

Executive Summary

In Thailand Contract Farming initiated in 1970, the government encouraged shrimp feeding farmers and Transform companies to successfully join in 1977 that effected shrimp product as an important export. The good impact of shrimp contract farming was useful for companies to market plan, calculate investment costs and supply sufficient shrimp continuously .It was also good for shrimp feeding farmers to ensure of having markets with proper price guarantee that help them relaxing from fear of less profits if the price turn down. Moreover, contract farming will be beneficial for Banks loans of investment. But there are some problems occurred that interrupt the progress that convey us to study on “The Strengthening of Shrimp Feeding Cooperative Networks in Contract Farming” aimed as follows:

1. The important characteristics of Shrimp Feeding Cooperatives both structure, management, roles and supporting members through Coop goals.
2. Factors effecting the strength of Shrimp Feeding Coop Network towards contract farming both internal and external markets.
3. The feasibility study of taking Shrimp Feeding Contract Farming to register in asset markets of future agricultural markets of Thailand.
4. The feasibility study on contract farming in Agricultural Future Trading of Thailand.

Our study has done for 1 year since October 1, 2007 to November 30, 2008 . The research methodology comprised of survey research, focus group discussion, seminar, the population were the committees and members from 6 Plains of Shrimp Feeding Coops and also related companies. The findings were that Shrimp prices have been continuously decreasing since 1998 and more in 2004 The shrimp farmers protested the government for solving shrimp problems with the Shrimp Pawn Projects in 2004 and 2005. Then, the government agreed with shrimp farmers’ proposal in making contract farming with refrigeration industries which gave them productive loans and return in form of products including the amount of loan and interest. The established

shrimp cooperatives are responsible for managing the shrimp production ; i.e. producing, managing process, transporting and marketing. The price of shrimp purchase must be fixed rate. These conclusions allowed related governmental agencies to support the contract procedure, especially in 3 coordinating agencies; SME Bank can authorize loans for Shrimp Feeding Coops in amount of 15-25 million baht, BAAC (Bank for Agriculture and Agricultural Cooperatives) and Saving Bank authorize loans for Coops' members. Thus, 6 Shrimp Coops established between 2005-2007 namely,

1. Tha-Jin Plain Shrimp Feeding Coop, in October 20, 2005
2. Tha-Thong Plain Shrimp Feeding Coop, in February 3, 2006
3. Chanthaburi Plain Shrimp Feeding Coop, in February 2, 2006
4. Bang –Pakong Plain Shrimp Feeding Coop, in October 4, 2006
5. Pang-Panang Plain Shrimp Feeding Farmers Coop, in February 23, 2007
6. Samroi-yod-Pranbury Plain Shrimp Farmers Coop, in March 6, 2007

SME Bank firstly approved loans to Tha-Jin Plain Shrimp Feeding Coop for investing in their shrimp plan and the latter for other Plain Coops. In 2006, Tha-Jin Plain, Tha-Thong Plain and Chanthaburi Plain Shrimp Feeding Coops jointly made the contract farming with Union Frozen Products Company Limited. The company bought shrimps in the sizes of 35 – 120 shrimps per kilogram for 170-155 baht per kilogram. But only Tha-Thong Plain Shrimp Feeding Coop got through the whole process of contract. We found conflicts occurred as follow.

◆ Tha-Jin Plain Shrimp Feeding Coop committees had conflicts on selecting shrimp food sale agents, shrimp delivery and shrimp food distribution without checking. The chairman of Coop committee and the manager got high salary, allowance, miscellaneous expense, only 18 from the 333 Coop members had ability to deliver shrimps to the company as contracted, 52 members were in debts with the Coop amount of 18,089,037 baht and the Coop could not pay back SME Bank loans in amount of 13,374,640 baht.

◆ Tha-Thong Plain Shrimp Feeding Coop. There were conflicts between Coop Committee and member. Members viewed that the established Coop was just for benefits of the committee more than of members even the committees also obtained

higher income. Only 33 from the total 126 members had ability to deliver shrimps as scheduled and 5 members highly earned 55,649,708.01 baht or 58.42 % of the expected income.

◆ Chanthaburi Plain Shrimp Feeding Coop. The Coop committees had conflicts of interests after succeeding in demonstrated shrimp ponds and more seriously until they wanted to change the existing committee.

In 2007, the network of 6 Shrimp Feeding Coops jointly contracted with Rubicon Group Company and changed fixed rates to market rates, only Tha-Thong Plain Coop was able to deliver shrimps as contracted for a period but finally gave up the contract because of some difficulties. Then, Coops could not receive the loans from SME Bank that caused Bang –Pakong, Pang-Panang and Samroi-yod-Pranbury Plain Shrimp Farmers Coops did not make any contract farming. The Coops Network changed to set up the Shrimp Feeding Coops Club of Thailand (the Coops Club) in order to have the right to get the government loan maximum at 70-80 million baht, they spited the right loan for each Coop at 10 million baht and the rest of 10 million baht for the Coops Club which interest 6 % per year and the government will support not more than 3%.

In the aspect of Coop structure, roles and members' support. It found that the presidents of Coops had maximized authority both executive and management, other positions such as vice president, manager, treasurer, secretary only functioned their job description. In any case of problem and policy occurred the Coops presidents made decision as centralization. The sampling members viewed Coops less succeeded in Coops' objectives. At present , none of Coops did contract farming with refrigeration companies. On the contrary Coops conversed into distribute loans for members in terms of productive factors and members returned by products including fee and interest. These situations made Coops having high expenditure until lose much money in the last 2 years that Coop Network had totally lose money 2,787,902.09 baht; mostly

Tha-Jin Plain Shrimp Feeding Coop lose 1,752,886.78 baht, the latter was Bang –Pakong Plain Shrimp Feeding Coop lose 740,421.99 baht, Samroi-yod-Pranbury Plain Shrimp Farmers Coop lose 690,031.11 baht, Chanthaburi Plain Shrimp Feeding Coop lose 308,492.68 baht, except Tha-Thong Plain Shrimp Feeding Coop had profits at 704,421.99

baht. Thus Coops may solve there problems by filling more Coops' shares up to 100,000 baht in order to repeal get the governmental loan as a rule.

In conclusion, the factors that effected Coops' management , roles and members' support are as follow.

1. Coops Structure. The management of Coop is centralized by the Coops presidents as the chief of executive officers. Other positions in Coops such as vice president, Coops committee, manager, treasurer, staff, all of them must listen the Coops presidents' decision in any case.

2. Roles and members' support. Members viewed that Coops paid less attention at members' problems which in accordance with the objectives of Coops caused by

- ◆ The model of established Coops. Coops were set up for obtaining the legal status that allow them to access the government supports which served the needs of Coop founders more than members' needs or problems as Coop goals.

- ◆ The Coops Network aimed to seek for members' income more than building members' income'

- ◆ Coops members. Members were strategically induced to be Coops' members for getting helps more than developing Coops for mutual aid as Coop principles.

3. Factors effected the strengthening of Coops Network classified into 3 steps which included action planning for strengthening of Coops Network as following.

1. *The Planning Step.* The Coops Network had collected into "Cluster" which circularly involved all shrimp business from the beginning to the end with commonality and complementarily. The vertical linkage covered the business of Coops Network at the beginning of shrimp feeding through the end of delivering to the related companies. The horizontal linkage covered the related governmental organizations, public financial agencies that encouraged Coops Network of shrimp feeding effectively.

2. *Implementing Plan Steps.* Coops Network did not follow the Coop rules and regulations as follow.

◆ *Coops management.* Coops failed in managing according to Coop principles in members' participation democratically which is the most important of Coop value.

◆ *Coops did not perform as written rules and method in the contract farming* such as coordinating with related government agencies, selecting members to join the projects, managing products, selling shrimp species and food, shrimp quality control, delivering shrimp to industries. There were no risk management of shrimp prices.

◆ *Coops did not follow bank conditions and paying debt.*

◆ *Coops' expenses were very high while no clear action plan for revenue.*

3. *Monitoring Action Plan Steps.* Coops did not review work to do after getting Bank loans but making new projects for the other loans that effected on the strengthening of Coops Network in various senses.

Members. Coops' members are the heart of Coops should be appreciated but Coops committees neglected. Members were induced to participate only in action without clearly answering suspected questions. They lacked of opportunity to join in planning processes that harmed them afterward.

Goals. Coops Network had no clearly goals, objectives and process. They even had short term goals which varied from changing situations and only Coops committees made decision not members. If previous problems difficult to solve they created another goal that cumulated Coops' problems.

Consciousness. Coops management did not encourage public consciousness but stimulated people's benefits instead.

Participation and Exchange. Coops had no learning processes which barred the utilization of members' participation and exchanging ideas and experience for problem-solving or innovation.

Relationship and communication system. Coops committees ignored building relationship and communication with Coops' members. So they lacked of related information for developing their occupations and wisdom.

The results from focus group discussion of the Shrimp Feeding Coops Network (Tha-Jin and Pak-Panang), they agreed with the above 5 factors for strengthening the Coops Network. The other Coops who did not attend focus group discussion, they viewed themselves as also a member that could convey the results to those members.

4. Setting up the Club of Shrimp Feeding Coops in November 2008 which caused the change of Coops management into 2 groups;

◆ The first group, they want to make contract farming with refrigeration industries; i.e. Tha-Jin Plain Shrimp Feeding Coop, Tha-Thong Plain Shrimp Feeding Coop, Pang-Panang Plain Shrimp Farmers Coop.

◆ The second group, they don't want to make contract farming but they aimed to export shrimp to external markets in Japan; i.e. Chanthaburi Plain Shrimp Feeding Coop, Bang -Pakong Shrimp Feeding Coop and Samroi-yod-Pranbury Plain Shrimp Farmers Coop. They disliked making contracts through the Coops Club.

5. The Feasibility of Contract Farming in Internal Markets. It was available with refrigeration industries more than in department stores, restaurants and food shop because they ordered less amount of shrimp in each day or week and high cost of delivery, complicated purchasing procedures, and payment in 14-21 days which was too long. In refrigeration industries were more relaxing because they purchased the whole shrimp in the ponds as contracted, classified sizes of shrimp if not standard they will sell at private markets. The industries will pay money within 5-14 days.

6. The Feasibility of Registration Contract Farming in Future Markets of Thailand. Refrigeration industries disagreed with future markets because it seems not real purchase and having risks in supplying shrimp. Shrimp farmers agreed with future markets because they learned the future price of shrimp that motivate them for shrimp feeding. But the executive of future market worried about the daily stable shrimp price which not existing. They suggested the related governmental agencies should launch out daily standard shrimp price in order to risk guarantee for every part in the shrimp business.

Recommendations for strengthening Shrimp feeding Coops are that as shrimp feeding has been rapidly changed from natural ways to developed technological ways with high investment. It is necessary for shrimp farmers to collect groups as Coop members or Networks in order to enhancing their bargaining power and prevent risks from shrimp feeding process.

In conclusion, the recommendations for strengthening the networks of Shrimp Feeding Coops can be classified into 3 categories;

1. Recommendation for the Coop Promotion Department towards guidelines for solving the problems of Coop structure, Coop roles and members.

1.1 The development of Coop – People: the Coop Promotion Department should take the mentor roles to give advices to develop Coop members or their representatives, Coop committees , Coop auditors, Coop management to develop their capacity and readiness to effective functioning, especially in knowledge, attitude and skills in management, marketing, Shrimp Feeding Quality technique, learning shrimp business and productivity and promoting learning organization between Shrimp Feeding Coops.

1.2 The Development of Qualitative Coops: the Coop management should be focussed on the good governance principle; i.e., legitimacy, merit, transparency, participation, responsibility and economy for developing management process and Coop organizing effectively.

1.3 The development of Coop & Network Coops Structure: Coop rules and regulations must be improved and decentralized of Coop committees in order to reduce risk management of Coop failure. The two – way communication between Coop and members should be encouraged for real networking.

1.4 The development of Supportive System: new concepts for developing Coop consciousness must be created and promoted for quality Coop; such as, shared values, good governance management, volunteered mind and self-reliance.

2. Recommendations towards Contract Farming for Internal Markets in the Future. As shrimp feeding is so highly varied, one way for helping shrimp feeding farmers reduce risks is to do contract farming with refrigerator industries and to immunize

both Coop members and industries; i.e. members have certain shrimp markets and industries can make proper shrimp plan marketing and control expenses. Factors in making contract farming must consider annual average shrimp prices rather than the varied of shrimp prices in a period of time. The success of contract farming depend the honesty of both Coops and industries which have trends of success more than department store, restaurants, and seafood shops according to the reasons of 1) purchasing quantities 2) frequency of purchasing 3) provisions in shrimp delivering 4) payment time.

So, the recommendations are as following.

1) Coops should have done survey research and register members who interested in making contract farming in order to calculate the quantities of shrimp products for refrigerator industries.

2) Coops should inform members contract farming details for members-participation and guarantee varied shrimp prices in the future.

3) Coops should give opportunity to members who want to join in contract farming and deliver their shrimp products to refrigerator industries.

4) Coops should reduce the fee of making contract farming for reducing there expenses.

3. Recommendations towards Contract Farming for External Markets in the Future. In bringing Shrimp products into AFET, the government must recognize if the Big private industries monopolized the shrimp price provision, it may be unfair for Coops or shrimp farmers which industries could not supply enough shrimps for the market, then the government get burdens for premium price. So, the guidelines for prevention are as follows.

1) Initiating the fair shrimp purchase.

2) The executive of AFET must participate in the Shrimp management review for initiating Market of Alternative Investment (MAI) for farmers who can't reach the market standard of the Stock Exchange of Thailand.

3) The MAI must have freedom in promoting important agricultural products.

4) Bringing agricultural products into the commodity system must be transparency and legitimacy.

5) The government organization must certify Central organization for serving customers' needs be setting up for shrimp price provision which have no conditions. It should approve shrimp as a special goods which seller or buyers, inbound or outbound countries have freedom to determine the proper price, due date, quantity, size, increasing special standard through brokers in order to sell or buy for registered members.

6) Qualification of members must be in shrimp industries or shrimp feeding organization or farmers.

7) The provision of purchasing , if there is no one interest in certain time will return to the one who will sell / buy for adjusting the price or giving up. (the one who order it will pay the fee.) If a broker find sellers/ buyers, then making an agreement approved by both sellers/buyers.

8) Sellers/buyers can exchange the contract or sell in AFET as usual and the responsibility fall to the last person who hold the contract and pay the different fee.

9) If the last person can not deliver the shrimp to the buyers must pay the fine at a high rate to the first sellers who are responsible for suppling both quantities and sizes of shrimps according to the written standard.

Therefore in every level of solution, the government must pay an important role of middleman in initiating the basic standard of preventing shrimp problems in order to support Shrimp Feeding

Coops and members. The Coops management supportive system should be more enhanced with the good governance principle, especially in transparency, legitimacy and accountability in order to prevent unrelated persons intervene Coops for their own advantages. The Coop ideology must be encouraged for all Coop members and the Networks of Shrimp Feeding Coops in contract farming both internal and external markets sustain ably.