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**THE NEW CHALLENGES IN THE 2<sup>ND</sup> CENTURY OF  
AGRICULTURAL COOPERATIVES DEVELOPMENT IN THAILAND**



**By**

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# THE NEW CHALLENGES IN THE 2<sup>ND</sup> CENTURY OF AGRICULTURAL COOPERATIVES DEVELOPMENT IN THAILAND

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## ABSTRACT

Throughout the past century, the agricultural cooperative in Thailand has been continuously developed through the rapidly changing world economy and social environment. Particularly, during the structural transformation of Thai production from the agricultural production to the manufacturing production, the agricultural cooperative had been the instrumental mechanism for the development of Thai agricultural sector.

Since the first cooperative of Thailand, “*Wat Chan Cooperative*”, was established in 1916 as an attempt of the government to alleviate the debt problem of Thai framers, Thai cooperative system has been challenged by several changes of economic and social environments. Currently, the agricultural sector consists of three cooperative types; the agricultural, fishery, and land and settlement cooperatives. However, the agricultural cooperative is the largest type, with the members about 10% of Thai population.

In the past decade, the business performance of Thai agricultural cooperatives has grown up exceptionally, which resulted in the increasing income and advancing social welfare of the cooperative members. During this period, the collaboration between government, such as the MOAC CPD, CAD, BAAC, CAI, and cooperative movement, had contributed to the master plans for Thai cooperative development. However, Thai cooperative movement are now confronting with the new emerging needs and challenges from farmer-

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members and markets that concern about *food safety* and fair trade system, and including the generation of *AEC*. These situations lead to the new adaptation plan for the cooperative system. The upgrading all parts of the system; *functional upgrading, process upgrading, and product upgrading*, become the key mechanisms for the new developing. Including, the expansion of the collaboration from within country to among the Asian members becomes the new issue for cooperative movement in Thailand. As a result, these developments lead to the new gap of the development that the policy makers need to answer and build the new suitable master plans for improving the agricultural cooperative system further.

## I. AN INTRODUCTION TO THAILAND'S SOCIO ECONOMIC DEVELOPMENT

Since the first national economic and social development plan was enacted in 1961<sup>3</sup>, Thai economy and society have been developed continuously. However, the context of Thai economy and society confronted with important changes during that time. For instance, the changing of international trade policy in the mid-1980s which changed from *Import Substitution* to *Export Oriented* strategy resulted in the structural transformation of production and exports of Thailand. The agricultural sector was replaced by the manufacturing sector for the essential production and exports. As a result, the production's proportion of manufacturing sector is accounted approximately 90% of GDP, while the production's proportion of agricultural sector is accounted only 10% of GDP at present (Bank of Thailand, 2015).

Additionally, the important statistic data of Thai economy shows that the Thai labor move from agricultural to non-agricultural sector continuously. The ratio of Thai labor between agricultural and non-agricultural sector is accounted about 40% to 60%. Moreover, the data also shows that the Thai poverty ratio decreases continuously. This ratio decreased from 42.33% in 2000 to 10.94% in 2013 of the total population (National Statistical Office, 2015). However, it is interesting to note that nearly half of the total poor in Thailand are in the agricultural sector (Department of Agricultural and Resource Economics, 2015).

Hence, the economic and social inequality in agricultural sector, such poverty and debts of Thai farmers are raised as top issues that need to be solved urgently. Due to this situation, The Thai government employs the cooperative system to be one of the key instruments for solving problems. Due to the fact that 18% of the total populations are cooperative's members; with 60% of that ratio being members of agricultural cooperatives

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<sup>3</sup> The current national economic and social development plan is number 11 (2012-2016) (Office of the national economic and social development board, 2015).

(Cooperative Promotion Department, 2016). Thus the solution with the cooperative system is one of the methods that contribute comprehensively as possible. As a result, the cooperative agenda has been raised as one of the important national agenda by Thai government in 2015. In order to solve those problems, there is a need to develop the cooperative system in term of integrating and linking with the problems and regarding the global and Thai context of economic and social's changing (Bureau of Agricultural Economic Research, 2016).

## **II. Overview of Agricultural Cooperatives Development**

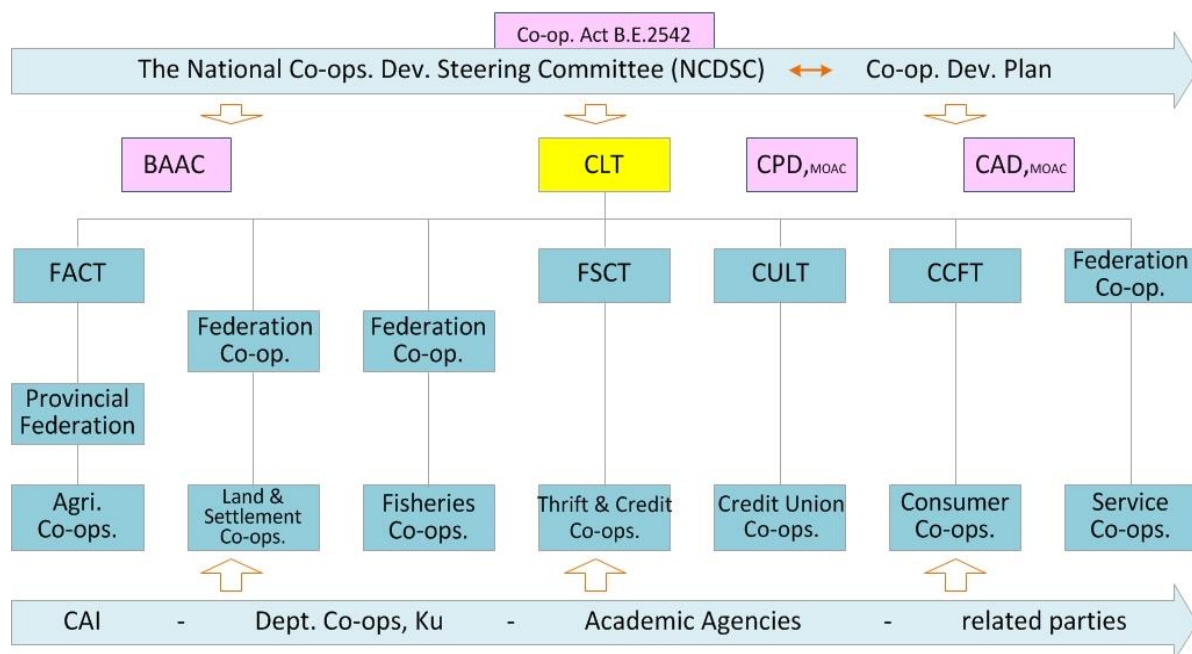
Since the first cooperative (*Wat Chan Cooperative*) in Thailand was established in 1916 due to the government's attempt to alleviate the debt problem of Thai farmers, the Thai cooperative system has been developed continuously.

At present, cooperatives in Thailand are officially categorized into seven types: 1) Agricultural Cooperatives, 2) Land Settlement Cooperatives, 3) Fisheries Cooperatives, 4) Consumer Cooperatives, 5) Thrift and Credit Cooperatives, 6) Service Cooperatives, and 7) Credit Union Cooperatives. The Agricultural, Land Settlement, and Fisheries Cooperatives are categorized as a group in the agricultural sector, while the rest are classified as a group in the non-agricultural sector.

In terms of the cooperative structure of agricultural sector, the agricultural cooperative is vertically structured in a three-tier system: primary, provincial federations and national federations while the rest of this sector is only vertically structured in a two-tier system: primary and provincial federations. All of the cooperatives in Thailand operate under the "Cooperative Act B.E. 2542".

According to the Cooperative Act B.E. 2542, the minister of the ministry of Agriculture and Co-operatives (MOAC) is the chairperson of the National Cooperative Development Steering Committee (NCDSC). NCDSC has responsibility to develop the policy on co-

operatives and the national co-operative development plans. Besides, the MOAC has two specified departments for cooperatives, i.e. Co-operative Auditing Department (CAD) and Cooperative Promotion Department (CPD). Meanwhile, the Co-operative League of Thailand (CLT), which was established according to the Co-operative Act in 1968, is the national apex organization of the cooperative movement of Thailand and affiliates all cooperative sectors as members. All cooperatives in Thailand become members of CLT automatically, including cooperatives at national level, provincial level, primary level as well as multi-provincial co-operative societies. Meanwhile, in case of the agricultural cooperatives, the Agricultural Co-operative Federation of Thailand Limited (ACFT) is the national organization of this cooperative type that services the members both cooperative businesses and knowledge (Co-operative Auditing Department, 2016). Additionally, the cooperative movement in Thailand had its master plan – “Cooperative Development Plan”. This plan was regarded as a *Strategic Framework* for the development of the Thai cooperative system.



**Figure 1: The Cooperative System of Thailand**

Source: Patrawart, J. (2016)

**Membership.** As of January 2015, the Cooperative Movement of Thailand was composed of 7,043 cooperatives with an individual membership of 11,470,013 or about 18% of the total Thai population. Moreover, the ratio of membership per cooperative was accounted at 1,629 persons per cooperative. Meanwhile, the proportion of cooperatives in Agricultural and non- agricultural sector<sup>4</sup> was accounted at 54% and 46% respectively. With regards to the Agricultural sector, the data shows that the Agricultural Cooperative has played a major role in this sector. There are 3,822 cooperatives with an individual membership of 6,666,437 or about 56% of the total cooperative membership in Thailand (Table 1).

Table 1: Distribution of primary cooperatives and their membership, as of January 2015

Category of Cooperatives	Number of cooperatives	Number of member	Ratio (Member/Cooperative)
<i>Agricultural Sector</i>	3,822	6,666,437	1,744
Agricultural Cooperative	3,650	6,460,543	1,770
Land Settlement Cooperative	90	189,850	2,109
Fisheries Cooperative	82	16,044	196
<i>Non-agricultural Sector</i>	3,221	4,803,576	1,491
Consumer Cooperative	164	735,664	4,486
Thrift and Credit Cooperative	1,403	2,859,905	2,038
Service Cooperative	1,127	473,218	420
Credit Union Cooperative	527	734,789	1,394
Total	7,043	11,470,013	1,629

Source: Cooperative Promotion Department, 2016.

<sup>4</sup> Cooperatives in agricultural sector consist of agricultural cooperative, Land Settlement Cooperative and Fisheries Cooperative, Cooperative in Non-Agricultural sector consist of Consumer Cooperative, Thrift and Credit Cooperative, Service Cooperative and Credit Union Cooperative.

In addition, during 2011-2015, the total business volume of cooperatives in the agricultural sector has an average annual growth of 25.32, 10.73, 7.66, -8.30 and -10.80. Its average per member dwindled from 22.50, 8.74, 5.84, -9.13 and -11.65 in the same period. (Table 2)

Table 2: Business Performance of cooperative in agricultural sector during 2011-2015

(Unit: \$Million dollars)

Type of Business	2011	2012	2013	2014	2015
Saving and deposit	1,900.62	2,106.61	2,344.37	2,072.00	2,108.20
Credit	2,886.22	3,200.90	3,856.37	2,531.00	2,652.80
Purchasing	1,663.34	1,892.54	2,221.00	3,063.00	1,928.50
Marketing	3,460.48	3,773.91	3,393.34	3,079.00	2,885.00
Other services	15.41	17.10	17.69	106.00	105.70
Total Business Volume	9,926.08	10,991.06	11,832.77	10,851.00	9,681.00
Growth Rate (percentage)	25.32	10.73	7.66	(8.30)	(10.80)
Average (\$US/ Member)	1,571.85	1,709.18	1,808.99	1,643.71	1,452.20
Growth Rate (percentage)	22.50	8.74	5.84	(9.13)	(11.65)

Source: Cooperative Auditing Department, 2016

### III. SUPPORTING SYSTEM

There are many important organizations supporting the knowledge and fund for the development of the cooperative system in Thailand. To critically understand the overall and specific roles of these organizations, this paper explain the 5 major functional roles of these organizations as follows;

1) *Cooperative Auditing Department (CAD)* The main duty of CAD comprises both cooperative auditing and practical guidance in the field of financial and accounting management. Thus, the key missions of CAD are to develop and design appropriate



accounting system to cooperatives and farmer groups and also provide good financial and accounting knowledge to cooperatives, farmer groups and community enterprises. In order to achieve the missions, key strategies are employed to establish the main framework for financial and auditing development of Thai cooperatives. For example, the CAD coaches financial and accounting management of cooperatives and farmer groups and builds up financial information of cooperatives. Besides, the CAD strengthens farmers, youths and others in financial and auditing development and improves the efficiency in management of organizations via the training programs. These programs are created for teaching and training cooperatives, and farmer associations' members, staff and board members in order to improve their accounting quality and abilities in making use of financial data for decision making in management and business.

2) *Cooperative Promotion Department (CPD)*, the main duty of CPD is promoting and disseminating the cooperative ideology, principles and methods to cooperative personnel, farmer groups and the public, promoting, supporting and strengthening the cooperative system, improving cooperatives' learning process to increase the capacity of business management as well as the efficiency of their operation, and encouraging cooperatives to upgrade the business linkages to international levels for better living quality of cooperatives members both socio-economic aspects. Besides, the CPD studies, analyzes and suggests the guidelines of cooperative development to the National Cooperative Development Board and also takes other actions that are prescribed as authority and function of Cooperative Promotion Department or assigned by the Ministry of Agricultural and Cooperatives or the Cabinet.

3) *Cooperative Academic Institute (CAI)*, CAI has played an essential role as the organization supporting the research to develop the cooperative system in Thailand for the past decade. The CAI was established in 2004 under the aforementioned strategy, its mandate

is to be an academic institute that engages in research and academic support to the Co-operative Development both in co-operative movement and local community's sustainable development. The CAI is an organization in the Faculty of Economics, Kasetsart University and is a strategic unit of the Faculty of Economics on the promotion of interdisciplinary research and learning on the co-operative and community-based economy by engaging faculty members and researchers across the country. Moreover, the CAI aims to foster, coordinate and promote the dissemination of interdisciplinary research related to co-operative economy in Thailand and related parties. The Development of Co-operatives and Fairtrade Research Programs (The DC&F) is the main research program of CAI supported by Thailand Research Fund (TRF) since 2004. It provides research grants for researchers to cooperate in joint research through the research's coordinator. CAI has played an essential role in drafting the Cooperative Development Plan since 2006.

4) *Cooperative Development Fund* (CDF), CDF was set up according to the Cooperative Act B.E.2542 (1999) for the purpose of loaning as working capital to cooperatives and farmer group. CDF is sourced from subsidy from annual government budget, donations by money and properties, working capital for cooperative promotion transferred according to Cooperative Act 1999, money or income from purchasing certain properties, interest or benefits from or other transactions. The key purpose of CDF is to loan cooperatives and farmer groups as working capital, and subsidize cooperatives without repayment.

5) *Bank for Agriculture and Agricultural Cooperatives (BAAC)*, BAAC was established in 1966 in order to solve financial problems of farmers and agricultural cooperatives. The key activities related to the first main objective are to focus on reducing informal loan and provide more financial products during 1966 – 1986. Then, the BAAC expanded more BAAC's financial assistance coverage by offering financial services to small

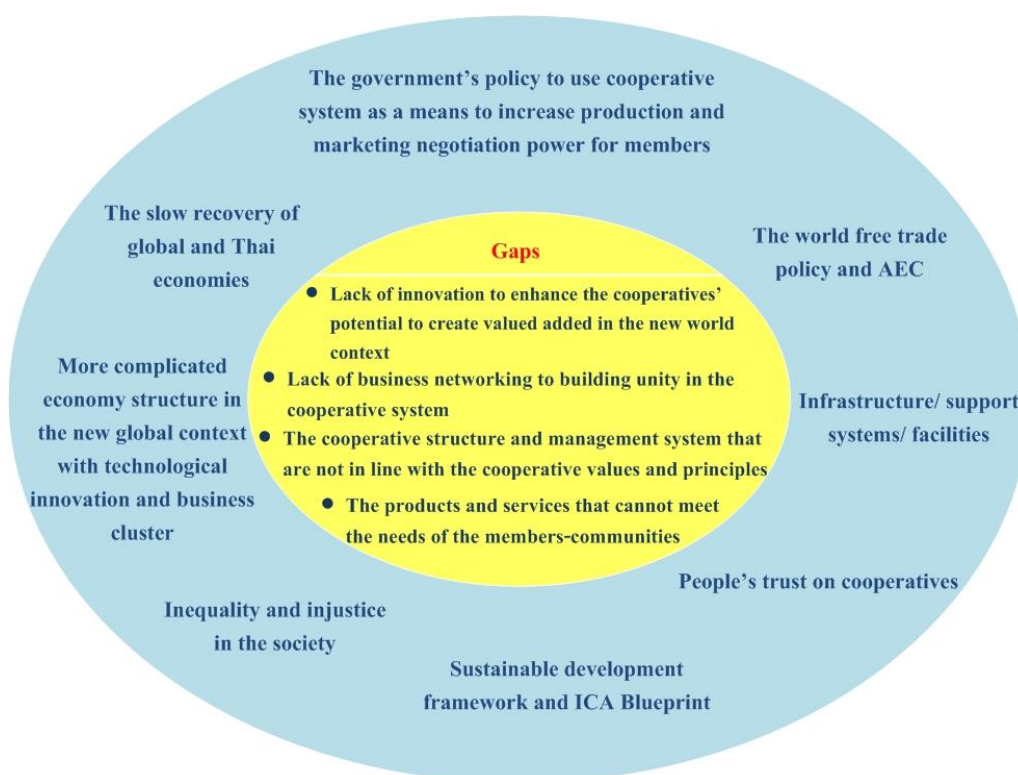
scale farmers and the poor who normally never be granted to gain access to financial services from financial institutions. Moreover, BAAC developed exceptional criterion for providing loan for those who are in need. Regarding the fact that individual farmers are always at a serious disadvantage when selling their agricultural produce, BAAC, in collaboration with the Cooperative Promotion Department, took the initiative to help farmers establish Agricultural Marketing Cooperatives (AMCs) in order to gain more bargaining power by the collective purchasing of farm inputs and equipment and selling of agricultural produce.

#### **IV. Strategic Framework in 2<sup>nd</sup> century of Agricultural Cooperatives Development in Thailand**

The assessment of direction and trend of global and Thai economies pointed out some important issues for not only cooperatives' opportunities but also limitations. These are: government policy that uses cooperative system as a mean to increase production and marketing negotiation power for people; the world free trade policy and the move towards ASEAN community; the investment policy on infrastructure; support system and facilities; the use of public-private partnership business model; the slow recovery of global and Thai economies; the economic structure in the new global context which is more complicated and makes use of technological innovation and business cluster to increase negotiation power; inequality and injustice in society; the global trend of sustainable development; the cooperative development framework following the ICA Blueprint; and people's confidence and trust on the cooperatives.

The review of literature and related research as well as lessons learned from seminars hosted by the Co-operative Academic Institute and associates in the past decade pointed out some important cooperative gaps. These include the current cooperative structure and administrative system which are not suitable for cooperative operations considering the

identity of being autonomous and independent. Products and services of cooperatives are the beginning (materials) and ending (end customers) of supply chain only. Cooperatives still lack methods to raise the demands among members and general customers to use their products and services, making them unable to add value to their products and services as much as they should be able to. Moreover, cooperatives lack a mechanism for business networking for stability of the cooperative business system and lack a mechanism for innovation to enhance their competitiveness. (figure 2)



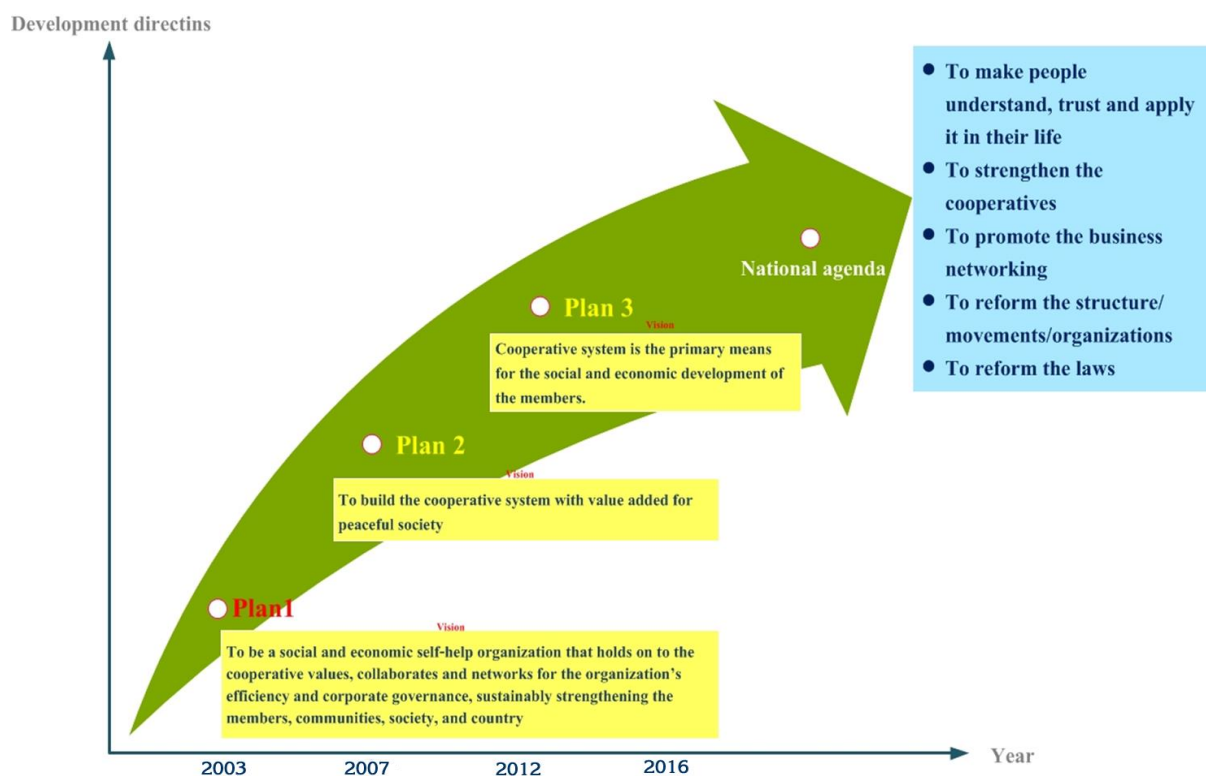
**Figure 2: Strategic challenges and gaps**

Source: Patrawart, J et al. (2016)

### 1) Previous cooperative development direction framework

There has been a strategic direction framework for cooperative development in Thailand since B.E. 2546 and the Board of National Cooperative Development has so far announced three Cooperative Development Strategies in Thailand as well. In addition, in B.E. 2555, the Cooperative National Agenda was announced and included five main points:

to make people understand, believe in, and apply the cooperative ways in their daily life; to strengthen the cooperatives; to support the cooperative networking; to reform the structure/movement and related organizations; and to reform the cooperative law. The cooperative movement is limited to central institutions and some cooperatives only. The follow-up assessment found that the leaders and management divisions still do not know about the strategic framework. (figure 3)



**Figure 3: The development of Thailand's Cooperative Strategies**

Source: Patrawart, J et al. (2016)

## 2) Strategic Framework in 2<sup>nd</sup> century of Agricultural Cooperatives Development in Thailand

In order to propose the policy and the strategic framework for cooperative development, the Co-operative Academic Institute has performed Key Trends Analysis and

GAPs Analysis and defined the following target goal and four core strategies for cooperative development (figure 4).

Target goal: to enhance the cooperative potential in order to reduce inequality and create justice in the society.

The four core strategies are:

Strategy 1: to enhance the associate collaboration in order to strengthen the cooperatives. This can be done using six main tactics: 1) to enhance the associate collaboration in order to strengthen the cooperatives; 2) to set the agenda, roadmap, and platform of business networking among the cooperatives; 3) to reform the cooperative movement structure to be supportive of business networking; 4) to apply PPP innovation in order to integrate collaboration among the cooperatives for the benefits of the members; 5) to create a mechanism for enhancing potential of members, leaders, managers, and stakeholders; and 6) to develop Co-ops to Co-ops Business.

Strategy 2: to add value to the cooperatives' products using Moving Up Value Chain comprising of six major tactics: 1) to add value to the cooperatives' products; 2) to set the agenda and roadmap to promote Global Value Chain (GVC) in cooperative business; 3) to develop and publicize the platform of the functional upgrading under the supply chain; 4) to develop and publicize the platform of the process upgrading under the supply chain; 5) to develop and publicize the platform of the product upgrading; and 6) to establish the cooperative business promotion unit under the value adding framework.

Strategy 3: to develop a cooperative financial system that is supportive of the stability of the cooperative system. This strategy includes six tactics as follows: 1) to develop a cooperative financial system that is supportive of the cooperative stability; 2) to create mutual understanding amongst people in the society and stakeholders in the cooperative financial context; 3) to promote the establishment of stabilization funds in order to guarantee the

cooperative stability under the members' control; 4) to build a knowledge management mechanism in terms of basic financial knowledge that can be accessible and understandable by the members and the stakeholders; 5) to promote a cooperative role as a financial institution for people so as to help people develop self-discipline, to disseminate some basic knowledge to people, and to provide fair services to people; and 6) to set the agenda and roadmap of the development of cooperative financial system based on mutual collaboration.

Strategy 4: to reform the support systems and facilities. This can be done through the following six tactics: 1) to develop the support systems and facilities; 2) to set the agenda and roadmap of the development of the support systems; 3) to reform the budgeting system of the government organizations relevant to the cooperative promotion for integrity and following-up and evaluation processes; 4) to reform the laws/regulations and monitoring systems; 5) to develop the ICT system in order to serve the cooperative business networking and auditing; and 6) to create knowledge management system for the youth and stakeholders so that they can have access to the database and understand as well as appropriately take part in the cooperatives.



**Figure 4: Target Goals and the Development Strategies**

Source: Patrawart, J et al. (2016)

## V. CONCLUSION

Throughout the century, the agricultural cooperative development in Thailand has been developed continuously. Although the changing of world economy and social environment result in the structural transformation of Thai production when the agricultural production is replaced by the manufacturing production; the agricultural cooperative also has been the key growth engine for developing the agricultural sector in Thailand. Particularly, the business performance of Thai agricultural cooperatives has grown up exceptionally during the past decade. This situation result in generating income and upgrading social



welfare of the cooperative members. Meanwhile, the collaboration between government counterparts, such as the MOAC CPD, CAD, BAAC, CAI, and cooperative movement, contributes to master plans for Thai cooperative development. However, Thai cooperative movement are confronting new emerging needs and challenges from farmer-members and markets that are concerned about *food safety* and fair trade system, including the generation of AEC. These situations lead to the new adaptation plan for the cooperative system. The upgrading all parts of the system; *functional upgrading, process upgrading, and product upgrading*, become the key mechanisms for the new developing. Including, the expansion of the collaboration from within the country to among the Asian members becomes the new issue for cooperative movement in Thailand. As a result, these leads to the new development gap that policymakers need to solve and build a new suitable master plan for improving the agricultural cooperative system further.

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