

**2006 FFTC-NACF International Seminar on  
*Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21<sup>st</sup> Century,*  
Seoul, Korea, 11-15 September 2006**

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## **Agricultural Cooperatives in Thailand**

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**National Agricultural Cooperative Federation (NACF), Korea, and  
Food and Fertilizer Technology Center for the Asian and Pacific Region  
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# Agricultural Cooperatives in Thailand: Innovations and Opportunities in the 21<sup>st</sup> Century

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## *Abstract*

Agricultural sector has long been important to Thailand's economy and will continue to be in the foreseeable future. The agricultural cooperatives, with the concept of self reliance and cooperation, has played important roles in raising socio-economic status of their farmer members in agricultural sector. At present, agricultural cooperative movement of Thailand is facing challenges from changes in various external and internal environment. To survive in such evolving situations, agricultural cooperative movement of Thailand has adjusted its structure and business approach to sustain its operation and business growth. These changes could be observed at agricultural cooperatives as well as policy levels. The Tha-Yang Agricultural Cooperatives was a good example of the successful adaptation to such changing environment.

**Key Words:** Agricultural Cooperatives, Thailand, Tha-Yang Agricultural Cooperative.

## I. Roles of Agriculture Cooperatives in the Thai Economy

### 1.1 Agricultural Structure and Its Development:

Thailand is regarded as an agricultural country. The agricultural sector has played an important role in contributing to economy of Thailand throughout history. However, as the non-agricultural sector has been growing at a rapid rate during the past decade, agriculture has gradually declined its importance to the share of economic growth. Table1 shows that the share of the agricultural sector to GDP has declined steadily from 25% during 1972-1976 to less than 10% during 2002-2005.

Within the agricultural sector itself, there has been no significant change in structure. The Agriculture, Livestock, and Forestry sub-sector is the largest component in GDP. During 2001-2004, the value-added generated from this sub-sector was about 84% while that from Fishing sub-sector was only about 16%. Considering the composition of the Agriculture, Livestock, and Forestry sub-sector, cereals and field crops is the most important group. Its share to GDP originating from agriculture was about 53%. (table2)

Although the contribution of agricultural sector to Thai economy is decreasing, agriculture is still important, with 41% of the total land area or 21 million hectares is devoted to agriculture. Agriculture is the main occupation of Thai people employing about one third of labor force.

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Table1: Percentage of gross domestic product in agricultural sector during 1972-2005

Year	Agriculture sector	Non-Agriculture sector	Total GDP
1972-1976	25.08	74.92	100.00
1977-1981	21.39	78.61	100.00
1982-1986	19.01	80.99	100.00
1987-1991	14.88	85.12	100.00
1992-1996	11.37	88.63	100.00
1997-2001	10.07	89.93	100.00
2002-2005	9.55	90.45	100.00

Source: National Economic and Social Development Board.

Table2: Percentage of gross domestic product of major commodities in agricultural sector during 2000-2004.

	2000	2001	2002	2003	2004
• <b>Agriculture, Livestock, and Forestry</b>	<b>83.63</b>	<b>84.42</b>	<b>84.54</b>	<b>84.57</b>	<b>83.14</b>
- Cereals and Other field crop	52.66	54.04	53.09	54.56	53.18
- Vegetables, Horticulture	6.73	6.72	6.86	6.52	7.10
- Fruit, Nuts, Beverage and Spice Crop	9.82	8.66	9.06	8.79	9.37
- Cattle, Sheep, Goats , Dairy Farming	2.55	2.67	2.80	2.67	3.20
- Other Animal Farming, Animal Products	8.17	8.68	9.13	8.75	7.08
- Agriculture and Animal Husbandry Service Activities.	2.55	2.55	2.50	2.20	2.08
- Forestry, Logging and Related Service Activities	1.15	1.09	1.10	1.08	1.13
• <b>Fishing</b>	<b>16.37</b>	<b>15.58</b>	<b>15.46</b>	<b>15.43</b>	<b>16.86</b>
<b>GDP in Agricultural Sector</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: National Economic and Social Development Board.

## 1.2 Historical background of Agricultural Cooperatives:

The history of agricultural cooperatives in Thailand can be traced back to 1914, when the Thai economy opened to international trade during the reign of King Rama V. Rice production was becoming commercialized, but farmers could not benefit from the situation. Moreover, the national disasters such as drought and flood caused them into chronic and severe indebtedness due to being unable to repay their loans. Consequently, they were losing their farmlands, turned to hired-laborers and thus left their debts unpaid. Based on the recommendation of Sir Bernard Hunter, the head of the Madras Bank of India, the concept of cooperatives was introduced to Thailand through a special assistance program. It was believed that this would help the farmers to pay their debts and improve their livelihood.

In 1916, the Thai government created the first cooperative society, as a trial, among the small paddy farmers named "Wat Chan Cooperative" in Phitsanulok Province. It was known as a "village credit cooperative" with unlimited liability, following the Raiffesen credit cooperative type with a single purpose of providing farm credit to help the severely indebted farmers. Sixteen most indebted farmers in the province were chosen as the founding members. Although with a start up capital of only 3,000 baht, the cooperatives operated very successfully. Within the first 13 months, its members were able to repay 50 percent of their debts. The success of this cooperative led to the increase of small village credit cooperatives all over the country. The small credit cooperatives had prevailed in the country until 1983, after that, other types of cooperatives were established in responding to the people's need.

With a view to facilitate financing support to cooperatives and their members, the government set up the "Bank for Cooperative" in 1947. Credit cooperatives were urged to hold share capital in the bank with the hope that they would, in future, be owners of the bank which would be their own financing centre. In 1952 and 1953, two provincial cooperative banks were established in Chiangmai and Uttaradit provinces respectively. Unfortunately, the enactment of a new "Commercial Bank Law" in 1962 limited the services on deposit on current accounts to be provided only by commercial banks. The two existing provincial cooperative banks had reorganized as credit cooperative federations and a program to set up new cooperative banks was dropped. In 1966, the "Bank for Agricultural and Agricultural Cooperative (BAAC)", a state enterprise, was established to be a financial centre for agricultural cooperatives as well as individual farmers.

In 1968, the government enacted the "Cooperative Act, B.E.2511" to facilitate the expansion and improvement of the cooperatives. This legislation embodied two important features, the amalgamation of credit cooperatives at village level to district level and the establishment of the Cooperative League of Thailand (CLT) to function as the apex organization of the cooperative movement. The amalgamation was the most important one, as it enhanced the economies of scale of the business operation. The credit cooperatives were officially categorized as "agricultural cooperatives". In 1969, the government changed the status of agricultural cooperatives from unlimited societies to limited ones. This year, the Agricultural Cooperative Federation of Thailand was also established as the apex agricultural cooperative of the country.

At present, the cooperatives in Thailand are officially categorized into seven types namely,

- 1) Agricultural Cooperative
- 2) Land Settlement Cooperative
- 3) Fisheries Cooperative
- 4) Consumer Cooperative
- 5) Thrift and Credit Cooperative
- 6) Service Cooperative
- 7) Credit Union Cooperative

### 1.3 Legal Framework for Agricultural Cooperatives:

The first cooperative law in Thailand called the "Amended Associations Act" was enacted in 1916 to register farmer cooperatives in order to help paddy growers. This Act remained until 1928, and it was replaced by the Act which allowed other types of cooperatives to be organized. The latter Act was amended many times and finally replaced in 1999 by the "Cooperative Act, B.E.2542". The amendment of this Act was done through consultation between government and non-government institution. This Act was intended to govern all types of cooperatives.

The Act has 138 sections and divided into 10 parts:

Part I: General Provisions

Part II: Supervision and Promotion of Cooperatives

Chapter 1: Board of National Cooperative Development

Chapter 2: Registrar of Cooperatives

Chapter 3: Supervision of Cooperatives

Chapter 4: Cooperative Development Fund

Part III: Cooperatives

Chapter 1: Formation and Registration of Cooperatives

Chapter 2: By-Laws and Amendment of By-Laws

Chapter 3: Operations of Cooperatives

Chapter 4: Audit

Chapter 5: Dissolution of Cooperatives

Part IV: Liquidation

Part V: Amalgamation of Cooperatives

Part VI: Division of Cooperative

Part VII: Cooperative Federations

Part VIII: Cooperative League of Thailand

Part IX: Farmers Groups

Part X: Penalties

The important provisions in this Act are summarized below:

1) Defines "cooperative society" which means "a group of persons who jointly conduct affairs for socio-economic interests on the basis of self-help and mutual assistance, and are registered under this Act"

2) Empowers the Minister of Agriculture and Cooperatives to make ministerial regulations.

3) Provides financial assistance to cooperatives through the creation of the "Cooperative Development Funds" for the development of cooperatives.

4) Creates the "National Cooperative Development Board", aims to promote the viability and growth of cooperatives.

5) Exempts cooperatives from payment of registration fee.

6) Empower the registrar to control the lending, borrowing or guarantee of loans and deposit services between cooperatives, or provide deposit services to members of other cooperatives.

7) Controls the distribution of cooperative net profit, i.e. not less than 10% to reserve funds, not more than 5% to the Cooperative League of Thailand, not more than 10% as bonus to Board Members and Officials, and not more than the rate prescribed in the ministerial regulations to dividend and patronage refund to member users.

8) Empowers the registrar to arrange audit, to conduct enquiry in the affair of the cooperatives and take actions against persons found guilty, and to suspend operations of cooperative or order for its liquidation.

This Act was a result of several changes and revisions. However, for greater flexibility, a new draft was developed and is now in the process of review and approval of the parliament.

## II. Current Situation of Agricultural Cooperatives

### 2.1 Institutional Arrangement:

#### 2.1.1 Membership:

As of January, 2006, the Cooperative Movement of Thailand was composed of 6,712 primary cooperatives with an individual membership of 9,684,508 or about 14% of the total population of the country. The cooperatives in agriculture sector occupied the largest. It had a total of 4,137 primary cooperatives with 5,950,809 individual members. These represented more than 60% of the total primary societies as well as the total individual membership of the cooperatives of the country. (table3)

Table3: Distribution of primary cooperatives and their membership, as of January, 2006.

Item	Category			Ratio of (1) to(2) (%)
	Agriculture <sup>1/</sup> (1)	Non Agriculture	Total (2)	
Primary Cooperatives (society)	4,137	2,575	6,712	61.63
Individual Members (persons)	5,950,809	3,733,699	9,684,508	61.44

Source: The Cooperative Promotion Department.

Remark: <sup>1/</sup> Cooperatives in Agriculture sector has three main categories, Agricultural Cooperatives, Fishery Cooperatives, and Land Settlement Cooperatives

Members of primary agricultural cooperatives engage in various economic activities. To provide an idea of the activities covered, table4 shows categories, numbers of various cooperatives and their members. These cooperatives, in addition to their services as agricultural cooperatives, also have specific activities or common interest as indicated by their categories. For instance, Animal Raiser Cooperatives and Dairy Cooperatives are formed by farmers whose main occupation is raising livestock. Water Users Cooperatives are formed by farmers living in area along the same canal. Member of this cooperative share irrigation water and jointly maintain the system.

Regarding the membership of primary agricultural cooperatives, report from Cooperative Auditing Department (CAD)<sup>2</sup> shows that during 2001-2005 there had been a gradual rise in membership of the audited agricultural cooperatives. The increase, however, was due to an increase in number of cooperatives not the expansion of the societies themselves. In this period, number of individual members increased from around 4.7 to 5.4 million persons, but the average members per cooperatives during 2001-2003 decreased from 1,516 to 1,431 persons and rebounded slightly to 1,570 persons in 2005. It appears that once registered, the societies made little effort to increase their members. (table5)

Table4: Numbers of primary agricultural cooperatives and members classified by principal categories. (January, 2006)

Category of primary agricultural cooperatives	Total number of societies	Total individual members
General Agricultural Cooperatives (multi purpose society)	2,204	1,908,561
Animal Raiser Cooperatives	38	18,023
Dairy Cooperatives	105	24,084
Water Users Cooperatives	581	117,681
Land Reform Area Cooperatives	139	66,193
Para Rubber Producers' Cooperatives	607	60,831
BAAC Customers' Cooperatives	74	3,145,073
Total	3,748	5,340,436

Source: The Cooperative Promotion Department

Table 5: Number of members of agricultural cooperatives during 2001-2005

Year	Number of Agricultural Cooperatives <sup>1/</sup>	Number of Members	
		Amount (person)	Average (persons/coop)
2001	3,118	4,727,879	1,516
2002	3,232	4,868,039	1,506
2003	3,413	4,884,941	1,431
2004	3,474	5,203,798	1,498

<sup>2</sup> Cooperative auditing is a governmental service carried out by Cooperative Auditing Department (CAD). The auditors are appointed by the Registrar. The auditing shall be conducted at least once a year in accordance with the rules prescribed by the Registrar.

2005	3,483	5,467,491	1,570
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Source: The Cooperative Auditing Department.

Remark: <sup>1</sup>/Number of Audited Cooperatives

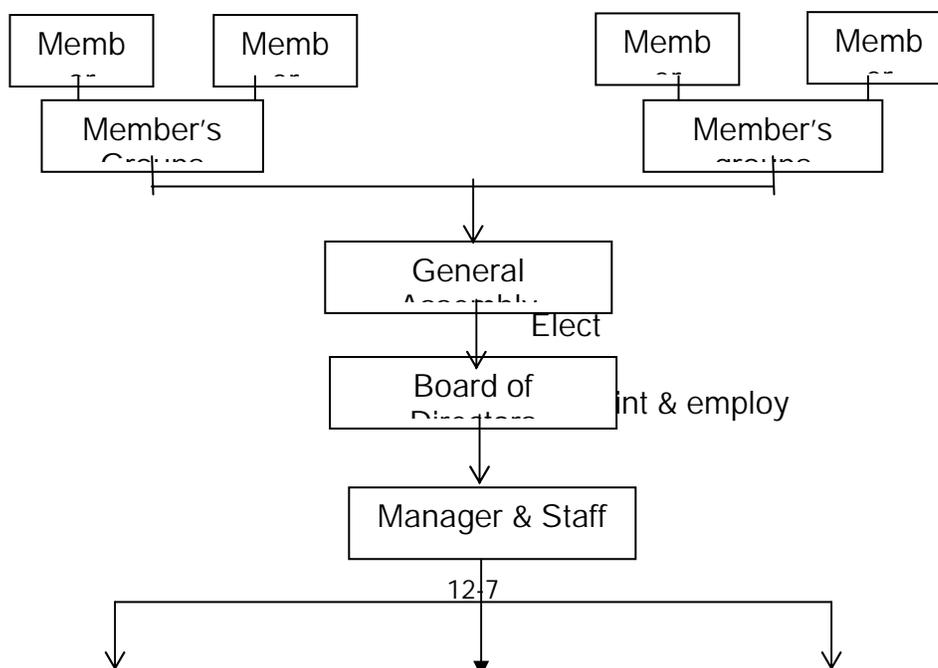
### 2.1.2 Organizational Structure of Cooperatives in Agricultural Sector.

Agricultural cooperatives in Thailand are vertically organized in a three-tier system; primary cooperative at district level, provincial federation at provincial level and national federation at national level. The primary cooperatives consist of individual members while members of provincial and national federations are cooperatives. At provincial level, 5 or more primary cooperative can together form a provincial federation which undertakes joint activities on behalf of their primary affiliates such as processing and trading of agricultural produces.

At national level, there is the Agricultural Cooperative Federation of Thailand (ACFT) of which all provincial agricultural cooperative federations are affiliates. Note that there are also other national federations formed by specific types of agricultural cooperatives such as Sugarcane Growers Cooperative Federation of Thailand, Swine Raiser Cooperative Federation of Thailand, Dairy Cooperative Federation of Thailand and Onion Growers Cooperative Federation of Thailand.

All types of cooperatives at all levels in Thailand are affiliated to the Cooperative League of Thailand (CLT), the top national apex organization which was established in 1968. The CLT does not involve in business but operates as a cooperative education promoter of the country. Cooperatives have to pay 5% of their profit to CLT, as a fee for services.

Primary cooperatives at district level are the foundation of the cooperative movement. They consist of individual members who are divided into groups at village level. Members directly involve in the affairs of the cooperative. Usually, the general assembly consists of the total members. According to the present Cooperative Act, the general assembly of members will elect the board of directors (BOD) with maximum numbers of not greater than 15 persons with 2 years term. The BOD formulates the policy of the cooperative, and appoints a manager and staff to run business of the cooperative. (Fig.1)



manage



Fig. 1 The General Structure of Agricultural Cooperatives in Thailand

Source: Cooperative Promotion Department.

## 2.2 Business Scope and Performances

### 2.2.1 Business Activities and Scopes of Agricultural Cooperatives

In order to achieve the economic and social interest of the members, agricultural cooperatives carry out various activities such as:

- 1) To provide production and consumption loans to members at reasonable rate of interest.
- 2) To encourage saving among members through promoting saving deposits.
- 3) To provide agricultural equipment such as tractors, water pumps; agricultural inputs such as fertilizer, seeds as well as consumption goods to members at reasonable prices.
- 4) To assist members to market their products at good prices and to maintain fairness in term of weight and measurement.

Agricultural cooperatives engage in a wide range of business activities in responding to their members' needs. Their main business may differ from one area to another but mostly involved in 4 businesses which are credit business, saving and deposit, marketing business and purchasing business.

#### 1) Credit Business

One of the main functions of agricultural cooperatives is to provide credit facilities to their members. Credit facilities provided by cooperatives cover a variety of activities, such as paddy farming, animal husbandry, debt redemption, household consumption. The sources of funds for agricultural cooperatives are their own capital (share capital), deposit from members and loans from financial institutions especially the Bank for Agricultural and Agricultural Cooperative (BAAC) and onward lending to their members for short, medium, and long term period. The short-term loans are only for emergency needs with repayment period of 2 months. The medium-term loans are given for cultivation expenses, including purchases of fertilizers, and for other expenses during planting and harvesting. The repayment period of medium-term loans is 18 months. The long-term loans are given for the purpose of purchase of agricultural equipments, building or repairing houses, purchases of property especially land, and also repaying debts. The period of repayment is more than 5 years.

#### 2) Saving and Deposit Business

Agricultural cooperatives promote saving among members. Savings can also be used to invest and generate profit to both cooperatives and their members. Members of agricultural cooperatives can open Saving Deposit

accounts, Special Saving Deposit accounts or Fixed Deposit accounts with their cooperatives. They are encouraged to deposit a part of the income they received from selling their produces to the cooperatives in their accounts.

### 3) Marketing Business:

One of the important activities of agricultural cooperatives is marketing of agricultural products especially those produced by the members. Farmer-members can obtain good prices, while fair weights and measures are guaranteed. Some agricultural cooperatives, food processing such as milled rice and canned fruits were introduced to generate more income to their members. Some of them have also been developed to be centers for marketing of members' products.

### 4) Purchasing Business:

The business of selling major agricultural inputs such as fertilizer, seeds, gasoline etc, and farm supplies and equipments also benefits members because it reduces production costs as well as household expenses. They are assured of fair prices when they buy through cooperatives.

#### 2.2.2. Business of Agricultural Cooperatives

During 2001-2005, the total volume of agricultural cooperative business increased by more than 60%, from 71,602 to 118,225 million baht. The average business volume per member increased by about 40%, from 15,352 to 21,872 baht/member, and the average business volume per cooperative increased by about 20%, from 22.87 to 33.94 million baht/coop. By activities, marketing business was the most successful one with an increasing rate of about 30%, from 14.9 billion baht in 2001 to 32.43 billion baht in 2005, followed by credit business which had an increasing rate of about 16%, from 21.3 billion baht in 2001 to 32.0 billion baht in 2005. (table6)

Table 6: Agricultural Cooperative Business during 2001 - 2005

(Unit: million baht)

Type of Business	2001	2002	2003	2004	2005
Credit	21,393	21,596	23,514	27,637	32,026
Saving and Deposit	20,169	22,297	21,815	24,835	28,717
Purchasing	14,901	15,150	16,135	19,458	24,754
Marketing	14,949	15,053	20,957	25,005	32,431
Other Services	187	154	170	206	294
<b>Total Business Volume</b>	<b>71,602</b>	<b>73,251</b>	<b>82,593</b>	<b>97,144</b>	<b>118,225</b>
Average (Baht/Member)	15,352	15,352	17,153	18,950	21,872
Average (Million Baht/Cooperative)	22.87	22.71	24.21	28.07	33.94

Source: "Financial Information of Audited Cooperatives in Thailand", 2001-2005, the Cooperative Auditing Department.

The successful marketing business of agricultural cooperatives also contributed positively to the national agricultural market value. Table7 below shows an increase in percentage share of this business to GDP during 2002-

2005. Their market share had grown gradually. The aggregate market transactions of cooperatives increased from about 5% of the gross value of the domestic agricultural market in 2002 to about 10% in 2005. The important commodities marketed by cooperatives were para-rubber and paddy.

Table7: Share of cooperative marketed agricultural product to domestic agricultural product value, 2001-2005

Unit: billion baht

Year	Coop. marketed Agricultural product <sup>1/</sup> (1)	Domestic agriculture product <sup>2/</sup> (2)	Ratio of (1) to (2) (%)
2001	14.9	320.0	4.6
2002	15.0	322.2	4.6
2003	20.9	359.0	5.8
2004	25.0	341.8	7.3
2005	32.4	333.5	9.7

Source: <sup>1/</sup> The Cooperative Auditing Department.

<sup>2/</sup> Thailand's key Economic Indicators; Bank of Thailand

### 2.2.3 Financial Performances of Agricultural Cooperatives:

During 2001-2005, total assets of agricultural cooperatives in Thailand increased from 61.7 to 82.4 billion baht. Liabilities also increased, from 39.9 to 53.1 billion baht. While members' equity rose from 21.7 to 29.2 million baht, reserve fund also rose from 5.0 to 6.9 billion baht during the same period.

Revenues increased by about 90%, from 34.6 billion baht in 2001 to 65.4 billion baht in 2005, while expenditures increased by about 95% from 32.6 billion baht in 2001 to 63.7 billion baht in 2005. Consequently, their net profit dropped to 1.7 billion baht in 2005 from 1.9 billion baht in 2001. This amounts to about 11% decline. (table8)

Table 8: Financial Information of Thai Agricultural Cooperatives during 2001-2005

(Unit: Million Baht)

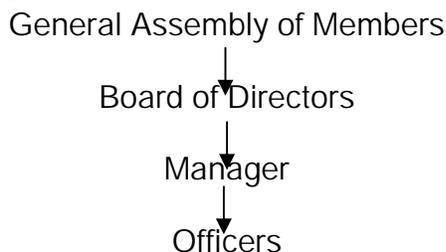
Description	2001	2002	2003	2004	2005
Assets	61,766	63,572	65,077	71,210	82,406
Liabilities	39,992	40,576	41,135	45,127	53,118
Capital (Members'equity)	21,773	22,996	23,942	26,088	29,288
Reserve Fund	5,004	5,394	5,695	6,198	6,931
Revenue	34,605	35,773	42,734	52,250	65,434
Expenditure	32,655	34,056	41,058	50,486	63,701
Net Profit	1,949	1,717	1,676	1,763	1,732

Source: "Financial Information of Audited Cooperatives in Thailand", 2001-2005, the Cooperative Auditing Department.

## 2.3 Governance System and Management Performance:

### 2.3.1 Management and Control System

The management and control system of agricultural cooperatives are basically similar to those of different type of cooperatives. They all maintain a uniform of management and control structure. For instance, a General Assembly of Members is the supreme authority, which elects a Board of Directors. The Board of Directors is empowered to appoint manager and staff to run the business of the cooperative. The chain of command in a cooperative is as follows:



The General Assembly is required to meet at least once a year within 150 days after the closure of its fiscal year. It also has the powers and responsibilities to elect an Internal Auditor, to consider the annual report of the cooperative, to approve the annual budget of the cooperative, and to consider annual statement of accounts of the cooperative etc.

Under the General Assembly is the Board of Directors which is responsible for the formulation of policies, plans and programs for the cooperative and supervision of management. The members of the Board of Directors are elected from outstanding members who are willing to serve the society. Under the Thai laws, the Board of Directors, shall consist of a chairman and not more than 14 other members with the term of 2 years (not more than 2 consecutive terms).

The Manager of the cooperative is the most important position of cooperative administration. He/she is the Chief Executive Officer of all employees in the society that implements plans, programs and policies of the cooperative which are designed by the Board and approved by the General Assembly. The manager may recommend to the Board for appointment of management staff needed.

### 2.3.2 Government Supporting System

The cooperative movement in Thailand is regarded as an important factor for economic and social development, especially in the rural sector. Hence, its activities receive both technical and financial supports from the government. In order to provide such supports, the government has established three organizations in charge of cooperatives as follows:

- 1) The office of the Registrar of Cooperative Societies
- 2) The Cooperative Promotion Department (CPD)

### 3) The Cooperative Auditing Department (CAD)

#### **The office of the Registrar of Cooperative Societies**

Under the "Cooperative Act, B.E.2542", every cooperative society in Thailand has to register with the registrar prior to its business operation. The law designates the Permanent Secretary of the Ministry of Agriculture and Cooperatives as the Registrar of Cooperatives with the following mandates:

- 1) To register, to promote, to assist, to advise and supervise a cooperative;
- 2) To prescribe the system of accounting, the standard of audit, books and forms which the cooperatives have to submit to the registrar;
- 3) To appoint an auditor, a cooperative inspector and a liquidator;
- 4) To order inspections or investigations of cooperatives on matters relating to the formation, operations or financial conditions of the cooperative;
- 5) To suspend, or to order the dissolution of a cooperative being considered that its action or non-action may cause any damage of cooperative or its members;
- 6) To make an annual progress report for submission to the Board of National Cooperative Development;
- 7) To make regulations or orders to benefit the operation of cooperative.

#### **The Cooperative Promotion Department (CPD)**

CPD is the government agency which is responsible for promoting, supporting and strengthening the cooperative system in Thailand. In 2005, CPD had about 2,300 permanent employees working at both central and provincial level of the country. An annual budgeted for CPD is about 3,600 million baht.

According to the responsibilities of CPD, the important activities organized by CPD to support agricultural cooperatives in Thailand are as follow:

- 1) Conducting the training courses for cooperatives through 10 training centers all over country
- 2) Providing financial assistance to the cooperatives through Cooperative Development Fund
- 3) Studying and conducting research for cooperative development and proposing the guidelines for cooperative development to the National Development Board.

The following are some of the cooperative development schemes currently undertaken by CPD

- 1) Establishment of "Tambon (sub-district) Agricultural Product Central Market of Cooperatives".

This project was initiated by CPD in 1993 to promote market places for direct trading between producers and traders. CPD allocates grants to the potential cooperatives for establishment of Agricultural Product Central Market and necessary equipment such as drying yards, paddy warehouses, dryer machines and scales.

2) Improvement of Effectiveness and Quality of Agricultural Products

The project provides paddy and soybean foundation seeds for seed multiplication to cooperative members. The seeds will be bought back to be graded and cleaned at the cooperatives' plants established by CPD's grants. The high quality multiplication seeds will be distributed to the farmers for better qualities of farm products.

3) Provision of low interest rate loan for fertilizer and seed procurement through farmer organizations.

4) Conduct of training courses on processing and marketing topics and provision of supports for marketing channels and finance to farmer groups to develop farm products.

### **The Cooperative Auditing Department (CAD)**

CAD is a government organization responsible for cooperative audit in Thailand. The audit shall be conducted at least once a year in accordance with the rules prescribed by the Registrar. It is the only institution that has the rights to audit all types of cooperative societies in Thailand. As of June, 2006, CPD had a total number of 1,257 officials and about 900 employees. The duties include:

- 1) To advise the staff of cooperatives especially bookkeepers and accountants to record correctly and to be able to prepare their own financial statement.
- 2) To conduct interim auditing during the financial year of the cooperatives, to check the correctness of bookkeeping, observe whether the internal control is efficient and to assist and guide the cooperative to update and complete their book of account. Usually, the interim auditing is provided to the agricultural cooperatives that have no access to advisory service.
- 3) To audit the financial status of the cooperatives annually. The activities cover both financial and management audits. These services are free of charge, except for cooperatives with capital of more than 100 million baht.
- 4) To organize training programs in finance and accounting for members, staff, and board of directors of cooperatives in order to improve their management performance.

#### *2.3.3 Financing agricultural cooperatives*

Like in any other countries, agricultural cooperatives in Thailand have sources of fund from member shares, member deposits, profit from business activities, external loans, and external subsidies.

### **Sources of Loans and subsidies**

The major sources of loans and subsidies for agricultural cooperatives are

#### **1) Cooperative Development Fund (CDF)**

The Cooperative Development Fund (CDF), was established under the Cooperative Act, B.E.2542, for the purpose of promoting the affairs of cooperatives. This fund is administered by Executive Board of CDF which comprised of both government officers and representatives of all types of cooperatives. The sources of this fund which are prescribed in section 28, comprises of

- 1.1) subsidies from the national budget;
- 1.2) donations of money or properties;
- 1.3) money and properties becoming the ownership of CDF
- 1.4) proceeds from sales of properties acquired under 1.2) and 1.3)
- 1.5) interest, income or any other benefits belong to CDF

In 2005, CDF provided loan of 2 billion baht to 1,318 cooperatives. The average loans size was approximately 1.5 million baht per cooperative. The interest rate ranged from 1% to 6% per annum depending on the qualities of the cooperatives.

#### **2) Bank for Agriculture and Agricultural Cooperatives (BAAC)**

The Bank for Agriculture and Agricultural Cooperatives (BAAC), was established in 1966 as a state enterprise under the jurisdiction of Ministry of Finance. The bank functions as a financing center of agricultural cooperatives as well as individual farmers. To have access to these loans, cooperatives shall have at least 100 members and have existed for at least 2 years. In 2004, BAAC extended a total of 28.6 billion baht of loans to 844 agricultural cooperative societies. The loan interest rate ranged from 5.5% to 10.5% depending on the classification of the cooperatives.

#### **3) Loans provided by other cooperatives**

Agricultural cooperatives can also receive loans from other cooperatives. The rate of interest and the duration of the loan depend on the policy of each cooperative.

#### *2.3.4 Taxation Policy*

In Thailand, the system for tax collection is based on the assumption that cooperative is a user organization with no interest in making profit and hence exempted from corporate income tax but subject to value-added tax. Likewise, dividend or profits that members received from the cooperatives are also exempted from personal income tax.

### **III. Recent Developments of Agricultural Cooperatives in Thailand:**

Like those of other countries in Asia, agricultural cooperatives in Thailand are now confronting new emerging needs and challenges from farmer-members and markets caused by national and global change in the 21<sup>st</sup> century. Farmer-members want not only to sell their products as fast as possible but also with high economic returns. Thus, it becomes the responsibilities of the cooperatives to assist their members in not only selling their products but also at good prices. Furthermore, the new market economy in which agricultural cooperatives operate bring about the new types of consumers who demand high-quality products at reasonable prices, and prefer healthy and chemical-free food at international standards. They want to buy food that the origins are known and look for products that social concerned and environmental friendly. These phenomena offer both new opportunities and also threats to agricultural cooperatives.

Although most of Thai agricultural cooperatives in the rural area remain confined their main functions largely to the distribution of credit, fertilizers, and procurement of farm products, some agricultural cooperatives have tried to transform themselves and implemented new strategies to this new economic environment. The innovative practices as a new direction of agricultural cooperatives in Thailand are as follows:

### **1) Collaboration with private sector**

This concept is implemented not only in the agricultural cooperatives but also in other types of cooperatives. For agricultural cooperatives, the main aim of this strategy is to gain some advantages from private enterprises such as strong marketing channel, popular brand companies etc. An example is the collaboration between 12 agricultural cooperatives in the north eastern of Thailand and Amway corporation(Thailand) , a global direct-sale company, in producing "Amway Hom Mali Rice" for consumers in the premium market segment.

### **2) Products of high quality and traceability**

A major development in some agricultural cooperatives is their attempt to satisfy consumer demand by offering high quality product and introducing product traceability. Tha-yang Agricultural Cooperative Ltd. in Phetchaburi province is a successful example of agricultural cooperatives that took such initiatives. This cooperative has successfully delivered the chemical-free Hom Thong bananas to TOTO consumer cooperatives in Japan. Farmer-members are advised to use organic fertilizers and avoid farm chemicals. Transport of products from Thailand to Japan is fully temperature controlled. This good practice enhances the quality and safety of farm products. Moreover, the producers and consumers work closely. They prepare production plan together twice a year. Tha-yang agricultural cooperative will keep detailed records on inputs, weather conditions and yield information. Similarly, TOTO consumer cooperatives provide consumer needs information so that they both can improve product quality that meets market specifications.

This business has generated income to Tha-yang Agricultural Cooperatives members more than 30,000 baht per family per year. This concept has been extended to other agricultural cooperatives e.g., Ban-lat Agricultural Cooperative Ltd., in Phetchaburi province, and Thung-Ka-Wat Farmers' Group in

Chumporn province. They both now can export high quality bananas to consumer cooperatives in Tokyo and Osaka, Japan.

### **3) Electronic Commerce and Use of Internet**

E-commerce is a new way of commercializing products. It offers marketing of products and services via the Internet. CPD has promoted and supported agricultural cooperatives to set up their web sites for E-commerce of their products. However, the development so far is limited. Only few agricultural cooperatives have their own websites.

### **4) Cooperative woman group**

Under the guidance of the agricultural cooperatives, the Cooperative Woman Groups (CWG) are formed among cooperative members and their family to run micro activities by using indigenous knowledge. Each group has between 20-50 woman-members and conducting various activities relevant to member's needs and skill. Generally, the CWG has 3 major roles, economic development, family health care improvement and moral activity. Nowadays, CWG can generate supplementary non-farm income to family by selling their products such as processed food and handicraft. Throughout the country, about 1,300 CWG have been formed with more than 100 quality certified products marketed under the One Tambon One Product (OTOP) program.

### **5) The concept of cooperative company**

Because of some limitation of the agricultural cooperatives to carry out business quickly, some agricultural cooperatives have created subsidiary companies which are owned and controlled by them. An example in this case is "Thai Agri-Business Co.,Ltd. (TABCO)". TABCO is a company belongs to 74 primary agricultural cooperatives in the country. TABCO serves its Cooperative members by purchasing and distributing fertilizers and equipments for agricultural production, collecting and marketing farm products, such as paddy, coffee, corn, para-rubber or fruits for their cooperative members to domestic and export market.

### **6) Associate members**

By law, agricultural cooperatives were permitted to admit associate members. However, associate members have no right to vote. In term of business, this permission will make agricultural cooperatives to become a more community-based cooperative. They can work with young people who are not qualified to be regular members. Ban Lat Agricultural Cooperative, Ltd. is a good example in this case. It has more than 4,000 associated members. Most of them are non-farmers but town resident and, therefore, are not eligible to certain services such as credit and marketing of farm products. But they are eligible for saving services. This cooperative is able to tie up different groups of people in the community together.

### **7) Value-Addition**

Some agricultural cooperatives in Thailand undertake value-added operation through processing, grading, packaging and branding products in order to gain market competitive advantages. Examples of this are Kaset-Visai

agricultural cooperative ltd., in Roi-Ed province and Tap-Pratan Farmers' Group in Ang-Thong province. The former created its own brand for Hom-Mali 105 Rice to distinguish its products from others while the latter changed conventional rice to herb-coating one in responding to high demand.

In addition, in the macro view, the two significant observable features in the agricultural cooperative movement are:

### **1) Cooperative Policy Development**

In 2003, the cooperative movement in Thailand had its first master plan - "Cooperative Development Plan 2003-2006". This plan was regarded as a "road map" for development of cooperative movement. It was the outcome of joint efforts of those in the cooperative movement and the general public. As a result of the six strategies clearly outlined in the master plan, significant progress has already been noted. Because of this master plan, the Cooperative Act has been amended to allow for greater flexibility. The Act is now being reviewed by the parliament.

### **2) Support from the government**

Thai government by Cooperative Promotion Department (CPD), has continuously invested a large amount of resources, through various programs, for agricultural cooperative development. The important development schemes, among others, are the establishment of central markets for agricultural products in 870 villages and 20 bigger product distribution centers throughout the country. Moreover, CPD have launched a Mini MBA program for management staff of the cooperatives throughout the country.

## **IV. Implications and Emerging Needs**

There are two important challenges for agricultural cooperatives in all countries in the liberalized global economy. One is the open market economy in which cooperative have to compete by offering high quality goods and services at competitive prices, and the other is the well being of their farmer-members to which cooperatives have to creating by offering services to them. (Rodrigues,1998) Agricultural cooperatives are business enterprises that need to cope with challenges on their own in the future. They need a strong identity and at the same time an innovative ability compatible with the changing needs in the new market. Cooperatives should know how to change when market changes while maintaining the fundamental cooperatives values.

However, in the new global market the challenges are more difficult and more complex. In case of Thai agricultural cooperatives, these challenges need the measures of the movement and government as follow:-

### **1) Need for strengthening a National Federation of Agricultural Cooperatives**

Due to the ineffectiveness of the Agricultural Cooperative Federation of Thailand Ltd. (ACFT) which functions as a National Federation of Agricultural Cooperatives in Thailand, the primary agricultural cooperatives have no support from the movement at national level. The ACFT currently have limited functions and does not provide the desired back-up supports to primary cooperatives. It has 76 provincial cooperative federation affiliates with over 2,000 primary agricultural cooperatives throughout the country but has invested only around US\$ 3 million in its operations, sold only about US\$ 22 million worth of products. The ACFT should have performed as the Apex Agricultural Cooperatives and engaged in marketing functions such as agro-processing and market information, trade in both local and foreign market, human resource development, consulting services for cooperative management, cooperation with overseas cooperatives and protect the interest of primary cooperatives.

## **2) Need for restructuring of agricultural cooperatives organization**

Thailand agricultural cooperatives are structured in a 3- tiers system; primary cooperatives at district level, provincial federation at provincial level and national federation at national level. Under the existing system, the provincial federations may or may not operate business activities. These allowances created ambiguous roles of the federations and hindered rather than enhanced the efficiency of cooperative movement. The movement should seriously re-conceptualize the system such as reducing the 3-tiers into 2-tiers system by eliminating their second one. This concept is provided remarkably successful in Japan and Korea. The 2-tier system increases efficiencies in management and provision of services of the primary cooperatives (Lee,1999 ; Prakash,2000). It is shown that under the 2-tier system, farmer-members of the primary cooperatives are better off from the direct services of the national federation. However, the tier restructuring is not an easy task due to its sophisticated, highly diplomatic and time consuming process. It requires the commitments of the leaders and the supports of the government and the public.

### **The Tha-yang Agricultural Cooperative, Ltd.: A Success Story**

The story of Tha-yang Agricultural Cooperative, Ltd. (TAC) is a case study of successful innovation practices in exportation of chemical-free Hom Tong Banana to Toto Consumer Cooperative (TCC) in Japan. Through improved product quality that meet market specifications, and through value chain innovations, TAC's product was awarded in 2003 as the "Outstanding Product to Consumer". The purpose of this section are to describe the operation and management of TAC in banana export business and to find out the key factors of the success of the cooperative in this business.

#### **TAC General Information:**

Tha-yang Agricultural Cooperative, Ltd. (TAC) is located in Petchaburi province, approximately 200 kilometers from Bangkok. Established in 1974, TAC

is one of the biggest multipurpose agricultural cooperative in the country. Its main businesses are credit, deposit, banana export and central market service. As of March 2006, there were 2,145 members. In order to provide a better service, the members are divided into 63 groups according to geographical locations. The working capital of TAC was about 130 million baht of which share capital was about 23.6 million baht. The TAC operation was as below:-

• Business Volume (million baht)	107.0
- Deposit	59.8
- Loan	20.2
- Banana export	5.8
- Central market service	21.2
• Net Profit (million baht)	8.9

### **Banana Exporting Business:**

The banana export of TAC began in 1991 when TCC of Japan were interested in high quality and chemical-free banana from Thailand. With the support and assistance from the government, in that year, TAC exported high quality banana as a pilot phase. At this early stage, the export encountered various problems and constraints ranging from quality, standard and freight damages etc. With high determination and cooperation, the two cooperatives worked closely to improve production and post-harvest process as well as freight control. This resulted in banana with qualities that satisfy the TCC consumers. In addition, the two cooperatives also worked closely to arrange supply schedules and exchange production and marketing information in a transparent manner. The business that based on trust between the two cooperatives increased the banana export from 6 tons per month in the first year to more than 30 tons per month today. The business adds the price margins of banana about 20% above those of market. It also reduces the risk from pesticides of 250 growers of TAC while the TCC consumers maximize their utilities by consuming high quality banana at appropriate prices.

### **Business Operation:**

To produce chemical-free banana for export, TAC has to control the production that meets the standards required by TCC consumers, i.e. no any chemicals used in the production process, each banana should not be less than 100 grams, free of pest or diseases, and remain raw prior to export. TAC has the following measures:

1. Select the members with potentials to comply with the production quality requirements of the project
2. Provide training for crop production and maintenance to all project members. The training is under technical support from the government
3. Cooperate with TCC to prepare the monthly supply/export schedules
4. Harvest the crop at 70% ripeness and control post-harvest quality

5. Transport to destination under full temperature-controlled storage facilities

In general, TAC and TCC make purchase agreement by annually. In 2006, TCC specified their demand at 400 tons to be distributed evenly with supply of twice a month. For its 250 project members with total area of 2,000 rai<sup>3</sup>, TAC allocated about 2-5 rai for each member to produce, following the schedules provided. It was expected that each member could earn about 31,500 baht/rai while the cost of production was about 20,106 baht/rai. The net profit of about 11,400 baht/rai of a project member is about 7,000 baht more than that of non-project banana growers in Thailand.

### Factors to Success

The main factors contributing to the success story of banana export to Japan of TAC are:

1. **Cooperation among cooperatives:** It can be said that this successful business is mainly due to the cooperation between the cooperatives. With a common objective to produce chemical-free banana to fulfill demand of the consumers, both cooperatives have patiently and energetically resolved technical and management problems encountered since the start of the cooperation.
2. **Trust:** This business has been built around "trust" of each other. The two cooperatives closely cooperate in production control, transparent information exchange, and consultation on production and marketing plan. For instance, when TCC conducted market promotion, TAC offered special prices; when TAC production damaged from flood and TAC could not deliver the products timely, TCC informed their member consumers. Instead of fining for not compliance with agreement, TCC members donated money to help TAC producers.
3. **Product Traceability:** One important factor to this success is the confidence given to the consumers. For each banana, the consumers can trace right back to the producers. TAC records all information about producers, location and date harvest on each product while TCC provides all information to the consumers. The transparent information flow benefits to both producers to consumers. While consumers can provide feedback on product problems, if any, producers can improve their weakness to satisfy the consumers.
4. **Technical Support:** Part of this successful business could also attribute to the technical support of the government. In the pilot phase of the banana export to Japan in 2001, Department of Agriculture closely provided technical support in production, cleaning, standardization, packaging and transportation. This led to the successful pilot phase and has been developed to now.

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<sup>3</sup> 6.25 rai = 1 hecta

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