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COOPERATIVES IN THAILAND – PROBLEMS, PROPOSALS, AND POTENTIALS

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Cooperatives in Thailand are organized on a number of different levels and through several different agencies. While some individual cooperatives have longstanding records of excellent service, other cooperatives have equally poor records of achievement and thus provide a basis for neverending criticism of Thai cooperative efforts in general. Since 1978, efforts by the National Economic and Social Development Board (NESDB) and the Cooperative Promotions Department (CPD) have been underway to reorganize the structure and operation of all types of Thai cooperatives in order to improve the efficiency of the system. As of this writing (November 1980), the fate of this reorganization is very difficult to predict. A comprehensive plan for reorganization has been prepared by NESDB but adoption and implementation of the plan have become bogged down in political maneuvering.

This paper resulted from a four week (August 1980) exposure to cooperative efforts aimed at assisting Thai farmers. The major Thai institution visited was the Cooperative Promotions Department (CPD) of the Ministry of Agriculture. Because of the time constraint and the existence of some cooperatives outside the aegis of the CPD, this paper is not intended as an exhaustive review of Thai cooperative efforts. Rather, it attempts to provide an overview of the types of problems which exist in the Thai cooperative effort and to assess the potential for institutional reform as a means of alleviating problem areas.

S. E. Asian Historical Perspective

The term "cooperative" (or "cooperative society") covers many types of group activities which have been in existence, in one form or another, for many centuries. Cooperative primary societies, unions (national and international) and associations all have something in common. While many cooperatives deal in the buying and/or selling of some physical commodity, others deal in nonphysical goods (credit, insurance, etc.) and/or political ideologies. Similarly, some cooperatives are single-purpose oriented while others aim at providing a range of assistance measures.

A common characteristic of most S.E. Asian LDCs is the high proportion of the population engaged in agriculture. Agriculture frequently accounts for 60 to 80 percent of all employment and provides 40 to 50 percent of Gross Domestic Product. In spite of its prominence in the domestic economy, the agricultural sector has traditionally been passed over as a focal point in development strategies. This practice, over many years, led to relatively stagnant rural sectors with population pressures on land, many small and often fragmented holdings, low levels of technology and low per-acre yields. The credit system frequently aggravates the situation. Farmers typically must borrow money for subsistence between harvests and perhaps for social (ceremonial) occasions as well. If they wish to improve yields through use of purchased inputs (e.g., seed, fertilizer, insecticide) and/or technology (e.g., mechanization, irrigation), this adds to their credit needs. Provision of credit to farmers has traditionally been via the local money lender at high interest rates. Once a farmer becomes indebted to a private lender, he may find his indebtedness permanent.

The crucial role of credit in improving the farmers' lot led to early cooperative efforts at credit provision. Models from Western Europe were adopted for this purpose in several S.E. Asian countries early in the twentieth century. Initial efforts were aimed at assisting farmers in times of natural calamity via short-to-medium term loans. Governments frequently took an active position in encouraging and institutionalizing cooperative credit societies and in extending the scope of credit provision both to short-term, nondisaster loans and to long-term improvement loans. However, the cooperatives tended to remain single-purpose credit cooperatives organized at the village level. The growth of these cooperatives was slow and the proportion of total farmer credit needs provided by the cooperatives remained quite small.

Since World War II, cooperatives in S.E. Asian countries have tended to take a more active role in assisting farmers. Two factors are of note in this regard. First, cooperatives have expanded their activities to include marketing services and provision of input supplies. There

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have also been efforts at cooperative development projects, sometimes partially government subsidized. The second factor is the explicit recognition by LDC governments and by international development agencies of the effects farm-level development can have on national economies. Agricultural cooperatives are increasingly looked upon as tools for assisting in the development process. This increased interest in cooperatives has led to renewed efforts at extending services to a larger number of farmers and to further institutionalize administrative procedures. Unfortunately, these efforts have had only limited success in most countries. Cooperative membership continues to grow slowly and many upper-level bureaucracies are unwieldly and largely unresponsive to farmer needs.

Institutional cooperative efforts have been underway in Thailand for more than 60 years. These efforts have progressed in ways similar to the general description above — i.e.: the growth of cooperatives has been slow, single-purpose credit cooperatives have been predominant, the proportion of total farmer needs served by cooperatives is small, and mismanagement and administrative reorganization have been common. However, it should be noted that while growth has been slow, it has been fairly stable. Services other than credit are now being provided and the administration has been rationalized to some extent. Informal working-together on village projects has long been the norm in the Thai countryside. Expanding this informal cooperation to a formal institutionalized system required for dealing in money and on a larger scale has been slow due to government bureaucracy and peasant indifference to government efforts, rather than to an unwillingness of the part of farmers to help each other.

Structure of Thai Cooperative Efforts

There are six types of formal cooperatives operating in Thailand: agricultural, fishery, land settlement, consumer's, services, and thrift and credit cooperatives. There are several government or quasi-government institutions charged with assisting one or more of these types. Numerically, agricultural cooperatives dominate the cooperative effort, and the major government institution offering direct assistance to agricultural cooperatives is the Cooperative Promotions Department (CPD). Data relevant to agricultural cooperatives are presented in Table 1. The total number of households served by agricultural cooperatives more than doubled during the seven-year period. However, in many areas the proportion of total farmer households served by agricultural cooperatives remains small. A recent survey of three provinces (Chachoen Sao, Suphan Buri and Ayutthaya) in which cooperatives have been relatively successful indicated that less than 16 percent of the farmers have access to cooperative service, with an additional 24 percent of the population having access to credit services through Farmers' Associations and the Bank for Agriculture and Agricultural Cooperatives [1]. Access to cooperative-type credit services is much below this level in other areas, and especially so in more remote regions of the country.

Cooperatives serve a rather small portion of total farmer credit needs. A 1971 survey by the Ministry of Agriculture and Cooperatives revealed that 80 percent of farm credit emanated from noninstitutional sources — mainly private moneylenders and merchants [1]. Little information is available on these private lenders, except that the interest rates they charge tend to be quite high. The seemingly permanent position occupied by private money-lenders is probably due to their close contact with the community. Farmers who are unable to meet the formal requirements for institutional credit may be able to borrow from a local private source that is in a position to oversee his investment closely.

Over the period 1963-73, two institutions — commercial banks and the Government Saving Bank — accounted for more than 90 percent of household savings and provided more than 80 percent of outstanding credit (countrywide estimates). Cooperative institutions (savings cooperatives, agricultural cooperatives, and the Bank for Agriculture and Agricultural Cooperatives) accounted for less than four percent of household savings and seven percent of credit outstanding over the same time period. These figures probably underestimate the importance of cooperatives in the rural sector, since the urban sector is more money oriented. In terms of institutional growth, the number of active cooperatives grew by more than 20 percent per annum from 1963 to 1973.

Problems of Institutionalized Credit Sources

The structural relationship between agricultural cooperatives and the government is depicted in Figure 1. An understanding of the relationship outlined leads to an appreciation of some of the administrative problems of cooperative-assisting institutions. Thai government literature typically describes cooperative structure as being vertically organized at the district level (individual cooperative societies), the provincial level and the national level (Apex organizations). However, as indicated in Figure 1, the Cooperative League of Thailand (CLT) has only a coordinating role with respect to cooperatives. The CPD has direct control over its own offices at all levels and these CPD offices have supervisory control over cooperatives. This arrangement results in very little coordination and no direct chain of command between district, provincial and national level cooperatives. Cooperatives at different levels

Table 1. Thai Agricultural Cooperatives*

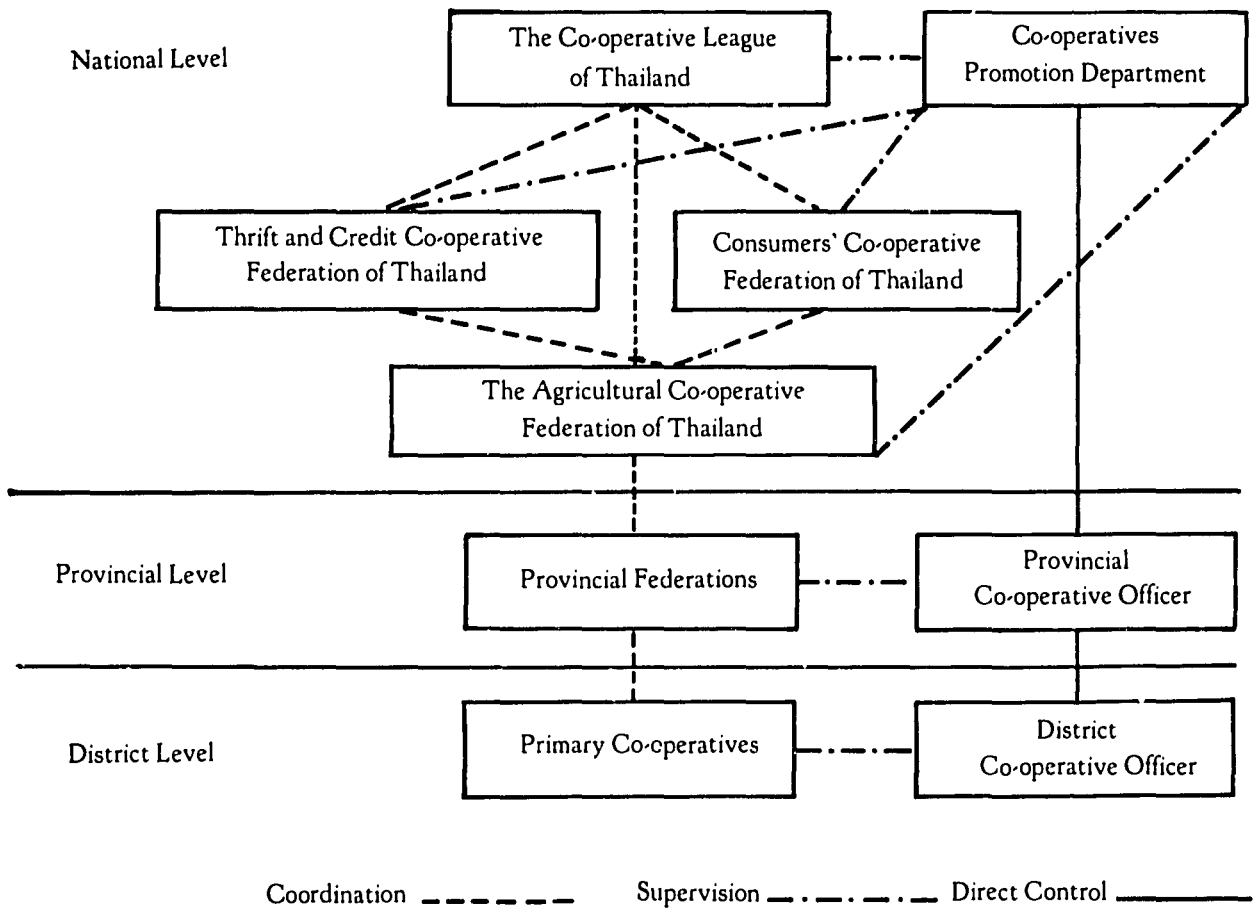
Year	Number**	Households Served By: General Cooperatives	Non-CPD Cooperatives	Animal Raising Cooperatives	Special Forms	Total***
1973	771	319,048	5,509	...	1,496	324,043
1974	620	325,150	4,491	...	2,235	331,996
1975	555	351,101	6,384	...	3,630	363,115
1976	602	446,000	11,807	...	4,314	464,121
1977	664	465,849	14,504	...	6,455	486,808
1978	815	600,919	23,537	22,596	3,184	650,236
1979	823	623,515	24,080	22,796	3,103	685,494

*Source: *Cooperatives in Thailand, Cooperative Promotions Department, Ministry of Agriculture and Cooperatives, Royal Thai Government, Bangkok (1979).*

**The decrease in number of cooperatives in 1974 and 1975 was due to a government-sponsored amalgamation program.*

***It is recognized that the rows of this table do not always sum to the totals listed. The table was taken directly from the source indicated.*

Figure 1. Structural Relationship Between Co-operative Movement and Government



*Source: **Cooperatives in Thailand**, Cooperative Promotions Department, Ministry of Agriculture and Agricultural Cooperatives, Royal Thai Government (Bangkok, 1979).*

deal with each other only through the CPD Because the CLT has no direct control over any other organization, it is reduced to a public relations role.

The original goal of the CPD was to extend cooperative services to farmers by helping to form cooperatives and by training and supervising cooperative management personnel. However, a lack of qualified cooperative managers has resulted in many cooperatives being managed not by their own staff but by CPD staff. The CPD has been unable to refuse this role because such action would mean a reduction in the number of cooperatives while the CPD is charged with increasing their number.

Similarly the role and the operating procedures of the CPD puts the organization at a disadvantage in attempting to compete with private lenders. As the CPD attempts to increase the number of cooperatives in the country, high levels of financial accountability are frequently compromised. Poorly qualified management results in financial losses at administrative levels, and a lack of appreciation by many Thai farmers of the role of cooperatives and the responsbilities of borrowers results in low loan repayment rates.

Cooperatives can secure funds (for member loans) from several sources, the major ones of which are the CPD and the Bank for Agriculture and Agricultural Cooperatives (BAAC). The BAAC makes loans either to formal cooperatives supervised by the CPD or to "farmer groups" supervised by BAAC personnel. The BAAC maintains high standards for loan applicants and thus has a relatively good repayment rate. This tends to siphon off a large percentage of the low-risk loan applicants leaving the CPD in a position of attempting to increase cooperative services to higher-risk clientele.

The political and cultural situation in Thailand prevents government institutions from taking a hard line in loan default cases. Often a farmer has a doubtful title — or no title at all — to his land. This, plus the generally low level of investment on Thai farms, means that a farmer usually has little collateral for loan security. When a loan is not repaid and when it appears that extension of the repayment period is pointless, lending institutions — especially *government* lending institutions — are faced with a no-win situation. If the farmer's land is confiscated, the effects will be to create another landless peasant and to alienate the farmer and his neighbors from government authority. In a land in which peasant recognition of the national identity and authority is low to start with, such actions are avoided when possible. However, lack of government enforcement of loan repayment reinforces the peasant view of all government programs as handouts.

To summarize, the position of the CPD — which is the major government institution working directly with farmer cooperatives — is certainly not an enviable one. The CPD must strive to increase the number of cooperatives serving the farmers, but must do so with inadequate enforcement methods, a limited supply of trained cooperative managers, and a clientele of small, non-money-oriented farmers, many of whom are poor credit risks. Improving this situation will require a combination of altered operating procedures, reformulated goals for cooperative efforts, and new ways of working through the private sector to achieve some goals presently sought via cooperatives. A brief review of current reorganization plans follows.

Reorganization of the Thai Cooperative System

The National Economic and Social Development Board (NESDB) of the Royal Thai Government has prepared a document entitled *A Five-Year Comprehensive Plan for the Development of Agricultural Cooperatives.* This plan envisages a complete restructuring of cooperative efforts in Thailand, including both the government institutions involved and individual cooperatives. Implementation of the plan was initiated on a trial basis in one province in 1979. However, full implementation will require that new legislation be passed by the Thai parliament and this process has become highly politicized. Thus, the extent to which the plan will be accepted as official policy remains to be decided. An exhaustive review of the plan is beyond the scope of this paper, but several key proposals — and some significant omissions — merit note.

In broad terms, the reorganization plan aims to make cooperatives largely self supporting and, at the ame time, to extend the role of cooperatives in servicing the agricultural sector. A large proportion of *all* short-term inputs (fertilizer, insecticide, etc.), credit, and marketing services are to be provided through cooperatives. This is to be accomplished by making cooperative services available to all farmers in the Kingdom, including those who do not choose to become members of cooperatives and those who have no title to their land. The high volume of business predicted will not only allow greater efficiency through economies of scale but will also allow the government, working through the cooperative apex organizations, to become more heavily involved in import and export of agriculturally related materials. Cooperative financial independence is to be gained via salary inducements and a training program for cooperative managers which will spur efficiency at all levels. Increased auditing activities will provide strict accountability and reduce losses to graft and other unethical procedures. Combined with the new cooperative system will be a reorganization of extension efforts which will work solely through cooperatives.

The reorganization plan represents a grand view of a system in which everything works as it should. However, while there are a number of specific proposals in the plan

which are laudable and long overdue (such as better training and higher salaries for cooperative managers), there are some very basic problems which are not addressed at all. The major one of these problems is that of determining to what extent can cooperatives be successful in the Thai agricultural sector. As an example, the proposition that a large proportion of all Thai farmers should do business through cooperatives *and* that these cooperatives should be financially independent is not very realistic. Relative to provision of credit — a major concern of Thai cooperatives — a large percentage of Thai farmers simply are not good credit risks: they do not place agreements with government agencies in the same category as agreements with local merchants; they are unaccustomed to bureaucratic contracts; they have little physical collateral for loans; etc. Noninstitutional lenders have been successful because of their direct stake in accountability and their close and traditional relationship to the farmers involved. To develop a similar feeling of responsibility and proximity between farmers and cooperatives would require substantial subsidies to the cooperatives over many years. While better trained cooperative managers and more effective auditing procedures are a step in the right direction, such measures do not constitute a strong link between the financial fortunes of the lender (i.e. the government) and the borrower, nor do they address the problem of recouping bad debts.

One means proposed by the plan to enable cooperatives to extend their services and to assist in debt collection involves provision (by cooperatives) of transport facilities. When a farmer buys fertilizer from a private merchant, he can get it delivered to the farm. Similarly, many loans are repayable in produce and private lenders collect the produce from the farm. A common criticism of cooperatives is that many of them do not own trucks and thus are at a disadvantage in both these areas. The reorganization plan proposes that cooperatives should offer such services. Two points should be made here: (1) the private sector already has a supply of trucks — supplying a large number of cooperatives with similar trucks would be expensive and redundant; and (2) private merchants probably have more uses for their trucks than cooperatives would have and thus should be able to provide transport services more efficiently.

Under the reorganized system, a large portion of all purchased inputs and outputs will move through the cooperative system. The plan proposes that cooperatives will thus be the logical means for implementing government policies relative to input subsidies and output price-fixing. There are several questionable aspects of this proposition. Most agricultural inputs and outputs are presently moved through the private sector. Attempts to transfer these functions to the cooperative system will meet with much opposition from the private sector, and if such attempts are successful, they will be costly in terms of both time and efficient allocation of national resources. During the transition period (which will likely extend over many years), government policy will have to be implemented in ways aimed at both the present system and the developing new cooperative system. Another questionable aspect involves the risk inherent in the plan. It is quite easy to imagine circumstances under which the new cooperative system would be somewhat less than highly successful. If the new cooperative system requires substantial subsidies over a long period of time, the government will find itself locked into the system, since both government policy implementation and extension services are to be tied closely to cooperatives. The cooperative system will be transferred from a method (one among many) to help farmers help themselves into a integral part of government function which cannot be easily altered or abandoned. Substantial reorganization of the present cooperative framework is a major task. Changing a cooperative system which is interwoven with government function might well prove impossible.

As suggested by the above discussion, consideration of the goals and expectations of cooperative efforts should be investigated before large-scale and expensive reorganization is attempted. Possible alternative methods for assisting the agricultural sector are considered below.

Possible Alternative Directions for Assisting Agriculture

Data reflecting cooperative growth and performance over the past few years suggests that cooperative efforts in Thailand have been relatively successful overall. Over the nine-year period, 1968-76, the number of cooperative members increased by 81 percent while working capital increased by more than 400 percent (Table 2). Volume of lending, purchasing and marketing services performed by cooperatives increased by 270 percent, 5800 percent, and 168 percent respectively. Aggregate cooperative profits grew from 13.19 million Baht to 54.64 million Baht with no aggregate losses in any years. There are some types of cooperatives that do not share the record of aggregate cooperative activity. The major type cooperative which has significant problems is cooperative rice mills. At both Amphur and Provincial levels, cooperative rice mills tend to operate at low capacity and financial losses are common [2]. However, this suggests that reorganization efforts should be aimed at specific problem areas and not at the system as a whole.

In terms of the goals of cooperative efforts in Thailand, a clear choice seems apparent: government policy to extend cooperative services to all farmers can be continued with continuing problems of debt collection and accountability, or the policy can be changed to one of promoting efficiency and accountability while limiting cooperative services to

Table 2. Aggregative Data on Business Operations of Agricultural Cooperatives
(Unit: Million Baht)

Year	No. of Societies	No. of Members	Working Capital	Funds of their own (1)	Current Funds (2)	Volume of Business			Income	Expenses	Net (Loss) Profit
						Lending	Purchasing	Marketing			
1968	10,099	256,886	584.49	191.93	70.41	399.98	0.05	159.32	63.62	28.64	13.19
1969	8,464	226,338	616.78	209.25	186.50	469.82	0.57	135.84	67.67	32.77	15.29
1970	1,910	226,526	684.55	254.55	288.45	521.84	4.05	142.68	73.25	33.01	20.12
1971	963	306,978	827.82	302.47	316.04	628.87	12.28	135.02	68.25	32.33	18.25
1972	747	299,305	1,062.33	381.77	376.96	805.58	63.41	150.19	155.63	124.20	28.16
1973	768	337,863	1,047.87	396.11	375.51	801.81	27.25	112.79	160.92	122.90	39.29
1974	621	331,962	1,351.47	506.98	446.71	954.54	83.53	238.82	351.69	290.88	62.26
1975	575	363,115	1,804.05	691.51	450.53	1,092.66	168.16	181.05	244.42	202.52	51.83
1976	588	465,502	2,863.12	684.99	490.05	1,480.28	294.24	427.23	859.22	743.68	54.64

Source: A Five-Year Comprehensive Plan for the Development of Agricultural Cooperatives, National Economics and Social Development Board, Royal Thai Government (Bangkok, 1979).

(1) Includes paid-up share capital, reserves, undistributed profits and accumulated funds.

(2) Funds loaned to Cooperative, especially by BAAC and Cooperative Promotion Department.

reliable customers. It is unrealistic to attempt to enroll a high percentage of all farmers in cooperatives and, at the same time, to expect these cooperatives to be financially independent.

From a national planning perspective, the desirable role of cooperatives in Thailand should be assessed. There is no reason to think that cooperatives (or any other specific business form) should be the single most efficient method of providing farmers with a wide range of services. Cooperatives can be quite valuable in some types of activities but other organizational forms may be more efficient performers of other activities. The record of cooperative rice mills suggests that cooperatives may not be well suited to perform this particular service.

If it is felt that the farmer does not receive a fair price for his rice as a result of excessive middleman profits, direct government action would probably be more efficient in remedying the situation. Government purchasing offices could be established in a relatively small number of key locations. If the government price were widely disseminated, this price would constitute the floor price in the vicinity of the government purchasing office. The price at more distant locations would differ from the government price by the cost of transport to the government purchasing office. The private sector could probably provide such transport services more efficiently than can cooperatives, for reasons noted earlier. A government policy of rice price supports or export activities could be effected through the government purchasing offices. An analogous proposal can be formulated with respect to input supplies.

The private sector could also be utilized to extend credit to farmers. The government could make funds available to established private lenders at specified rates with the stipulation that these funds be loaned to farmers (perhaps to specific categories of farmers) at a higher (specified) rate. The difference in the interest rates paid and received by the private lenders would provide them with a profit. The private lender would handle all aspects of loan application, loan approval, debt collection, etc., and would be accountable for repaying borrowed funds to the government. Such a system would make use of the proven capabilities of both the government and private sectors. The government can be quite effective in monitoring and controlling the operations of established private financial institutions while private lenders can and do operate successful lending operations for farmers.

The NESDB cooperative reorganization plan proposes to make extension services more effective by combining such activities with cooperative functions. A major problem of agricultural extension in Thailand is the lack of coordination among experiment stations. Because an effective extension service requires close cooperation between extension agents and experiment stations, efforts to improve extension should center on reorganization of the experiment stations. All experiment stations should be placed under a single authority and extension services should be made a part of that sytem. To divorce extension from experiment stations by placing extension under the aegis of cooperatives seems counterproductive.

Summary and Conclusions

Institutional efforts to assist Thai farmers through promotion of cooperative societies began more than 60 years ago. Though these efforts are often referred to as a "movement," in fact they have represented attempts by government to impose cooperative business forms on the agricultural sector from above. Government frustration with the slow growth of cooperatives can be seen in the frequent reorganizations of government activities related to cooperatives, the most recent of which is presently underway. Reorganizations have typically set ever-higher goals for cooperative efforts and have involved increasing amounts of government involvement. The current reorganization plan proposes to make a wide range of cooperative services available to all farmers in the Kingdom (including tenant farmers), and to implement government input and output policies and extension services almost exclusively through cooperatives.

The evidence suggests that such strong reliance on one particular organizational form — i.e. cooperatives — is unnecessary, risky and inefficient. Cooperatives should be promoted and supported in those areas in which they perform the task at hand efficiently. Membership in cooperatives should be limited to those farmers who provide reliable support for the organization. Other forms of institutional activity — both government and private — should be utilized for assisting farmers in areas in which cooperatives do not function well.

References

[1] Cooperative Promotions Department, *Cooperatives in Thailand*, Ministry of Agriculture and Cooperatives, Royal Thai Government, Bankok (1979).

(2) Subcommittee on Agricultural Cooperatives, *A Five-Year Comprehensive Plan for the Development of Agricultural Cooperatives*, National Economic and Social Development Board, Royal Thai Government, Bankok (1979).