



Best Practices of
**CONTRACT
FARMING**
in Malaysia's Chilli Agriculture

Igniting the “fiery” spirit for Agropreneurship

Anyone would agree - Asia is known for turning up the ‘heat’ in its cuisines, and Malaysia is no exception. When it comes to local delicacies, chili is an indispensable commodity in each household and in the manufacturing of food products.

Around the world, pepper consumption in 2018 was the highest in Vietnam (166k tonnes), India (86 tonnes) and the U.S (68 tonnes). This is followed with countries like Malaysia, alongside neighbouring Southeast Asian countries, Bulgaria, Germany, United Arab Emirates and the United Kingdom. The consumption for chili is expected to rise globally, as demands increase over the next seven-year period.

(Sources from: *Global Pepper Markets Analysis, Forecast, Size, Trends and Insights, 2019*)

As the chili market blazes in for the agroindustry, homegrown company GrasiCili takes a unique approach in expanding its contract farming for chili.



GRASICILI THINKS BIG AND BEYOND

GrasiCili

The term ‘Grasi’ directly means ‘giant’ in the Iban language, spoken by the Iban ethnic group in the state of Sarawak – home of GrasiCili’s founder, Munir Ashim Abdullah.

True to the name, GrasiCili champions and **supports collaborative, group entrepreneurship to ensure sustainable business for all.** At the core of its vision, it believes in the **power in numbers** when creating economic and social impact.

“There needs to be a shift in a larger scale at the grassroots, to ensure a robust agroindustry. At GrasiCili, we’ve realised that when we combine contract farming, a good business model, and social enterprise into the equation, we will be able to elevate the community of the nation, especially those in the B40 group. This is how we ensure a sustainable agroindustry, while empowering the people behind it,” says Munir as he explains the idea that led to GrasiCili.

To achieve this objective, the GrasiCili approach requires a **new thinking and model of doing agrobusiness.** It has since elevated the traditional idea of contract farming, whereby it is solely a transactional relationship between the anchor (contractor) and the farmers. However at GrasiCili, **micro farmers from the surrounding B40 community are recruited into the GrasiCili family and transformed into ‘agropreneurs’** with the aim to **increase income and upgrade their skills** in agrobusiness.

This transforms not only the lives of the individual agropreneur, but also their families through generations to come.

Munir was a technopreneur for 18 years and an engineering graduate from the University of Hartford, Connecticut, United States, before diving into agropreneurship.



Transforming B40 micro farmers into agropreneurs

For Munir, the public perception is changing for agrofarming, as more people see it as a lucrative career prospect.

For the older generation especially in B40 communities, they are looking for ways to make a sustainable living from their crops, but lack the know-how and most importantly, businesses connections. Often, they are not up-to-date with industry best practices, marketing skills or the technology of the 21st century. For the youths, what was once seen as the unglamorous 'last option' in education or business is now rising in popularity. However, at a young age, funding or the land to farm on are usually not within reach.

**This is where
GrasiCili bridges
the gap and supports
these future
agropreneurs.**

Munir emphasizes, "But first, participants need to **elevate their mindset that agropreneurship is a professional business and certainly not any less reputable than other industries.** In fact, first-world countries, like the Netherlands and the United States take pride as the leading exporters of agriculture in the world, and this is the level of excellence that we should take inspiration from."

Explaining how the model works, Munir shares that anybody with the enterprising spirit in agriculture is welcome to join as participant. GrasiCili especially **welcomes the B40 communities** and today, the GrasiCili family has **more than 600 participants** in its contract farming program in Sabah, Sarawak, Negeri Sembilan, Melaka, Johor, Selangor, and soon, Pahang.

In an organized system, GrasiCili **trains participants, offers business advice, and provides the facility and resources if needed.** Once the chili is harvested, GrasiCili buys the chillies from the participants at a pre-agreed price. In the long term, once GrasiCili goes for public listing as **GrasiGate Berhad**, these participants would later have the financial capacity to acquire stakes of the company and further invest in



bigger lands to **expand their scale of contract farming** with GrasiCili. This would have a huge impact to the upward social mobility of the B40 community, who would otherwise not have had much opportunity to generate a higher income.

As a company policy, GrasiCili **recruits only Malaysians** for its contract farming social enterprise program, in order to **uplift surrounding communities** and **stimulate Malaysia's economy.** At the same time, some customers also prefer a supplier with local contract farmers. This is to avoid any interruption in the workforce when foreign workers are deported or unable to travel back into Malaysia, in cases such as the recent international travel ban due to the Covid-19 pandemic.

For Munir, this is a **social responsibility of the company** that he firmly stands by. "We have grown exponentially over the years. More projects are coming in our way, and more individuals and collectives are excited to be part of the GrasiCili family. I believe this is because we've always prioritized helping the community, and I look forward to help more people achieve a better quality of life with agropreneurship."



Its worth the sweat: Rewards and advantages of contract farming

For small farmers, taking the leap to start contract farming come with many advantages. Firstly, the nature of the **pre-agreed contract protects agropreneurs from loss of profit in the future**. This means that if the open market price goes down – due to cases such as oversupply – this would not impact the take-home income from the chillies sold.

At GrasiCili, this arrangement has worked largely because the **extra profits from whenever the market price is high, are strategically funneled into the participants' collective funds**. Thus in seasons of low market price, these funds will later be paid out to the participants to match the **pre-agreed sale price**. This modern business model is agreed by participants and **minimizes risks of failing**.

Second, **agropreneurs would receive training, business advice and full support by GrasiCili**. As importantly, the cost of contract farming also becomes less when it is done collectively with shared facilities and resources.

“We have grown exponentially over the years. More projects are coming in our way, and more individuals and collectives are excited to be part of the GrasiCili family. I believe this is because we’ve always prioritized helping the community, and I look forward to help more people achieve a better quality of life with agropreneurship.”

To illustrate, Pak Ali, an individual farmer, has 100 chili trees in his back yard. After calculating the cost of the seeds, irrigation, fertilizer, and general upkeep, his chili costs RM7 per kilogram. He markets and sells his chili to suppliers in an open market. On the other hand, the chili can cost only RM3 per kilogram in group contract farming, whereby the land is bigger and machinery is used for more efficiency. To add, the sale price and sales are guaranteed by the anchor company.



Hence, not only is Pak Ali's business cost is more expensive, but he is also exposed to the risk of negative profit margin or zero sales when the open market price crashes.

From the perspective of an anchor company, contract farming allows GrasiCili to have the guaranteed volume of the chili supply from agropreneurs. This would then meet the need of restaurant and factory chains, and wholesalers that need a consistent supply of as much as 100 tonnes per week. Domestically, GrasiCili has supplied high quality chili to high-profile customers from Nestlé to Lingam, to be manufactured into products such as chili sauce.

GROUP CONTRACT FARMING



Summarizing the reality of contract supply, Munir shares, “For our customers, what matters is not who we are, but how much we can provide. Having an extensive network of contract farmers and acres of land allow us to meet their large-scale supply needs, at an attractive cost. At the same time, the consistent sale in volume provides a lucrative business for the GrasiCili family and provides livelihood for the surrounding community.”

Planting seeds of the future: Starting contract farming

For those who are interested to embark on the contract farming journey, **capital (however small) and willingness are necessary.** However, Munir cautions that there are two main misperceptions of contract farming, in that: 1) it requires a huge capital, and 2) it is a complicated business.

Commenting on this, Munir shares his advice, "Actually, a **huge capital is not always necessary.** But what you need to think of is the **profit margin.** It doesn't make much business sense to fork out RM5,000 with a profit margin of 5% per year. On the other hand, if the initial paid-up capital is RM50k, a 35% profit margin per year would benefit your business. **Always look at the return per year, and not the capital.**"

Best practices and learning from COVID-19 challenges

Even though the domestic agroindustry is not as badly impacted as other industries that rely on imported goods, **some farmers may be uncertain of what lies ahead in a world post-pandemic.**

For Malaysia's agroindustry at large, Munir urges farmers **not to sit and wait for the pandemic to be over.** "As agropreneurs, this is where your business sense should be exercised. Think of your business strategy in the worst-case scenario, but also realize that the agriculture business is a necessity – people eat every day. So be realistic, **notice opportunities and plan next steps with the new normal in mind.**"

At the same time, the pandemic has **accelerated the adoption of technology across all industries** to ensure productivity levels are met, when workforce is limited. It has encouraged people to **benefit from efficient use of mobile systems and devices**, and agrobusiness is not an exception.

Secondly, the business is not as complicated as one might think. Munir emphasizes that at GrasiCili, the **right guidance, training and facilities are provided.** As for GrasiCili, it is **flexible in helping** different categories of self-starters in many ways, **from financing support to managing the farm** – depending on the individual's needs and capabilities.

If the individual is not able to manage the farm, GrasiCili is able to **manage the farm and harvest, through an investment model.** It also collaborates with education and government institutions to train youths in long-term agropreneurship programs.



For Munir, this provides an **opportunity for farmers to explore new technologies** such as automation, smart machinery, cloud computing, and mobile management of farming facilities. This modernization is key especially for large-scale farms that must **ensure precision farming to harvest the yield required.**

Finally, agropreneurs must be **adaptable to the market needs.** Agropreneurs supply produce to fulfill market demand, and not just because they can. Beyond being an average farmer, a **mindset shift as agropreneurs will sharpen one's business sense** and acumen within the industry. This is true for GrasiCili, who will soon launch GrasiHalia, a ginger supplier sister company to fulfill rising market demands.

Advantages of Contract farming for the Rising Agropreneur



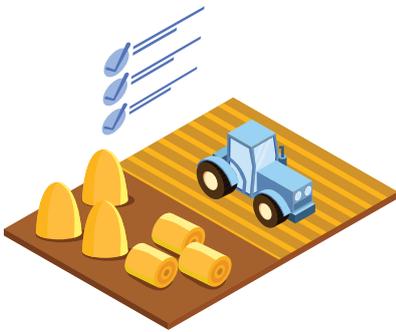
Protected from profit loss

Sale price upon weigh-in is fixed as per contract - not more, not less. This protects agropreneurs from losing profit due to decline in open market price.



Lower cost of business

There is strength in numbers. When agropreneurs work in groups or clusters, it lowers the operating costs of the farm because resources and facilities are shared.



Sustainable business

To meet the supply needs of large-scale customers, the anchor (the company that gives out the contract) thus requires volume yield from agropreneurs. Customers need a constant supply, leading to a long-term business relationship between agropreneurs and the anchor.

