

Transitional Stage Towards Structural Reforms of Agricultural Cooperatives in Thailand

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Abstract

The objective of this study is to clarify the ongoing structural reforms of agricultural cooperatives. Having passed through the chaotic state of farmers' cooperation during the 1980s, nowadays, the state-led cooperative movement has reached to a final phase transitional to the creation of new cooperative system. The initiative to build effective delivery systems taken by the BAAC (Bank for Agriculture and Agricultural Cooperatives) gives a great impetus to the direction of the cooperative movement. The principles and procedures which AMCs (Agricultural Marketing Cooperatives for BAAC's Clients) embrace are distinguished from the traditional ideals of the cooperative movement. The bank's frustration with existing approaches to the reform of cooperatives has led to more direct involvement in the establishment of new types of cooperatives. On the other hand, a political inducement urges the rapid expansion of some specific types of cooperatives, such as growers' and water users' cooperatives. The existing policy for these two approaches seems a well-grounded measure, if it is supposed that the general type remains in a critical situation in terms of business operation. However, credit and supply businesses have developed in parallel, accompanied by a sharp increase in members' deposits. It is assumed that top-down approaches will damage the modest development of multi-purpose cooperatives. The state-led movement for "aided self-help" has failed to enhance members' loyalty and faith; therefore, de-regulation and de-politicization have to be achieved in a process of structural reform.

Key words: structural reform, BAAC, AMCs, growers' cooperatives, pessimistic appraisal, failure of marketing business,

Introduction

In many developing countries, problems of agricultural cooperatives are not something new; in fact, the development process of the cooperative movement is filled with bleak examples of failure. The result is a fertile ground for the continuation and extension of government intervention with regard to any cooperative movement. As soon as cooperatives could have become independent in economic terms, the government would have reduced supervision and sponsorship to a minimum level. In Thailand, a transitional period has lasted for no less than two decades since the proclamation of the Cooperative Society Act B.E. 2511 (in 1968).

By passing through several periods of development, at present, Thai state-led cooperatives are bound to evolve into a new era. New adjustment of government policy is

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necessary in keeping with changing economic and political environments. The Seventh National Social Economic Development Plan (in 1992–1996) places a great emphasis on reconstruction of the complicated cooperative system and encourages people's voluntary participation (NESDB, 1992). The plan recognizes the necessity of uniting several different patterns of farmers' institutions, such as cooperatives, agriculturists' groups and client groups of the Bank for Agriculture and Agricultural Cooperative (BAAC), under one powerful agent. It is believed that liberalization enables members to take their own decisions and to steer the direction of self-help activity (ONCHAN, 1993). Much effort has been done to accomplish structural reform of cooperative system since the end of the 1980s, before which time the cooperative movement had remained stagnant.

Considering such circumstances surrounding the cooperative movement in the 1990s, the purpose of the present work which follows is to estimate the current situation of agricultural cooperatives in Thailand. The discussion contains four sections. The first is a brief concerning remarkable changes in membership and organization. The second develops an analytical view of structural reforms of the cooperative system that have taken place since the end of the 1980s. A focal point will be on three types of cooperative which are newly registered from various aspects. This section provides an insight into the current and future course of structural reforms set up politically. The third section is devoted to recent development of cooperative businesses in such areas as credit, supply and marketing. The last section presents an overview of ongoing structural reforms of the cooperative system as regards organization and business operation. The final part of the discussion offers perspective on phasing out from a long-lasting transitional stage. This amounts to an introductory analysis concerning efficiency of multi-purpose cooperatives that are supposed to affect all aspects of members' production and distribution.

Recent Changes in Cooperative Membership

This section focuses on dynamic changes in organization and membership of cooperatives that have occurred during the last two decades. It is possible to divide the period from the 1970s until the present into three development stages, as seen in Fig.1.

In 1968, the Thai government proclaimed the new cooperative act that aimed to develop large-scale area cooperatives with multifarious functions. The new types of cooperatives were designed to cover all aspects of members' productive activities, by taking the place of small-scale credit cooperatives that depended on paternalistic supports by the central authority. Prior to the mid 1970s, agricultural cooperatives had remained in an embryonic stage. A number of small credit cooperatives had not yet amalgamated into a new type, although they had been undergoing a decline. In 1976, the membership of a cooperative was as much as twice the average (380) in 1972.

Cooperatives began to develop slowly, but steadily: the total members increased from 650,000 in 1978 to 810,000 in 1981.

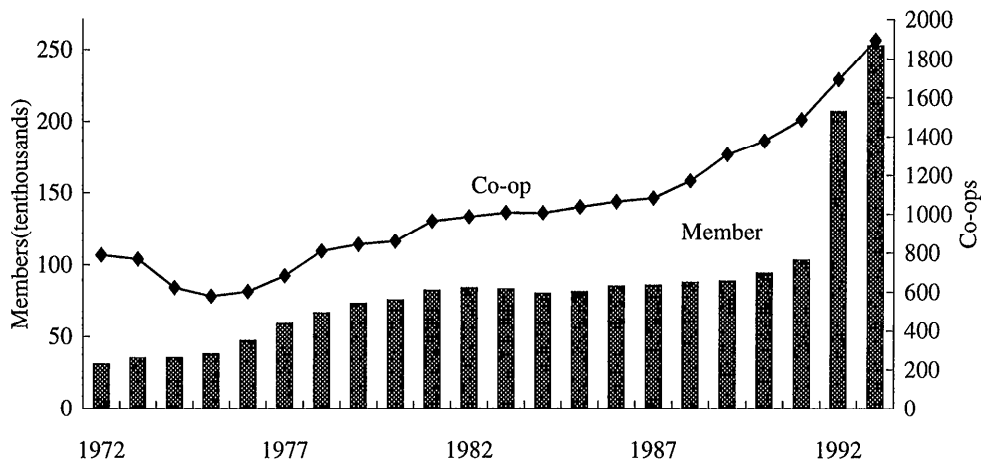


Fig.1 Changes in membership

Several years in the mid 1980s were a stagnant situation as regards membership. While cooperatives increased slowly in number, members fell to less than 800 thousand in 1985. The average of membership per cooperative decreased after 1980. It fell to 664 members on average in 1989, which was nearly the same as had occurred in 1975.

In 1988, agricultural cooperatives showed a rapid increase in membership and organization, turning into a new era of expansion. Cooperatives newly registered amounted to more than five hundreds during the recent five years; particularly from 1991 to 1992, the number sharply rose. On the other hand, cooperatives continued to get smaller in average of membership until 1990. Then in 1991, abruptly, 150 thousand new members joined the cooperative movement. Moreover, the number of new members in 1992 was 1.04 millions, remarkable as exceeding the increase during the previous two decades. As a result, cooperatives after 1992 consisted of 2.5 million farmers, accounting for 49 per cent of all farmers. The cooperative movement has increased its roles in the agricultural sector in economic and political terms. Cooperative economic activities have greater potential to improve farmers' situations and to steer the agrarian-based economy as a whole.

Fig.1 shows that external forces have so far exerted a strong influence on the organization and membership of agricultural cooperatives. In the mid 1980s, a series of promotion policies for cooperatives earned them an unenviable reputation, fluctuating severely between advantageous and disadvantageous aspects. Incentives to the growth of cooperatives came through the efforts of government, less through people's motivation. The government's changeable attitude towards cooperatives was one substantial

factor that alternatively led to growth or stagnation. The rapid growth in membership before and after 1990 was attributed to the BAAC's generous effort to create agricultural marketing cooperatives for its clients (AMCs). The size of membership per cooperative was twice as large as before. Agricultural cooperatives would have developed more slowly without the bank's new policy.

It seems that motivation for self-reliant activity has not sufficiently come from members. Agricultural cooperatives always suffer from a considerable number of withdrawals, ranging between 38,000 and 50,000 (except for 1993). A difference between new members and withdrawals was balanced at least until the end of the 1980s. (See Table 1). Therefore, the withdrawing of members has been a determinant factor to make cooperatives fall into stagnation. Cooperators are less likely to respect the basic value of cooperatives, more likely to stick to the motivation of individual benefit that cooperative businesses will bring. Many cooperatives may find themselves faced with the cooperators' materialistic approaches. In addition, in 1993, those members who withdrew from cooperative membership amounted to 217 thousand. It is assumed that a considerable part of these members moved to the membership of AMCs.

Table 1. Increase and decrease in membership

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Increase	48,506	70,726	61,408	61,259	43,333	90,658	144,743	1,088,886	675,301
Decrease	37,405	37,298	51,176	38,776	38,912	39,780	45,015	48,890	217,263
Balance	11,101	33,423	10,232	22,519	4,421	50,878	99,728	1,039,996	458,038
Growth Rate%	4.7%	4.2%	1.2%	2.7%	0.5%	5.9%	10.9%	102.2%	22.6%

Source: CAD (1993)

It is generally understood that a reduction of government intervention is an important element to make cooperatives grow more competitive and independent (Hans-H MÜNKNER, 1992). In Thailand, development plans for cooperatives stress the importance of members' voluntary participation: however, policymakers and bureaucrats have still persisted in the smooth growth of state-led movement.

The figures of Table 2 may indicate that a state-led cooperative movement has proceeded in two directions. The first is to set up particular types of cooperative with small-scale membership. In 1994, water users' cooperatives increased in number, but the number of members per cooperative averaged only 146. Cooperatives established within land reform areas, too, were constituted with a meager scale of membership, thus suffering from the inefficiency of business operation. These two types are classified into the category of "area cooperatives" that involve multifarious facilities such as credit, supply, marketing and services, as do the general type of cooperatives. Government encourages farmers to join into cooperative membership to implement particular projects effectively; membership is not open to anybody, but open only to those farmers

participating in projects or living in a defined narrow locality.¹⁾ Some growers' cooperatives are grouped into such categories.

Table 2. Number of cooperatives, shown by types

	1993			1994		
	No. of Co-ops	No. of Members	Members per Co-op	No. of Co-ops	No. of Members	Members per Co-op
General	1,116	1,072,334	961	1,197	1,136,064	949
Water Users	409	59,151	145	487	71,004	146
Dairy	57	13,135	230	61	16,572	272
Swine	60	36,076	601	67	41,410	618
BAAC's Clients	63	1,532,646	24,328	65	1,978,407	30,437
Land Reform Area	92	39,382	428	99	43,901	443
Total	1,797	2,752,724	1,532	1,976	3,287,358	1,664

The calcification of the CPD is different from that of the CAD.

On the other hand, AMC extends its activity over the area of a province, membership being open to client farmers of the bank. The most notable feature of AMC is that membership is very large, consisting of 30,437 members on average (as of 1993). This cooperative is regulated by the bank's administrative organs that are constituted with provincial branches and district offices (CLT, 1994). The concept and framework of AMC are obviously distinct from conventional types of cooperatives.

The development of agricultural cooperatives has passed through three stages even since the mid 1980s: stagnation, modest and rapid growth. Nowadays, the complicated and diversified system of farmers' cooperation on a formal basis, which was structured after the mid 1970s, is being rearranged or dissolved. The BAAC is trying to replace the scheme of credit in kind with the economic activities of AMCs.

In 1990 just when the bank began to encroach upon the cooperative movement, the AMCs organized 18.0 per cent of all farming households into their membership. In 1993, those farmers participating in any type of cooperative was 52.5 per cent; this ratio further increased by 62.7 per cent in 1994.²⁾ The rapid expansion of AMCs was an 83.4 per cent increase in members from 1993 to 1994. The general type of cooperative increased very slowly; in some regions, this type decreased more than ten thousand members a year until 1994.

Such dynamic changes in organization and membership can predict the new phase of the cooperative movement, even though the Cooperative Societies Act B.E. 2511 has not yet amended.

Different Approaches of Farmers' Cooperation with Special Objectives

Structural Reform Undertaken by the BAAC

Since the outset of the 1980s, the BAAC had increasingly provided clients with both credits and farm materials through its own nationwide networks of branches and field offices. However, at the outset of the 1990s, the bank had to cease the operation of credit in kind that was regarded as non-financial, profit-making activity.³⁾ This was influenced directly by liberalization and relaxation of the Thai economy, which would have a great impact on the framework of agricultural cooperatives currently prevailing. The provision of direct loans and credit in kind was a major obstacle to the growth of cooperatives' business. Little success was achieved to enlarge horizontal and vertical networks by agricultural cooperatives. They found it hard to secure working capital and to procure farm materials on individual bases. They could hardly compete with the BAAC's financial networks.

The BAAC's credit in kind entirely exceeded the supply business of cooperatives. The bank's headquarters functioned to have a plan for the supply of materials and to make a contract with manufacturers and agencies that were eligible to deliver commodities with good quality and at fair prices (SIAMWALLA, 1991). To reduce operating costs, the bank avoided keeping large inventories. The supply of farm materials was considered a guided-loan activity, aimed at carefully watching clients to use for proper purposes. This scheme had double profiles in the aspect of business operation. The BAAC could charge interest on credits and commission on materials, bringing a dual contribution to the bank's management.⁴⁾ Therefore, the operational manner of credit in kind was similar to that of agricultural cooperatives with a combination between credit and supply activities.

The scheme of credit in kind was far superior to the supply business of cooperatives in several aspects. The attitude of client farmers was more positive to the BAAC's administration than those not using this scheme (CHEARAPHAN, 1990). They had almost equal access to the scheme, as long as they could satisfy the financial qualification the bank required. This was very important for those farmers who had less opportunity to gain any advantage of cooperative business. Due to scarce accumulation of capital, cooperatives found a difficulty to expand the scale of supply business, and thus depended on government support in the trading of fertilizers.⁵⁾ They did not succeed in every aspect of members' production.

As with the scheme of credit in kind, nowadays, AMCs have reduced restrictive factors so that farmers will gain meaningful services from their economic activities. Members, in themselves, are the main agents dealing with the AMCs' business. AMC's district offices and branches have responsibility for delivering services on a daily basis, such as taking orders from members and referring them to head office (normally located in the BAAC's provincial branch). As seen in Fig.2, the AMC's system is in-line with the BAAC's administrative organs.

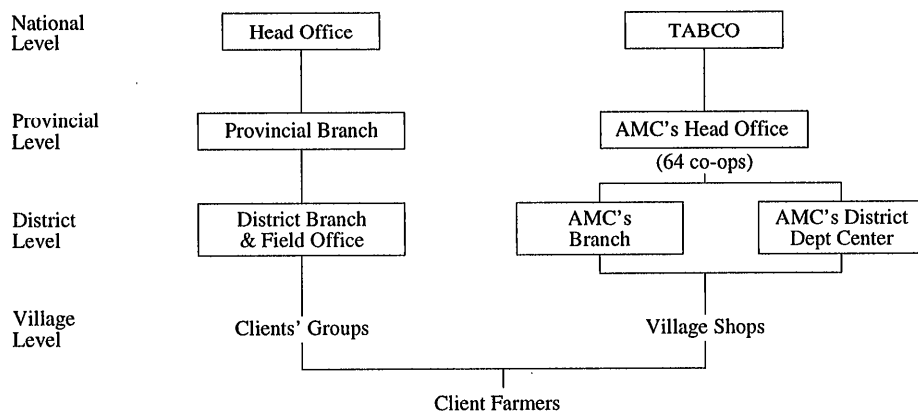


Fig.2 Organizational chart of AMCs

TABCO=Thai Agribusiness Company Limited

AMC =Agricultural Marketing Cooperative for BAAC's Clients

AMC's head office has full-responsibility for centrally controlling the flow of farm materials and inventories, limiting the functions of district offices. They are to keep as little inventory as possible, and to make sure members receive materials soon after they order.⁶⁾ The AMC entrusts a considerable part of its function to the BAAC's district offices. The bank's offices provide credit for the supply of farm materials and to collect members' debt; therefore, the AMC has no role in agricultural credit. The actual operation of business works through a two-tier system that consists of AMCs and the Thai Agribusiness Co. LTD (TABCO). This system seems very cost-effective in delivering services and controlling inventories, as opposed to the three-tier system of cooperatives, in which the Agricultural Cooperatives Federation of Thailand (ACFT) stands on the apex position. Provincial federations of cooperatives are mainly engaged in the rice business and the supply of some farm materials such as fertilizers and chemicals. Many federations have remained unstable or fallen dormant.⁷⁾ National federations have struggled with financial difficulty and failed to expand nationwide networks for supply and marketing businesses, so that they cannot be core institutions in cooperative networks.

It should be noted that the present framework of farmers' cooperatives is rather simpler than that existing before the 1990s. (See Fig.3). This is mainly because the BAAC has made a concerted effort to instruct the bulk of client farmers to participate in the membership of AMCs. They are to join forces with the cooperative movement currently prevailing.

Not unnaturally, the expansion of AMCs becomes a controversial issue in many aspects. The first cooperative, established by the BAAC (Chiang Mai Branch), was registered as a store cooperative for consumers on the ground that its main objective was the supply of productive materials.⁸⁾ The CPD soon decided to group this cooperative into the category of agricultural cooperatives. This decision would lead to the

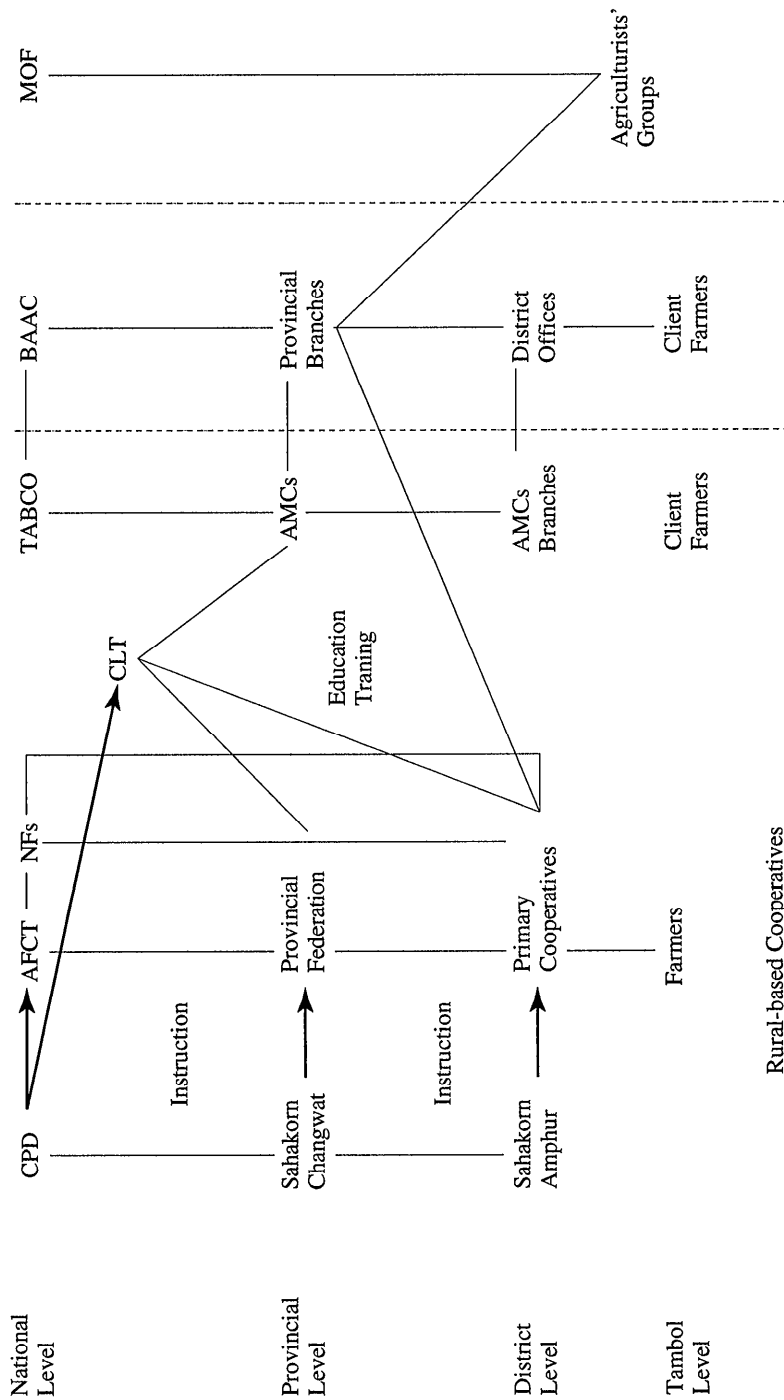


Fig.3 Systems of rural cooperations and administrations after the 1990s

This figure does not include any other departments involved in the promotion of agriculturist's groups. ACFT = Agricultural Cooperatives Federations of Thailand, AMCs = Agricultural Marketing Cooperatives, BAAC = Bank for Agriculture and Agricultural Cooperatives, CLT = Cooperative League of Thailand, CPD = Cooperative Promotion Department, MOF = Marketing Organization of Farmers, TABCO = Thai Agribusiness Company Limited, NFs = National Federations

abolishment of complicated and ineffective systems of farmers' organizations that had been built since the 1970s.

In fact, however, the BAAC's strategic approaches have brought a range of new problems in organizational structure of cooperatives. The cooperative movement is still divided into two sections, conventional cooperatives and AMCs. Despite the fact that all registered cooperatives are under the administrative authority of the CPD, the BAAC controls the AMCs' organization and activities, and creates an exclusive set-up within which the bank stands on the apex position.

The BAAC takes a gloomy view of the future of agricultural cooperatives. This is because the bank has so far struggled with disastrous delays and defaults of debtors (cooperatives and agriculturists' groups). It hesitates to increase sublease funds for cooperative credit activity and working capital for business operation. Any financial link with cooperatives seems risky for the bank, recognizing that setting up a new system is more rational than reforming the existing cooperatives' system. The bank can no longer wait for a long process of slow improvement in agricultural cooperatives (CLT, 1991). The BAAC's approaches result from the realistic evaluation of farmers' voluntary participation and the pessimistic appraisal of cooperative business. The organizational principles of AMCs are not based on social intimacy within a certain defined locality. They are not "area cooperatives," but each is a business body with their economic functions highly centralized to a head office covering the whole area of a province.

The TABCO assumes charge of arranging and delivering farm materials on a nationwide scale through the AMCs' networks. Any business activity is performed by establishing a business link with private manufacturers and trading companies. Sizable transactions with the companies are a declared goal for the AMCs. They have a strong bargaining power. Reduction of operating costs is possible, by entrusting a certain part of AMCs' function to the private companies. This arrangement is more effective than the current system of agricultural cooperatives.

Water Users' Cooperatives

Yet other different types of cooperatives have emerged: water users' cooperatives and growers' cooperatives for several kinds of produce. By definition, they are "area cooperatives" with multifarious economic functions covering all aspects of members' production, but they tend to specialize in particular activities within a restricted area. Government's strong instruction brings the widespread extension of these specific types of cooperatives.

A shortage of water supply prevents the cultivation of paddy and other commercial crops especially during dry season in many areas. Farmers are faced with hardship to coordinate equal access to the water resources available among them. For the extension of irrigation programs on a small-scale basis, government is striving to introduce a cooperative approach to management and investment of water supply. The CPD has made much effort to do this in collaboration with other government agencies. They

have gradually entrusted water supply management to water users' cooperatives. The number of cooperatives is increasing particularly in the Northeast and the North, where there are many project sites for water supply. It rose sharply from 73 in 1998 to 487 in 1994.

Water users' cooperatives have a meager scale of membership, with only 146 members on average. Almost all cooperatives average less than 500 members.⁹⁾ Such cooperatives may be suited to the management of water supply projects within a narrow locality, but they are not suitable for delivering various economic services. Very few cooperatives have permanent staffs and build office facilities.¹⁰⁾ In 1992, the cooperatives conducting any other activities than water supply amounted only to 119, showing 33.4 percent of the total.

A further expansion of water users' cooperatives becomes a matter of controversy, since many of them have little potential to expand business activities to full-capacity. Moreover, people's participation in cooperative movement is divided into plural sections. One may find more rationale that water users' cooperatives will be amalgamated into the general type. In actuality, many members of water users' cooperatives become members of general cooperatives and deal with their business facilities.

On the other side, water users' cooperatives may be useful for a democratic control of water supply in villages and for a reduction of expenses that farmers are charged. The set-up of water distribution differs from region to region, and between irrigated and non-irrigated sites.

To give an instance, there is a water users' cooperative located in the North where a traditional community-based system for water distribution still works. Special tasks are given to elected persons as well as village leaders such as *Phu Yai Baan*. These persons are to maintain an even flow of water stream and to coordinate water distribution fairly among farmers. They call upon farmers for providing work force according to the acreage of field. Moreover, they levy expenses in cash or in kind from the users, which include remuneration for their administrative works. It often happens that a payment given to administrators imposes a heavy burden to farmers. The long-fixed rates for remuneration may be inappropriate. Farmers think that a cooperative approach has an advantage over traditional systems in eliminating unnecessary payment for administrators. The board of directors in a water cooperative, which replaces socially influential persons, is given full responsibility for all activities on a voluntary base. Compensations for members of the board are followed by the payments that a general type of cooperative offers. Farmers disburse only expenses that are properly calculated in terms of cooperative's services, thereby enabling to avoid extra charges for payments to influential persons in the village.¹¹⁾ The establishment of water users' cooperative may be a process of forming democratic control over water supply. In this respect, this type of cooperative will become a model of collective management for community-based resources.

Growers' Cooperatives for Particular Products

The development of growers' cooperatives gives great impetus to the rearrangement of the existing cooperative system, too. They are able to respond to a particular economic demand from those growers engaged in commercial production of specific species. Some growers' cooperatives are devoted to the operation of market-oriented business: some act as pressure groups to obtain various kinds of privileges and subsidies from government agencies.

During recent years, government has increasingly provided dairy farmers and swine raisers with incentives to set up specific types of cooperative. In 1994, cooperatives for dairy farmers and swine raisers amounted to 138 in number.¹²⁾ The number of newly registered cooperatives was 94 only in this year. These were not so large in scale of membership, constituting, respectively, 272 and 618 members on average. Their membership covered a far wider area than a district.

Dairy cooperatives are involved in the processing and marketing of milk, supported by government agencies and state enterprise. They conduct supply business for important elements such as animal feeding on a large scale. In 1992, the amount of dealing in this business was 2.6 million baht per cooperative, while a general type of cooperative supplied materials with a value of not more than 2 million baht. In terms of financial status, these growers' cooperatives accumulated smaller assets than the general type, since they were not involved in financial services on a large scale.¹³⁾ In general, these cooperatives depend heavily on the concessive support of government for such purposes as construction of processing plants and procurement of breeding animals, although they seem independent in economic terms.

There have emerged a large number of growers' cooperatives for marketing particular products such as sugarcane, onion, garlic and rubber. These cooperatives are not spread over the whole country, but over particular growing areas. For example, only three onion growers' cooperatives are located in Chiang Mai and Kanchanaburi Province. Most members join a general type of cooperative or an AMC in their immediate vicinity (CLT, 1989). They establish a national federation which purposes to receive a certain quarter of hybrid seeds allocated by the Ministry of Commerce and extension services. The quarter of seeds is delivered according to the square of onion cultivation in the area. Every cooperative aggregates the total square of members' cultivation, and then requests the needed volume of seeds from the federation. Cooperatives function as tools which convey the seeds to producers. Although they are trying to distribute onions through several marketing channels, the scale of transaction is not large enough to gain bargaining power in markets.

Twenty-four garlic growers' cooperatives are established mainly in the upper part of the North. Government's policy on maintaining a target price urges producers to generate new cooperatives that will assume the task of mechanizing the policy.¹⁴⁾ The same way as the scheme of paddy price support, farmers' organizations (cooperatives) are to keep garlic as "mortgage" (*Jamnam*) to avoid farmers' immediate sale after harvesting. By relying on the working capital financed by the government, cooperatives can

advance 75 per cent of the target prices of mortgaged products to farmers (OAE, 1993).¹⁵⁾ During a certain duration of *Jamnam* scheme, the farmers sell out their products anytime when market price rises. In Chiang Mai Province, in 1992/93, twenty-four cooperatives utilized this scheme and received 125 million baht of loans from the CPD. The number of farmers who joined it amounted to 8,900, mortgaging 13,490 tons of garlic to the cooperatives (Chiang Mai Provincial Office, 1994). Thus, in cases where the government implements the policy of target prices through the hands of cooperatives, garlic growers tend to deal with cooperative marketing. Cooperatives can provide members with easy access to government's price support, though members do not always transact with them.

Sugarcane growers' cooperatives are able to regulate the distribution process of sugarcane.¹⁶⁾ A registered sugarcane factory, which is allocated the quarter of refining by the central authority, has the right to allot it to farmers or cooperatives (associations) for production.¹⁷⁾ The factory much prefers to transact with cooperatives rather than to deal with individual small-scale growers. The cooperatives become agents to allocate a large number of segments of the production quarter to members. They can profitably obtain a source of lending funds from the factory, given the privilege to collect and market members' produce.

As of 1994, there were sixteen different types of growers' cooperatives which amounted to 98. Sugarcane growers' cooperatives accounted for 26.4 per cent of the total members (38,423), followed by garlic growers' cooperatives with 28.4 per cent. Today, the growers' cooperatives hold a minor position among agricultural cooperatives; however, there is broad vision for a further expansion, as seen in the recent rapid increase in rubber growers' cooperatives.¹⁸⁾

The most substantial factor attracting both farmers and policymakers to growers' cooperatives is the disastrous failure of marketing business in conventional cooperatives categorized as of the general type. The amount of dealing in the marketing business showed a downward tendency until 1988: since then, it has turned to rise at a slow pace. Members usually hesitate to transact with the business, since it has rarely succeeded in arranging new distribution channels. Even in paddy collection, cooperatives have a few percentages of share to the total value of paddy marketed. Policy makers and bureaucrats identify that establishing growers' cooperatives is a cost-effective measure as long as a major focus of the government's concern is to support specific growers.

Growers' cooperatives are to respond in intensive ways to members' demands for the efficient supply of particular farm materials and the profitable marketing of products. Growers' cooperatives preferably specialize in a certain activity, whose members share the same interest. This may question the business efficiency of multi-purpose cooperatives that conduct multifarious economic services within the area of *Amphur* (district). Moreover, the principles of business operation that growers' cooperatives adopt are free from the constraints of solidarity and intimacy among members, not being attuned to the basic concept of the area cooperative. In addition, the growers' cooperatives establish a national federation and create a two-tier system,¹⁹⁾ being separated

from the nationwide networks of AFCT.

Current Situation of Cooperative Business

Critique of Business Operation

Critics often claim that agricultural cooperatives has failed to deliver meaningful services to members through credit, supply, marketing, extension and other activities. Cooperatives are engaged in some of these activities at one and the same time, each of which has its own principles and objectives. It is ideal that these activities stimulate on a reciprocal base, and create an internal linkage between them. This is regarded as a mechanism that affects the whole process of members' production and distribution. However, it is very difficult to keep the continuing development of multi-purpose cooperatives in perspective.

In 1993, those cooperatives falling into dormancy or non-operation accounted for 5.5 per cent of all cooperatives audited by the CAD. Those cooperatives gaining business profit were 79.7 per cent of all cooperatives being put into business operation. Two hundreds five cooperatives were outside the audit system regulated by the cooperative laws. During the mid 1980s, agricultural cooperatives had become depressed in business operation. A turning point came in 1989, when credit and supply business began to grow at higher pace. (See Fig.4).

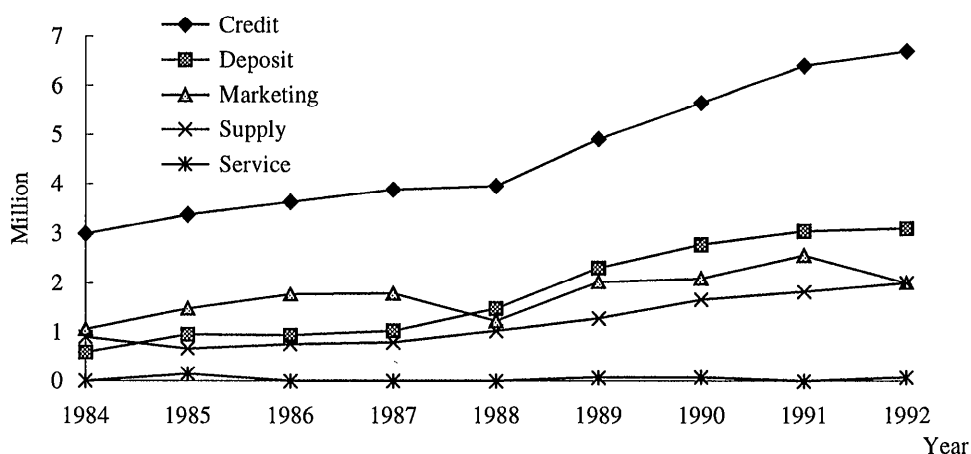


Fig.4 Changes in amount of business per cooperative

It is generally understood that a parallel development of the two activities brings incentives to members' agricultural production. Encouraging one particular aspect of

the business will cause an evolution in another aspect. In this respect, Fig.4 may prove that cooperative business grew mature enough to have a deeper implication with a wide range of members' economy. Moreover, the cooperatives might have a greater potential to attract a growing number of members to deposit services. These upward trends possibly led to optimistic evaluation of cooperative business, even though there were still some negative aspects.

Multi-purpose cooperatives are expected to promote marketing business, following the parallel developments of credit and supply businesses. Of course, there may be a time lag in the extent of growth between marketing and other businesses. The cooperatives will be able to evolve savings facilities, based on the steady inflow of turnover for members' products. This is a simple pattern of business development in multi-purpose cooperatives. Nowadays, however the cooperatives are able to avail themselves of a wide range of savings services, not passing through any progress of cooperative marketing.

Those who are engaged in rural development projects often criticize that agricultural cooperatives for the most part are incompetent as to continuing improvement of business operation. The disastrous defaults of members and the failures of marketing business deepen suspicion about the prospect of cooperatives' development. Negative reputation is rapidly widespread. There will be a fertile ground for many fresh departures of cooperative systems currently prevailing.

However, the CPD's analytical data show that management and organization of cooperatives began to slowly, but steadily develop after the mid 1980s. (See Table 3). In 1986, the cooperatives classified into the third-grade were no less than 40 per cent of the total. In 1993, the second-grade cooperatives sharply increased by 77.4 per cent, while the third-grade ones instead declined by 13.7 per cent. Although the first grade cooperatives accounted for a tiny portion, a number of cooperatives were successful in raising their appraisal for organizational features and business activities.²⁰⁾

Large-scale cooperatives continuously increased in number, being 40.8 per cent of the total in 1993. Although the standards of scale (total working capital) were not fitted to inflationary economic environments,²¹⁾ small-sale cooperatives declined more sharply than generally thought. As far as these trends were concerned, one would not conclude that there were little scope for a further advancement of cooperative business.

In 1989/90, the members, transacting with whatever kind of cooperative business, accounted for 76.7 per cent of all members. They much preferred to utilize credit and supply activities than marketing and service ones. Analytical data show that the credit activity brought 506 million baht of benefit to members beyond the agricultural credits they would have raised from ordinary banking systems. The supply of farm materials enabled members to curtail 69 million baht of disbursement. There is no doubt about the fact that cooperatives could gradually expand their economic implication with members (CPD, 1990).

According to these statistical data, the CPD predicts that members' attitudes are becoming more positive enjoying beneficial services from cooperatives. As case studies prove, a number of cooperatives have successfully flourished in business activities to

fulfill members' diverse demands. Of course, there is another side to the picture, and progress has negative aspects. Many cooperatives have failed to rebuild a workable framework of cooperative business.

Table 3. Grading of agricultural cooperatives

	First	Second	Third	Unknown	Total
1993	56	719	127	27	929
	6.0%	77.4%	13.7%	2.9%	100.0%
1992	96	739	143	75	1053
	9.1%	70.2%	13.6%	7.1%	100.0%
1986	25	495	358	5	883
	2.8%	56.1%	40.5%	0.6%	100.0%

Unit: No and %

Source: CPD(1993a)

Table 4. Distribution of agricultural cooperatives, shown by scale

	Large	Medium	Small	Unknown	Total
1993	379	303	220	27	929
	40.8%	32.6%	23.7%	2.9%	100.0%
1992	338	327	313	75	1053
	32.1%	31.1%	29.7%	7.1%	100.0%
1986	69	331	483	5	883
	7.8%	37.5%	54.7%	0.6%	100.0%

Unit: No. and %

Source: CPD Ibid.

Changes in Business Activities

Clearly, provision of credit is the most important activity, as cooperatives are initially designed to mediate the flow of sublease funds from other financial institutions to farmers. By depending on borrowed funds, they finance mainly short-term credit, being nearly 60 per cent of the total. The recent change is a rapid increase of medium-term credit, responding to growing members' demands for longer-term financing. This imposes a new task to the operation of cooperative credit.

In 1992, a considerable part of increased assets was earmarked for the growth of credit activity. Cooperatives were less dependent on sublease funds from other institutions such as the BAAC and the CPD. They reduced the proportion of borrowed funds from 54.4 per cent in 1984 to 35.1 per cent in 1992, while the total of current

liability slightly decreased by 55.8 per cent. Cooperatives were searching for different sources including members' deposits.

Deposits from members sharply rose by 15.2 per cent of the aggregated amount of debt and equity in 1992; the figure was only 4.8 per cent in the mid 1980s. Deposit service was getting large to attractive, although its annual growth rate severely fluctuated. The total of deposit reached 4,360 million baht, averaging 3.11 million baht a cooperative. A reduction of sublease funds led cooperatives to improvement of financial position. In addition, current deposits accounted for a greater portion of the total deposits (62.4 per cent).

Agricultural cooperatives had used to struggle against bad financial positions such as overborrowing and over-loan for long. As of 1987, the ratio of credit to deposit was 3.67:1, which indicates that the cooperatives were under over-extended. A rapid increase in deposit brought about dissolution of this over-extension, the ratio reaching close to 2:1.

At present, cooperatives have increasingly accumulated their own capital for the smooth operation of credit activity. On the side of investment, assets for credit have thoroughly exceed assets for savings in commercial banks. Cooperatives are trying to earmark an increasing amount of assets for savings, through which they are able to curtail expenses for interest by having a lucrative financial link with the banks. This will ease their need to procure a source of credit, at the same time.

Likewise credit business, the supply of farm materials has continued to grow at a 25.8 per cent annual rate. This business is more likely to concentrate on dealing in fertilizers, less likely to mediate a wide variety of farm materials. The proportion of fertilizers to the total amount of dealing varies in the range of 37–52 per cent, contributing largely to the rapid growth of supply business. Such component of the supply business seems similar to the scheme of credit in kind conducted by the BAAC.

Before 1990, fertilizers and chemicals used to account for 40 per cent of the total amount of dealing in the scheme of credit in kind. However, no sooner than the BAAC had begun with the provision of farm materials, client farmers were willing to procure agricultural machines from it. In 1989, the BAAC's sale for machines accounted for 51.6 per cent of the total of credit in kind. The supply business of cooperatives increased the sale for machines by 368 million baht in 1992, being 2.6 times as much as in 1989; but, the machines had a 13.1 per cent of portion to the total amount. Scarce of available funds for sale in credit precluded the cooperatives from trading a great deal of machines. (See Fig.5)

Today, a rapid increase in the dealing of animal feeding and fuel boosts supply business. In particular, the amount of fuel sold is sharply rising along with the widespread use of automobile in rural areas. Investment in gas stations has rapidly increased especially in the periphery of urban areas, by which cooperatives obtain a new source of business profit. Moreover, cooperatives are striving to encourage as many non-members as possible to utilize this new business. Some cooperatives make much effort to organize non-members into "associate membership" (*Phu Chai Borikan*). Associate members

are not given any right of say in cooperatives' management, but are given special privileges to receive a part of the cooperative benefit that members enjoy. Saving activity and supply for consumers' goods, too, tends to adopt non-boundary operating manners between members and non-members. This is an essential reason that cooperatives are alienated from the production-oriented goals, moving towards consumption-oriented ones.

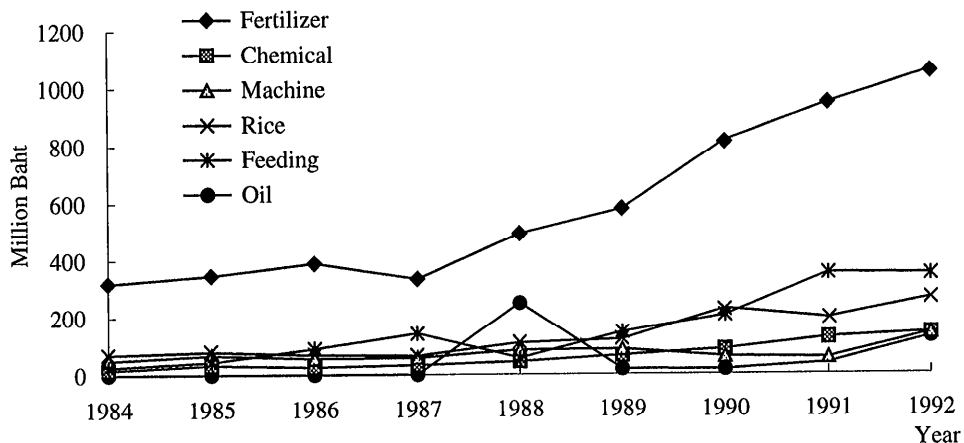


Fig.5 Amount of supply business

In the meantime, cooperative marketing is still a very difficult work, although it shows 13 per cent of annual growth rate during these five years. The amount of dealing in members' products has severely fluctuated since 1988. Major commodities that cooperatives collect and market are paddy, maize, sugarcane, pineapple, cassava, fresh milk and so on. They have a tiny portion in agricultural markets. (See Table 5).

In the outset of the 1990s, the value of paddy that cooperatives collected was only 1.3 per cent of the total value in markets (YAMAMOTO, 1994). Although the government provided its supports in various forms, the cooperatives did not succeed in flourishing in marketing rice. The substantial factor of failures might be government's excessive intervention in cooperative marketing. A policy for keeping farm-gate prices of paddy often damaged cooperatives' management seriously. They were forced to buy members' paddy at higher prices than actual ones. Cooperatives' rice business could hardly encroach upon stiff competition among traders and rice millers.²²⁾

In the 1980s, cassava used to be nearly 40 per cent of the total of cooperative marketing; however, this commodity declined by 4-5 per cent. (See Fig.6). In 1989 and 1990, paddy, swine and fresh milk totally accounted for more than 90 per cent of the total amount of cooperative marketing. Even today, the aggregated amount of these products exceeds over 60 per cent of the total. This fact reminds us that cooperatives would

much prefer to collect specific products that are easily marketed under the government's subsidiary projects.

Table 5. Market shares of cooperatives (1993)

	Amount (Million Baht)	Market share
Paddy	1007.34	1.3%
Milk	319.39	32.0%
Swine	249.67	1.3%
Pineapple	280.24	7.2%
Maize	139.65	1.3%
Rubber	164.57	0.8%

Unit: Million Baht, %

Source: AADKHONGHARN (1994)

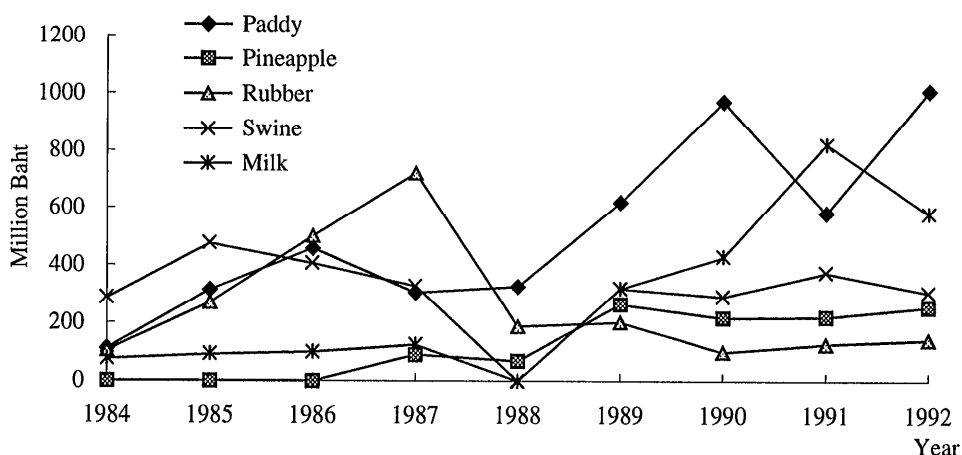


Fig.6 Amount of marketing business

As a whole, cooperative marketing has still had tiny marketing shares. There are several substantial reasons for underdevelopment, i.e., lack of facility and skillful personnel, scarce of working capital, members' self-seeking attitude, complicated marketing system of agricultural products. Such negative situations lead to pessimistic appraisal about the future of cooperative business.

Apart from the aforementioned business activities, cooperatives are involved in various kinds of services such as improvement of land, operation of water pump, and so on. The amount of dealing in service activity has largely fluctuated so far; however, it is expected to increase at a higher pace since a growing number of water users' cooperatives have been established through the country as a whole.

As a result of business operation, cooperatives depend heavily on the profit of credit business, accounting for 73-74 per cent on average. To be more concrete terms, in 1992, agricultural cooperatives gained 1,189 million baht of gross profit.²³⁾ Supply business retrieved by 10 per cent after a sharp decline in 1987. Marketing business contributed 10 per cent to the total profit, while other activities had a very small portion. It would appear, therefore, that cooperatives have been more likely to rely on credit business, less likely to diversify economic function into various fields.

Prospects of Reform of Cooperatives

The present work indicates that the chaotic state of cooperative movement has not yet dissolved. Much effort has been done to reform the ineffective and complicated system of cooperatives; however, there are still conflicts among three types of farmers' organizations (agricultural cooperatives, agriculturists' groups and client groups of the BAAC). The BAAC has striven to establish AMCs' networks throughout the country since the outset of the 1990s. The basic concept of organization and management of the AMCs should be distinguished from the conventional type of cooperatives, although they are regulated by the cooperative laws.

In Asia-Pacific regions, since the end of the 1980s, state-led cooperatives have remained in a transitional stage towards the reconstruction of organization and management. Member countries of International Cooperative Alliance (ICA) in these regions are trying to review and amend the current cooperative laws. De-regulation and de-politicization of cooperative movement are the major concern (ICA, 1994). Cooperatives are to incorporate some of the characteristics of private enterprises, in order to adapt themselves to ever-expanding market economy. Under structural adjustment programs of national economy, cooperatives have the potential to create a favorable climate and improve self-reliant behaviors. It often happens, however, that governments abruptly cut concessive supports for cooperatives off, as a result of which state-led cooperatives encounter the hardship of survival. Even if the declared goal of policy for cooperatives claims to promote self-reliant activities, they still act as state-controlled development tools in the initiatives of governments (Hans-H MÜNKNER, 1992).

The Thai government steers agricultural cooperatives towards two opposing directions. The first is that the BAAC devotes to expanding a "quasi-cooperative" system without any amendment of the present cooperative laws. This approach does not intend to reform conventional cooperatives. Naturally, there emerge severe contradictions between AMCs and conventional cooperatives. The AMCs take some of the characteristics of private enterprises. They are less attuned to the basic values of cooperative movement such as self-help, mutual assistance, equity and democracy. Therefore, the BAAC's approach may damage farmers' voluntary participation, although this

approach has attracted a tremendous number of farmers to join the AMCs' membership.

Another direction is to make an overall revision of the cooperative laws. This intends to relax the regulations that constrain variety and diversity of members' voluntary participation (CPD, 1993b).²⁴⁾ The cooperatives will be more free from bureaucratic controls. Of course, they are required to transform themselves into independent economic organizations. Ineffective three-tier system will be abolished or changed into two-tier one (consisting of primary cooperatives and national federations).

Cooperatives secure the efficiency of business operation through the aforementioned directions. There are, however, several differences in terms of procedures and manners adopted between the both. The operation of AMCs adopts a top-down procedure. It is also based on the vital aspect of economic liberalization, but conventional cooperatives are still concerned about the nature of traditional value in cooperative movement. It becomes a matter of heated controversy which approach would be applicable to the further development of cooperatives.

Despite the declared goal of de-politicization, Thai politics urges to set up growers' cooperatives such as rubber growers' cooperatives. They are grouped into the category of the general type. Growers' cooperatives are designed to have appointed roles in diversification of agricultural production. By replacing the general type which can hardly achieve initial objectives for cooperative marketing, the growers' cooperatives are able to conduct marketing activity for particular growers. They act as primary units to obtain subsidiary supports from the government, too.

Policymakers and planners insist a negative assertion on the status of multi-purpose cooperatives. They think that members tend to expect to earn a maximum return mainly from credit business with the minimum participation in other business activities (CPD, 1991). The lack of members' understanding of the cooperative's principle is a major constraint to "aided self-help" organization. On the other hand, the local administrations—*Shakorn Changwat* and *Sahakorn Amphur*—admit that the promotion of cooperatives has struggled with the scarcity of government's funds and equipment allocated in field works. This prevents the smooth development of state-led cooperatives. Many fresh departures of government policy have caused confused understanding of cooperatives in farmers' minds. They do not enhance their loyalty and faith in "aided self-help" activities.

The Thai government is trying to initiate structural adjustment of cooperative system through the amendment of cooperative laws. No system is perfect; but, the present framework is obviously cost-ineffective, since different patterns of organizations compete one another. De-regulation and de-politicization are necessary for the further development of cooperative movement.

In the light of the discussion thus far, the recent development of cooperative business proves that a growing number of cooperatives have evolved into more competitive as multi-purpose type. They have successfully absorbed members' deposits and accumulated capital. Some successful cooperatives can extend their businesses over a wider

area. They function as provincial federations. Lessons from experiences of these successful cooperatives give a profound insight into the prospect of members-based cooperatives. They will possibly reduce negative reputation of state-led cooperatives.

Notes:

- 1) Dairy and swine cooperatives are grouped into small-scale. However, they are more attuned to the market orientation of business activity.
- 2) These figures are higher than the actual ratios, since a number of farmers participate in more than two types of cooperatives. Members of water users' cooperatives usually join into a general type or an AMC.
- 3) The bank's decision is a reflection of government policy for privatization in agricultural markets.
- 4) The rate of commission ranged from 0 to 5 per cent of the value of farm materials. The BAAC's headquarters obtained 2-3 per cent, and branch used the remainder as a source of welfare funds.
- 5) The Marketing Organization of Farmers (MOF) is given a special privilege to mediate the flow of fertilizers to cooperatives and groups. These organizations and farmers can repay in kind of paddy. The CPD prepares the linkage scheme of production credit and paddy collection. A considerable part of the production credit is earmarked for the procurement of fertilizers.
- 6) In Sanpatong district branch (Chiang Mai province), it takes seven days for members to receive materials that they order.
- 7) They used to collect paddy at political target prices. Recent changes of economic surroundings have damaged the management of provincial federations engaged in rice mill factories.
- 8) The exact number of registered members was not available at the outset. As of January in 1990, the AMC in Chiang Mai constituted with 27,025 farmers (Annual Report of Chiang Mai Branch).
- 9) In 1992, only a few water users' cooperatives consisted of more than 500 members.
- 10) Some are in the office of *Sahakorn Amphur* (District Office for Cooperatives), some are in the residences of presidents.
- 11) Village powers such as *Phu Yai Baan* and *Huana* (leader of water supply) often oppose to an introduction of cooperative way. For example, in Sanpatong District, most of members of the board are outside village powers, and they are sub-leaders of Sanpatong Agricultural Cooperative.
- 12) These cooperatives used to be grouped into "specific type of cooperatives" on the statistics published by the CAD.
- 13) In 1992, the general type of cooperative accumulated more than 10 million baht of total assets, being 2.5 times as much as a specific type.

- 14) The committee for the assistance of farmers is imposed to set up target prices. This government body decides what crops will be given a support of target price. The committee does not always earmark a certain amount of budget for garlic.
- 15) The target price of dried garlic was 4 baht per kg, and that of fresh garlic was 12 baht per kg. The government prepared the budget which would be valued 20,000 tons of garlic.
- 16) Large-scale producers prefer to participate in associations. The quarter of production is directly allocated to them by sugarcane factories.
- 17) Cooperatives are assigned to mediate the flow of sugarcane from growers to factories.
- 18) Rubber growers are stimulated to establish their own cooperative for such purposes as the provision of credits and materials for replanting rubber trees.
- 19) National Federation of Dairy Cooperatives used to consist of growers' cooperatives only. At present, any type of cooperatives engaged in dairy farming activities can participate in its membership.
- 20) There are some differences in the methodologies adopted between year and year. The indicated figures are not detail enough to identify what improvements have been going on.
- 21) Before the 1990, the data included the number of members and the amount of working capital.
- 22) Cooperatives have tended to regard marketing business as an important source of members' repayment for credit business.
- 23) Gross profit is equal to the residual amount that turnover is deducted from direct expenses.
- 24) It includes release from the control and supervision of Register (*Nai Tabien*).

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