



Contract Farming Arrangements among Thailand's Smallholder Farmers: Linking Small-Scale Farmers to Strengthen Production and Market Opportunities

Key policy messages

The government can promote contract farming by acting as a coordinating agency between firms and farmers, providing infrastructure, supporting R&D and the transfer of knowledge and technology, and by strengthening the capacity building of farmer groups.



The government should enhance the ability of local officers to provide background information about production, market demand and prices, making it publicly available for all parties in contract farming (CF).

Local extension officers can act as intermediaries to coordinate farmers and buyers to provide information that farmers need to know in respect of CF, to disseminate production information to companies, to organise meetings for discussions, negotiations, contract signing, dispute resolution, and for monitoring the contract.

The government should support the crop insurance programme for risk-sharing in cases of natural disasters or pests.

Firms should establish close and long-term relationships with integrated supply chain actors to achieve stable markets. Importantly, firms should provide technical advice about proper farm management and be responsive in quickly resolving farmers' problems.

Introduction

Most Thai farmers are small-scale and have limited capability to meet the stringent food safety standards required for modern trade and export markets. Contract farming (CF) is one of the mechanisms that can assist small-scale farmers to access the modern supply chain market and help to stabilise their income (Sriboonchitta and Wiboonpoongse 2008). However, in some cases, either farmers or companies fail to meet their obligations. Understanding best practices under different contract arrangements, and the factors that contribute to success, provides insights for policymakers in regulating and promoting CF. Cases of rice, asparagus, and Hom-Thong banana were selected for study, as these crops are usually produced by smallholders.



The Key Findings

From the interviews with small-scale farmers, the major benefits of CF for them revolved around access to reliable markets: CF can particularly help to integrate small-scale farmers within modern supply chains and provide opportunities to reach wider destinations, including the modern trade and export markets.

Farmers can access modern machinery and technology, and absorb new production techniques from the extension services provided by buyers. These benefits can lead to improved productivity and quality of products that meet the standards required by buyers.

Farmers can receive guaranteed and fixed prices all year round, which are on average higher than the market price: this provides them with a stable income. CF can substantially raise the farmer's income in respect of asparagus and Hom-Thong banana. In some cases, farmers can access credit from buyers.

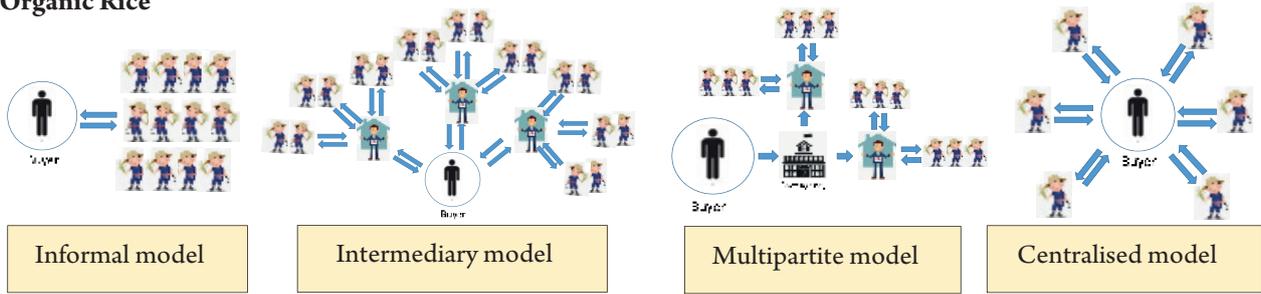
Furthermore, in the case of organic rice, social capital in the community is strengthened through activities supported by the contractors, for instance, in composting, and the establishment of saving funds. Some strong groups can build up their capacity to process/pack produce.

It is observed that the multipartite model is more suitable at the initial stage of CF, as companies (exporters/processors) collaborate with government agencies to work with farmers. The government plays a crucial role in coordinating and providing technical knowledge in production and farm management. The intermediary contract arrangements model, conducted through cooperatives or farmer groups, is needed for collecting the products of small-scale farmers with marginal land, particularly for vegetables and fruits.

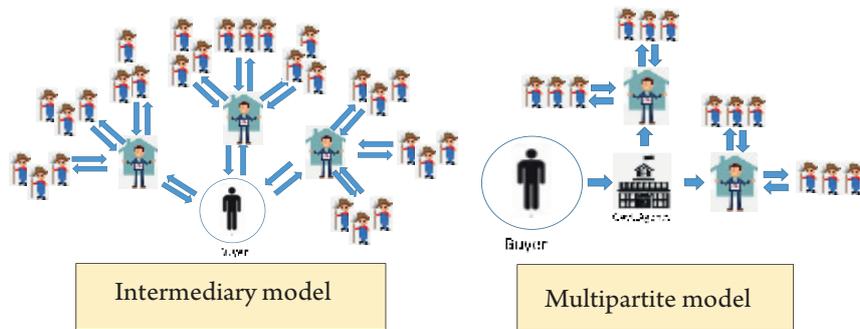


Figure 1: Contract farming model classified by products

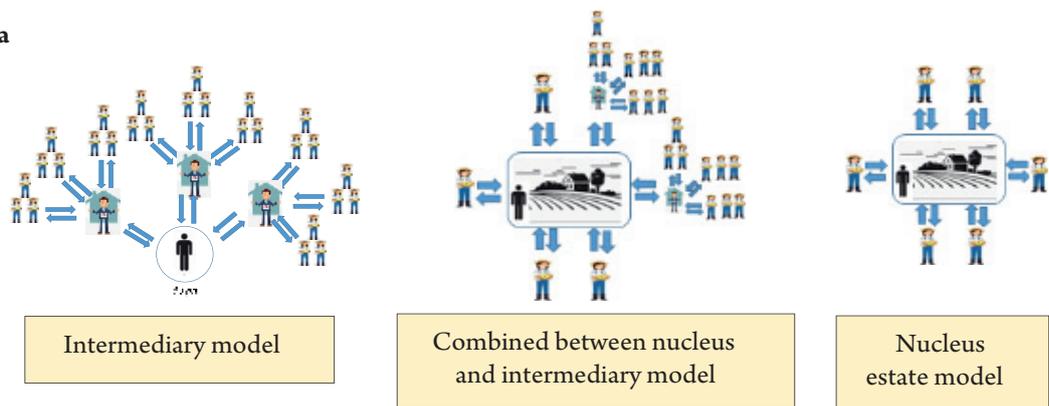
Organic Rice



Asparagus



Hom Thong Banana



← Increasing risk of inconsistent supply

Source: Modified from Margret Will in Contract Farming Handbook, GIZ p.17

Cooperatives are relatively more beneficial to smallholder farmers than other types of CF models in terms of prompt cash payment. Also, the cooperatives provide credits for production, as well as assisting in cases of natural disasters, diseases and pest infestations.

Nonetheless, that model is less beneficial to smallholders in providing technical assistance, because the cooperatives have limited access to extension staff who have expertise in production. Meanwhile, the centralised and nucleus estate models are more beneficial to smallholder farmers than other models for improving the quality of products, thanks to a relatively higher degree of production control.



Factors determining the success of CF include:

1. A stable and diversified market for all grades of the product
2. Suitable locations for production
3. Coordination among the integrated supply chain partners
4. Buyers' willingness and commitment to enhance farmers' capability to improve yield or production quality and to strengthen communities to improve livelihoods
5. Farmers' willingness and commitment to produce high-quality products
6. Technical expertise and the availability of extension staff for effective production and harvest planning, close monitoring and responsiveness to quickly resolve problems
7. The honesty of firms and farmers
8. Transparency in the production and buying system, standards and price setting
9. Government support as a coordinator and in providing technical knowledge about production, in addition to cooperation with the private sector in research and development
10. Well-established and functional smallholder groups or organisations/cooperatives.

Relatively less successful cases were selected involving farmers who had dropped out of CF. Major reasons for this included low profits from low yields at the initial stage of CF, drought or diseases, or having a limited irrigation system or labour for intensive production. Other factors included late cash payments or delayed harvesting services for farmers.

Policy Implications

1. The government can play a key role in providing infrastructure, supporting R&D, and transferring knowledge and technology. Training in technological and managerial skills, as well as guidance in production and harvesting techniques, should be provided, along with a package of services such as credit, transfer of technology, machinery provision and extension services.

2. The government should promote the establishment or strengthening of farmers' organisations.
3. The government should enhance the ability of local officers to provide background information about production, market demand and prices, and make it publicly available to all parties in CF. Local extension officers could act as intermediaries to coordinate the activities of farmers and buyers - providing guidance that farmers need to support CF implementation, and to disseminate production information of use to companies. They should also organise meetings for discussions, negotiations, contract signing and dispute resolution, and for monitoring the contract.
4. The government should support the crop insurance programme for risk-sharing in cases of natural disasters or pest infestation.

References

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