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**ECONOMIC PERFORMANCE OF CONTRACT BROILER FARMING IN  
MALAYSIA**

**BY**

**RASAK BIN MAJID**

**(95204)**



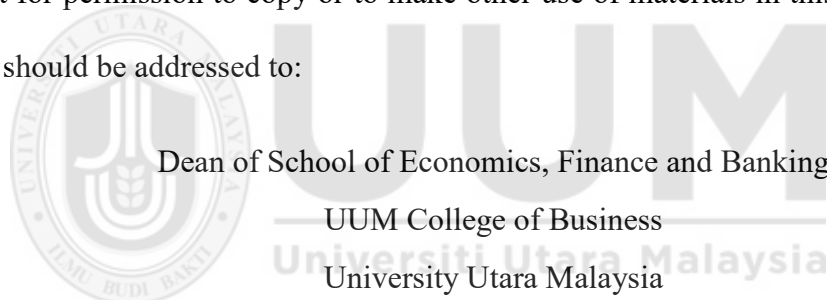
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## ABSTRACT

Integrated broiler contract farming (IBCF) is one of the systems that increase poultry production in Malaysia. Generally, broiler farmers participate in this system to reap some attractive benefits. This study examined the economic performance of the contract broiler farmers (CBFs) and the potential relationship between participation and profit. The survey was conducted in Perak, Johor and Pahang to determine the factors that influence farmers' participation in the IBCF system. The study featured participation as the dependent variable together with independent variables, namely size of farm, the experience of the farmer, age, gross annual income, distance of farm to market center, and capital. The results from logit model indicated that all variables, except age, are statistically significant and have the potential to affect farmers' participation in IBCF. The pooled ordinary least square analysis was used to evaluate the economic performance of the CBFs. Size of farm, feed conversion rate, average body weight, average marketing age, mortality rate, and chicken rearing system are statistically significant and considerably influence the performance of CBF. Also, there is evidence of a positive relationship between participation and profit. Based on these findings, the study suggested that the close house system would be the best option for broiler farming. Thus, the government suggest to provide tax reduction to those who implemented close house system. Besides, it is recommended that the integrators with the cooperation of Department of Veterinary Service or the integrators themselves should provide the technical service to improve participation and the economic performance of the CBFs. This would eventually improve the broiler management and broiler production.

Keywords: Integrated broiler contract farming, contract broiler farmers, economic performance.

## ABSTRAK

Kontrak ayam pedaging bersepadu (IBCF) merupakan satu sistem yang digunakan untuk meningkatkan pengeluaran ayam di Malaysia. Penternak ayam pedaging mendapat banyak manfaat apabila menyertai sistem kontrak ini. Kajian ini dijalankan untuk menyelidik prestasi ekonomi penternak ayam pedaging kontrak dan hubungannya dengan penyertaan dengan penyertaan di dalam system IBCF. Soal selidik telah dijalankan di Perak, Johor dan Pahang. Dalam kajian ini, penyertaan merupakan pemboleh ubah bersandar manakala saiz ladang, pengalaman penternak, umur, pendapatan kasar tahunan, jarak antara ladang ayam dengan tempat pemasaran dan modal pula sebagai pemboleh ubah bebas. Keputusan daripada model logit mendapati bahawa semua pemboleh ubah bebas mempengaruhi penyertaan penternak ke dalam sistem integrasi kontrak ayam kecuali umur, mempengaruhi penyertaan penternak ke dalam system IBCF. Analisis regresi berbilang data terkumpul digunakan untuk menilai tahap prestasi ekonomi penternak ayam pedaging kontrak. Saiz ladang, kadar pertukaran makanan, purata berat badan, purata umur ayam dijual, kadar kematian dan sistem perumahan ayam sebagai adalah signifikan secara statistik mempengaruhi prestasi ekonomi penternak ayam pedaging kontrak. Kajian ini juga membuktikan hubungan positif antara penyertaan penternak dan prestasi ekonomi. Dapatan kajian mencadangkan sistem rumah tertutup merupakan pilihan terbaik kepada penternak ayam pedaging kontrak. Oleh itu, pihak kerajaan dicadangkan untuk memberi penurunan cukai kepada penternak yang menggunakan sistem rumah tertutup ini. Di samping itu, pihak syarikat bersepadu dicadangkan bekerjasama dengan Jabatan Perkhidmatan Veterinar atau pihak syarikat bersepadu disarankan menyediakan perkhidmatan teknikal bagi memperbaiki penyertaan dan prestasi penternak ayam pedaging kontrak. Hal ini akan memperbaiki pengurusan dan pengeluaran ayam pedaging.

Kata kunci: Kontrak ayam pedaging bersepadu, penternak kontrak ayam, prestasi ekonomi.

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## ABBREVIATIONS

ABW	Average Body Weight
AGE	Age of farmers
AMA	Average Market Age
CAP	Capital
CBF	Contract Broiler Farmer
CF	Contract Farming
CHS	Closed House System
DIS	Distance
DOC	Day Old Chick
DU	Dummy
DVS	Department of Veterinary Service
EDU	Education
EXP	Experience
EAS	Extension and Advisory Services
FCR	Feed Conversion Rate
FLFAM	Federation of Livestock Farmers' Associations of Malaysia
GAI	Gross Annual Income
IBCF	Integrated Broiler Contract Farming
IND	Individual Farmers
MOA	Ministry of Agriculture and Agro-Based Industry of Malaysia
MOR	Mortality Rate
MyCC	Malaysia Competition Commission
NAP	National Agro-food Policy
OHS	Open House System
PAR	Participation
PROFIT	Profit from the economic performance
SIZE	Size of Farm

# CHAPTER 1

## INTRODUCTION

### 1.0 INTRODUCTION

Integration Broiler Contract farming (IBCF) system is an integration program between a company which offers the contract which known as the integrators and a contract broiler farmer (CBF). In this program, the arrangement for the production or supply of broiler is established. The contract requires the CBF to raise the chicks in accordance with the terms and references given by the integrators.

For instance, the price of chicken is fixed by the integrator. If the CBFs agree with the terms and references, they are required to sign the letter of agreement or memorandum of understanding (MOU) with the integrators. In the CF, establish an agreement between integrators and CBF to make a commitment to supply broilers, at a particular price level for a certain period (Wainaina, Okello & Nzuma, 2012). For further discussion, this chapter discusses the background of the study, statement of the problem, the justification for the study and objectives.

### 1.1 BACKGROUND OF THE STUDY

Generally, the impressive progress in the poultry sector and particularly in this broiler business is because of the improvement of the technology inbreeding, disease control, feeds and increase investment in the private sector in the livestock industry, especially in the IBCF system. Poultry farming is singularly the most important livestock industry in Malaysia. The production of chicken probably increased because of poultry meat has

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**APPENDIX**  
**QUESTIONNAIRE**

1 Gender

- Male  
 Female

2. Age of respondent

- Below 30 years  
 31 – 40 years  
 41 – 50 years  
 Above 50 years

3. Marital status

- Single  
 Married  
 Divorced  
 Widowed

4. Education level of respondent

- No education  
 Primary school  
 Secondary school  
 Diploma/Degree/Postgraduate

5. Years of farming experience

- <5 years  
 5 – 10 years  
 > 10 years

6. Why do you participate in CF

- In sufficient capital  
 Marketing problem  
 Less risk

7. Why do you think about CF?

- Generate good income  
 Less risky

8. State where doing the farming

- |                          |        |
|--------------------------|--------|
| <input type="checkbox"/> | Johor  |
| <input type="checkbox"/> | Pahang |
| <input type="checkbox"/> | Perak  |

9. What is your main occupation?

- |                          |                 |
|--------------------------|-----------------|
| <input type="checkbox"/> | Broiler farming |
| <input type="checkbox"/> | Non-farming     |

10. What is your another occupation?  
Please specify: \_\_\_\_\_

11. What is your average annual off-income?

- |                          |                     |
|--------------------------|---------------------|
| <input type="checkbox"/> | < RM50,000          |
| <input type="checkbox"/> | RM50,000 – 100,000  |
| <input type="checkbox"/> | RM100,000 – 150,000 |
| <input type="checkbox"/> | > RM150,000         |

12. Number of broiler rear per cycle?

- |                          |                       |
|--------------------------|-----------------------|
| <input type="checkbox"/> | < 10,000 birds        |
| <input type="checkbox"/> | 10,001 – 20,000 birds |
| <input type="checkbox"/> | 20,001 – 30,000 birds |
| <input type="checkbox"/> | 30,001 – 40,000 birds |
| <input type="checkbox"/> | 40,001 – 50,000 birds |
| <input type="checkbox"/> | > 50,000 birds        |

13. Ownership status of farm

- |                          |        |
|--------------------------|--------|
| <input type="checkbox"/> | Own    |
| <input type="checkbox"/> | Rented |

14. What is your source of your capital?

- |                          |   |
|--------------------------|---|
| <input type="checkbox"/> | Sales of property                                   |
| <input type="checkbox"/> | Personal saving or from other business              |
| <input type="checkbox"/> | Loan from friends/family/relatives                  |
| <input type="checkbox"/> | Loan from integrators                               |
| <input type="checkbox"/> | Loan from commercial bank/insurance                 |
| <input type="checkbox"/> | Loan from government initiative financing programme |

15. Size of capital when start the business? \_\_\_\_\_

16. Type of chicken house?

- Close house system
- Open house system

17. Why do you choose this house system?

- Economic
- Disease prevention
- Performance more better
- Base on capital on hand

18. What do you think about contract farming?

- Remain as CF system.
- Will extend farming and rear more chicken.
- Not confidence in CF and change to other business or to other job.

19. Distance from market centre or processing plant

- < 20 Km
- 21 – 40 Km
- 41 – 60 Km
- 61 – 80 Km
- > 80 Km

## B.EVALUATION OF ECONOMIC PERFORMANCE

20.

	PROFIT	Size of farm (number of birds)	FCR	Mortality rate (%)	Average Market Age (days)	Average market weight (kg)
Cycle 1						
Cycle 2						

21. Cost of production

<b>Items</b>	<b>Cycle 1(RM)</b>	<b>Cycle 2(RM)</b>
Feed cost		
DOC		
Medication, Vaccination & Disinfectant		
Utility		
Maintenance		
Transportation		
Manpower		
Housing Depreciation		
Bank Interest based on 7%		

22. Revenue

<b>Revenue</b>	<b>Cycle 1(RM)</b>	<b>Cycle 2(RM)</b>
Sales of broiler		
Sale of Chicken Manure		