cooperation activities with the industry by checking the financial feasibility and managerial capacity of the industry (the company); this will enable the profitable business to be generated for all parties. Fourth, the government should help in the development of an integrated information system that combines information on each part involved in the supply chain system. Government support is expected at the top for business partnerships in the field of livestock to be effective, as well as to increase the added value; ultimately, these can also improve the competitiveness of farm products. In addition, livestock development can create multiple targets, namely to create growth and equitable

distribution of income at the same time (growth with equity) (Daryanto, 2009).

As stipulated in Government Regulation No. 6 in 2013 on the Empowerment of Farmers, the government has been fortified by providing a clear legal umbrella for the empowerment of farmers; this ranges from access to sources of finance, science, information technology, to servicing the farm, health services, technical assistance, the development of partnerships, the creation of a favorable climate and the protection of livestock prices.

Implementation of these regulations in the field needs to escort and direct movement; in order for that to be effective, the mechanism to implement these regulations needs to be compiled and made clear. Every farm business must be known by the local Animal Husbandry Department as a representative government; escorts and coaching will prevent exploitation of the indication of the breeder/plasma.

Government policies that have been made should be a guideline for businesses in the field of animal husbandry. Against this, breeding companies that break the rules must be dealt with firmly by the proposed revocation of business licenses by the local mayor, according to the Decree of the Minister of Agriculture No. 404/Kpts/OT.210/6/2002 on Guidelines for Licensing and Registration of Livestock enterprises. However, the problems that have occurred between farmers and entrepreneurs need ways to be settled amicably, without entering into the realm of law; the government can facilitate the mediation or reconciliation for the troubled, so that the world of farming in Indonesia can continue to grow and provide benefits without breaking rules and regulations, being detrimental to either party.

## **Conclusions**

Based on the description that has been presented in the previous section, it can be summarized as follows:

From the number of partnership models recommended in the existing regulations, only one main model of partnership has been developed in broiler farms in South Sulawesi; this is a partnership based on the contract price/contract growth with every variation of the contract. This depends on actors who develop business partnerships that are essentially in contrast to the partnership model mandated by the government, namely the creation of partnerships that have a win-win solution, the sharing of resources and the sharing of risks based on the principle of mutual needs, mutual strengthening and mutual benefit, to create a system of partnerships that serve and improve the welfare of society and breeder members of the partnership (breeder partners) through guidance and empowerment.

The results of the evaluation of several variations of the contract farming model developed in South Sulawesi and several other models developed out of South Sulawesi, as well as the study of alternative models, suggest that it is necessary to reconstruct a model of partnership developed, which is reinforced with evaluation of alternative models for the development of broiler agribusiness partnership in South Sulawesi.

The role of the government in empowering farms in broiler partnership systems in South Sulawesi is encouraging and creates conducive business climate; also, it is stimulating the development of broiler farms in South Sulawesi but is not functioning optimally. The role of local government as a facilitator, regulator, and motivator has been matching actors so that they can interact proportionally and the exploitation is contradictory. The government, especially animal husbandry departments, „do not know“ and „do not want to know“ about the development of partnerships and company partnerships, so there is no obligation to provide periodic reports to the agency or agencies. Therefore, the government does not have accurate data on the development of business partnerships from time to time as a basic instrument for monitoring development and assessing the contribution of business development to farm breeders.

### Suggestions

To create a partnership model that is ideal for the empowerment of broiler farm in South Sulawesi and able to add value for the actors it needed support from the government in the form:

1. Provides protection to the breeder of the people from exploitation in cooperation activities with the industry, with constant monitoring and evaluation of evolving partnership practices.

2. Abolished the monopoly of the means of production practices carried out by a partnership company either directly or indirectly by encouraging regulations that enable a shift in actors partnership of companies based on livestock feed industry company to a partnership model based on Cooperative Agribusiness Poultry broiler.

3. Optimize the role of government and financial institutions (banks) as an agency that helps finance (credit) to farmers and cooperatives that run the system partnership with the procedures and requirements easy.

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