

AN ECONOMIC ANALYSIS OF THE
PERFORMANCE OF THE AGRICULTURAL COOPERATIVE
SYSTEM IN THAILAND

by

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D E C L A R A T I O N

Except where otherwise indicated, this dissertation is my own work.

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ABSTRACT

The multi-purpose agricultural cooperatives of Thailand play an increasingly important part in the economic life of the country. They are an instrument of Thai government policy, intended both to help modernize farming and to perform welfare functions, especially in relieving farmers from debt. They are expected to carry out a number of purposes, i.e., credit, selling farm supplies, purchasing crops etc.

The data available were mainly aggregates, so that the study is essentially a macro study. But it is combined with attempts to probe the situation also at the micro level. Thus, the study was primarily concerned with analysing data from the agricultural cooperatives in the aggregate but also presents a case study of 3 individual societies. The whole study was based on time series analysis and cross sectional analysis.

The study stresses the inadequacy of management of the cooperatives in decision-making, financial skills, attracting business to the societies and in maintaining the loyalty of their members. It also shows that the aims of the government are not being effectively realized. Some assistance is being given through the cooperative system to the modernization of agriculture, but this seems to be only limited. The movements' welfare aims, however, are hardly being carried out. The farmers that benefit from subsidised state assistance channelled through the cooperative system are the middle income class. The poorer farmers so far seem to be missing out on the benefits. Overall,

less than 10 percent of all farmers are members of societies.

On the financial aspects of the societies, the accountancy system was found to be inadequate. The accounts are not presented in a conventional way and fail to make adequate provision for doubtful debts, depreciation and stock changes. They also lack a flow of funds statement which would help make the financial position clearer now that the societies are undertaking multi-purpose activities.

The concluding chapter of the thesis gives some recommendations for remedial action. More specifically, it makes three main recommendations. First, that the efficiency of primary level cooperative management should be improved through incentive payments and greater training, especially in financial skills. Second, that the societies should be granted greater flexibility to respond to market conditions, in offering higher prices or in paying higher interest rates, so as to attract more membership and greater loyalty from their members. Lastly, that much more extensive research should be carried out on agricultural cooperatives in Thailand.

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GLOSSARY OF ABBREVIATIONS

ACFT	The Agricultural Cooperative Federation of Thailand
BAAC	The Bank for Agriculture and Agricultural Cooperatives
CLT	The Cooperative League of Thailand
CPD	The Cooperative Promotion Department
CRC	Cooperative Resources Committee
CMPF	Cooperative Marketing and Purchasing Federation of Thailand
CWST	Cooperative Wholesale Society of Thailand
DCA	Department of Cooperative Auditing
MAC	Ministry of Agriculture and Cooperatives
NESDB	National Economic and Social Development Board
NIDA	National Institute Development Administration

CONVERSIONS

1 rai = 0.16 hectares

= 0.395 acres

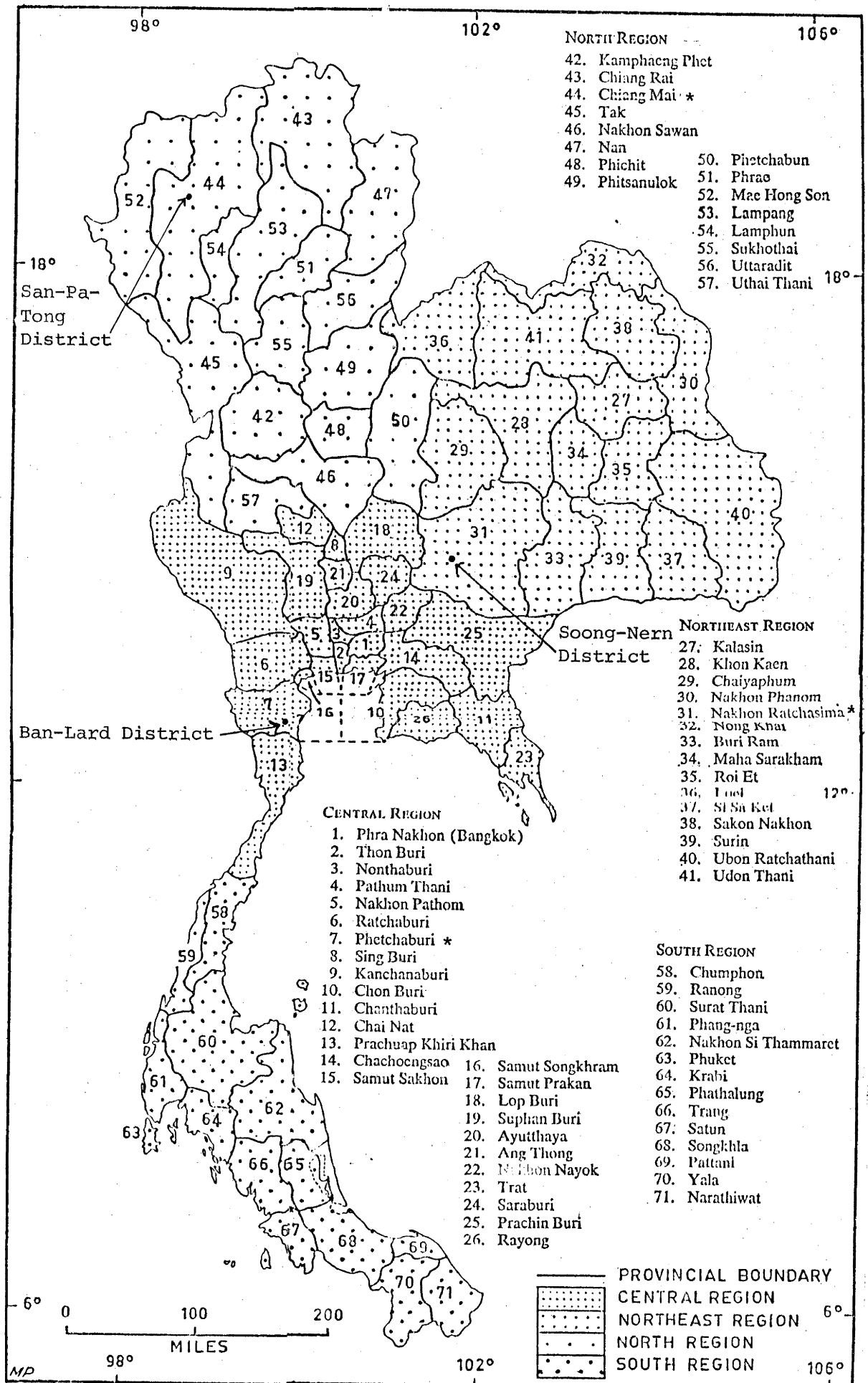
1 hectare = 6.25 rai

1 acre = 2.53 rai

exchange rates 1971-76

1 Baht = 4.8 US cents

US\$1 = Baht 20.8



Source: Silcock, 1970.

*Study areas in these Provinces.

CHAPTER I

INTRODUCTION

1.1 Introduction

A large proportion of the people in most of the developing countries in Asia endure low living standards resulting from poverty. In addition, these people are often exploited by middlemen and the higher classes which worsens their living conditions. The newly developing nations have, therefore, searched for suitable patterns of agricultural development to create the conditions for economic progress and to ensure a fair distribution of the gains to lower income groups. In doing so, rural development must be tackled as an integrated problem encompassing all economic, social, scientific and cultural aspects. Of all these measures used, "cooperation" is frequently seen as a strategy best suited to improve living conditions in the rural communities. At this level co-operatives deal with credit, farm supplies, agricultural extension, marketing, water management, education and any business activities needed by the community.

Although the cooperative form of business is by no means a panacea to cure all economic and social ills, it may help in the following way (McGrath 1969, p.2)

- (a) it gives the farmers some leverage in the market place;
- (b) it keeps the economic proceeds of a region invested locally;
- (c) it provides experience in management and democratic decision-making; and

- (d) it supplies incentives to farmers to stay on their land instead of migrating to the cities.

Some Asian countries have successfully carried out part of their economic and social development through cooperatives, e.g. Japan, South Korea, Taiwan and to a lesser extent India, although it is true that the cooperative system has also proved disappointing in many cases. The Thai Government seems to have hopes of the potential of the cooperative movement as a means of improving life for small farmers, and has done several things to encourage the cooperative movement in Thailand.

1.2 What is Cooperation?

In the past, the definition of the concept of cooperation usually proceeded consciously or unconsciously from the European types. Today, however, a definition of the concept of cooperation has developed far away from the countries where it originated in Europe. A good definition which should be fruitful with regard to the situation in developing countries is given by the International Labour Office (1963, p.5):

"Cooperation has been defined for different purposes and in slightly different ways by economists, law makers and others. Perhaps it is enough to say that the cooperative is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking."

The fundamental principles of cooperation which have been adopted to lay the foundation for cooperative action and which distinguish the cooperative society from other types of enterprise have been those established by the Rochdale Pioneers, started in 1884, they include:

- (a) open membership;
- (b) democratic control;
- (c) limited interest on shares;
- (d) patronage rebates;
- (e) goods to be sold at current market rate
and for cash only;
- (f) neutrality in race, religion and politics;
- (g) sale of pure and unadulterated goods; and
- (h) continuous education of members.

These principles, however, are not everywhere applicable because they were based on consumer cooperation and some have become out of date in some respects owing to certain recent developments within the movement (Helm 1968, p.6).

The article cited from the International Labour Office (ILO 1963, pp.7-8) gives six general principles for cooperative rules:

- (a) membership in the society must be fully
voluntary, and open to everyone;
- (b) all members must have an equal voice in
the affairs of the societies, each member
will have one vote only, no matter how many
shares he has subscribed;
- (c) all members make a roughly equal con-
tribution to the capital of the society;
- (d) interest on shares is restricted and
relatively low;

- (e) surplus must be distributed to members
in proportion to their business with the
society; and
- (f) a cooperative society must be owned and
controlled by those who use it.

Cooperation can, however, be considered as an economic superstructure servicing the affiliated economic units: marketing, industries, credit, banking and insurance, and agriculture. This study will concentrate on cooperation in the field of agriculture because agriculture has been and still is the mainstay of the Thai economy.

1.3 General Introduction to Thailand

The kingdom of Thailand is located in Southeast Asia, entirely within the northern tropical zone. It has an area of 321 million rai ⁽¹⁾ (514,000 square kilometres). Of this total, the farm holding area was 109.4 million rai (17.5 million hectares) or 34 percent in 1973. (Thailand. Division of Agricultural Economics 1976, p 6). The country may be divided into 4 regions which coincide with the geographical zones and administrative purposes of the country. The North consists of 16 provinces, and is the second largest region with 33 percent of the total land area, mostly mountainous. The Northeast, 16 provinces, is the largest area with 33.1 percent of total land. Cultivation there is generally very unproductive, owing to poor soil and lack of water. The Central region, 26 provinces, is the most productive region owing to good soil and a suitable climate. The South, 14 provinces, is the smallest region. Its high humus light soil in some parts and sandy soil with heavy rains make it suitable for the cultivation of rubber, coconut and fruits (Hongladarom 1971, p.5).

As of 1976, the total population of the country stood at approximately 42.9 millions. It has an average growth rate of 2.7 percent (Thailand, Economic Studies Division, 1977a, p.33), which is considered

(1) 6.25 rai = 1 hectare

high according to world standards. In the same year, Thailand's per capita income was about \$US369 (Thailand National Accounts Division, 1976a, p.2).

1.4 Agriculture in the Thai Economy

Thailand is essentially an agricultural country, although other sectors of the economy are rapidly gaining in importance. Yet, the agricultural proportion of the Gross Domestic Product (GDP) remains the largest, about 27 percent including fishing and forestry (Table 1.1). 75 percent of the total population is engaged in agriculture. The sector provides some 70 percent of total export earnings.

Thai agriculture consists primarily of crop production. Rice is not only the most important crop for domestic use, but also the country's principal export, i.e., its contribution to Thailand's export is 14 percent and to Gross Domestic Product 10 percent in 1976 (Thailand National Accounts Division 1976a). The role of rice has been so dominant that until a decade ago, Thailand was essentially a one-crop economy. Thailand has made astonishing progress in the diversification of crop production, i.e., maize, rubber, cassava and kenaf.

The success of Thai agriculture in expanding and diversifying its production has contributed perhaps decisively to the remarkable economic development of the country over the past decade. Agriculture created a large share of the resources on which the rest of the economy built its rapid growth, primarily by earning foreign exchange.

1.5 The Problems

During the First and Second Plan periods (1960-1966 and 1967-1971), the Thai economy experienced some structural changes. There had been a shift of production away from agriculture toward industrial production, services and raw material exploitation. The share of agriculture in GDP had decreased from 38 percent in 1961 to 28.2 percent in 1971, while

TABLE 1.1

GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN AT CURRENT MARKET PRICES

(million of Baht)

Industrial Origin	1971	1972	1973	1974	1975	1976
1. Agriculture	40,786	49,919	73,233	75,033	91,182	97,135
Crops	28,084	35,960	56,443	63,204	67,673	73,093
Livestock	5,474	5,882	6,278	10,314	11,592	11,659
Fisheries	4,489	5,206	6,975	7,545	7,889	8,173
Forestry	2,739	2,871	3,537	3,970	4,028	4,210
2. Mining and Quarrying	2,963	2,886	2,857	4,708	4,303	3,964
3. Manufacturing	24,908	27,864	35,614	46,372	51,358	59,529
4. Construction	7,327	7,168	8,340	10,538	11,913	13,791
5. Electricity and Water Supply	1,904	2,251	2,682	2,814	3,286	3,499
6. Transportation and Communication	8,955	10,514	13,237	15,992	17,979	20,689
7. Wholesale and Retail Trade	26,269	29,881	41,071	53,488	53,002	58,797
8. Banking Insurance and Real Estate	6,251	6,922	8,797	12,233	14,649	17,563
9. Ownership and Dwellings	3,100	3,199	3,552	4,179	4,433	4,802
10. Public Administration and Defence	6,664	7,178	8,292	10,530	12,724	14,255
11. Services	15,480	16,844	18,868	23,086	26,958	31,088
Gross Domestic Product, (GDP)	144,607	164,626	216,543	268,973	291,787	325,112
Plus: Net Factor Income Payment from the Rest of the World	30	-327	-424	1,079	111	-1,133
Gross National Product, (GNP)	144,637	164,299	216,119	270,052	291,898	323,979

Sources: Thailand. National Accounts Division 1976a.

industrial production, manufacturing, construction, mining and quarrying and electricity had increased their share from 19.3 percent to 25.7 percent during the same period. Since 1971, the share of agriculture in current prices had changed quite significantly year by year, owing mainly to large changes in rice prices. In 1973 the agricultural share in the GDP (current prices) rose to nearly 34 percent, but by 1976 it was under 30 percent.

However, the percentage figures showing the share of agriculture in GDP at current market prices during 1971-1976 are rather difficult to follow owing to the weight of rice in the valuation and to the annual fluctuation in rice prices. Therefore, a 3 year moving average was worked out to indicate the longer term trend. According to these calculations, the share of agriculture declined from 31.2 percent in 1971-73 to 30.8 and 29.7 percent in 1973-75 and 1974-76 respectively.

Mention should be made here of changes in the general level of prices which took place during the period of the study, that is between 1971-76. Data on prices in rural areas in Thailand are available only for wholesale goods. The cost of living index compiled is confined to the urban areas. Taking the Wholesale Price Index published by the Bank of Thailand (1978, base 1968 = 100) prices are shown to have risen by only 0.3 percent in 1971 and by 7.8 percent in 1972. The following two years WPL rose sharply, by 22.8 percent in 1973 and 28.9 percent in 1974. It slowed down markedly in 1975 to 3.7 percent and declined further to 2.5 percent in 1976. The average annual rate of growth between 1971 and 1976 was nearly 13 percent.

The major problem of agricultural production in Thailand is low production resulting from low productivity, and low returns. From Machima's discussion (1976a, p.13), the factors which caused low production and productivity in Thailand are the following:

- (a) lack of adequate irrigation facilities and lack of water management. Only 15 percent of the arable area is under irrigation;
- (b) lack of technical know-how among the farmers due to a low level of education and training;
- (c) the land tenure system is not conducive to agricultural development because of the small size of land holdings (around 6 acres [2.4 ha.] per family), fragmentation and a large number of tenant farmers. At present 25 percent of the farmers are tenants;
- (d) unemployment or disguised unemployment problems in the rural areas due to the surplus of unskilled manpower in the rural areas;
- (e) lack of credit institutions and credit facilities for agricultural production. Only 25 percent of the farmers in Thailand (in 1972) were financed by credit institutions; government, cooperatives, Bank for Agriculture and Agricultural Cooperatives and commercial banks. Assistance is minimal compared to actual needs, only 1,027 Baht¹ per family, while the need is 5 or 6 times higher;

¹ 20.8 Baht = \$US1.00

- (f) lack of agricultural extension facilities.

According to the latest figure, it is estimated that the ratio of agricultural extension workers to farm families in Thailand is 1:5,000, while in Japan it is 1:540, in Taiwan 1:1,500;

- (g) natural disasters, i.e., drought, flood, disease, pestilence etc. Droughts and floods alone are estimated to reduce rice production in the delta region by as much as 30 percent in 1 out of 3 years (Sabatini 1972, p.14);
- (h) lack of information on the application of fertilizers, pesticides, insecticides and a low degree of farm mechanization.

According to Machima (1976a), low returns are due to:

- (a) lack of marketing institutions;
- (b) lack of price support policy from the government;
- (c) farmers poor planning of production;
- (d) lack of group efforts among farmers;
- (e) lack of sufficient understanding of farm problems, farm business and the procedures on farms;
- (f) exploitation by middlemen.

Because of these problems, development of the agricultural sector has been made the principle target of the development plan. Of all the

efforts made, agricultural cooperation is the measure designed to help improve rural communities through the provision of credit, marketing, farm supply processing of agricultural products, farm extension and other services related to farmers.

1.6 Objectives of the Study

Specifically, the objectives of the present study are:

- (a) to make an aggregate analysis of the performance of agricultural cooperatives in general;
- (b) to analyse the past performance of certain selected agricultural cooperatives that are judged to be relatively efficient. To identify the factors influencing such efficiency and the bottlenecks which prevent further increasing efficiency of these relatively successful societies; and
- (c) on the basis of (a) identify problems which impede the progress of agricultural cooperatives in general.

1.7 The Data

The data used in this study are compiled partly from official sources and partly from Thai academic studies. The thesis has drawn heavily on work by two Thai academics. They were Machima (1975, 1976a, 1976b and 1977) and Doungsawasdi (1976). The principal official sources are the Cooperative League of Thailand; the Cooperative Promotion Department; the Department of Cooperative Auditing; the National Economic and Social Development Board; and other available supplementary statistics.

In addition, the author was able to make a field trip to study cooperative societies in several areas of Northern Thailand. Although no formal evidence or statistics were collected from the many farmers and officials interviewed in the societies, the general impressions gained were of great value for the purposes of the study, in giving a realistic background for evaluating the movement, at least in this region.

1.8 Organization of the Study

This study is presented in six chapters. The first chapter has stated the general principles of cooperation, the main problems of the Thai economy, the purposes of the study and the data. The second chapter provides the overall details of the cooperative movement in Thailand as they relate to agricultural cooperatives. Chapter three takes a closer look at the management and activities of overall agricultural cooperatives and aims to provide an analysis of factors relevant to the cooperative movement. Chapter four analyses the financial conditions of agricultural societies in the aggregate. Chapter five analyses and compares three agricultural cooperatives which were recreated from 1969 onwards and have so far proved better than the average. It seeks to explain the apparent reasons for this quite successful performance. The final chapter gives conclusions and policy implications in the light of the findings of the study.

CHAPTER II

THE AGRICULTURAL COOPERATIVE MOVEMENT IN THAILAND

2.1 A Brief History of Thai Cooperatives

Thailand's cooperative movement began in 1916 during the reign of King Rama VI. A request was made to the British government for the services of an expert. Sir Bernard Hunter, a banking expert stationed at Madras, India, was selected by the British government to assist Thailand in the establishment of her cooperative societies (Chulasapya 1972, p.1).

Sir Bernard Hunter proposed the establishment of credit societies on the Raifeisen model, i.e., with unlimited liability of members. The first one was registered on February 26, 1916 as "Wat Chandra Cooperative Unlimited" in the form of a small rural credit society, with unlimited liability in which each member is responsible for the debts of all other members (Chulasapya 1972).

The law empowering the organization of cooperative credit societies at the experimental stage was the Association Amendments Act 1916 (Machima 1976a, p.1). It was not a direct law on cooperatives, it was an amendment to the Civil Association law. The success of the first group of village credit cooperatives led to a moderate expansion of cooperatives of this type later on. By 1920, the number of credit societies reached 60 and a Department of Cooperatives was constituted to organise, supervise and develop the cooperative movement.

In 1928, when cooperative development was fairly satisfactorily established, the Cooperative Societies Act 1928 was promulgated, paving the way for further development of cooperatives of various types (Machima 1976a, p.1). But it was not until 1932 that other types of cooperatives

were organized, such as land hire purchase, land settlement, marketing and processing, consumers', land improvement, cottage industry, fisheries, and thrift and credit cooperatives.

In 1943, the Bank for Cooperatives was organized to serve as the financial centre of the agricultural cooperatives and to take the place of the government's direct lendings. The bank succeeded in rapid expansion in loan activity from its founding in 1947 until 1954. After 1954, expansion has been limited not because of the farmers' lack of interest in borrowing but owing to the shortage of funds made available by the Ministry of Finance and the Government Savings Bank (Thisyamondol and others, 1965, p.45). As new funds from these sources were limited, the bank had for the most part made new loans to the societies from the interest and repayment of old loans. The bank was therefore superseded in 1966 by the Bank for Agriculture and Agricultural Cooperatives which was established in that year in order to widen the scope of its operations to include loans to individual farmers as well as agricultural cooperatives.

In 1952, administration of cooperative activities in Thailand changed from the Department of Cooperatives in the Ministry of Agriculture to the Ministry of Cooperatives. Later in 1964, the Ministry of Cooperatives was brought under the control of the Ministry of National Development.

Finally, the most important change for cooperatives in Thailand was the promulgation of the Cooperative Societies Act 1968, which repealed the Cooperative Societies Act 1928, in order to facilitate the expansion and improvement of the cooperatives (Machima 1976a, p.1). This legislation embodied two new organizational features, i.e., the amalgamation of cooperatives and the establishment of the Cooperative League of Thailand. The results of this change reduced village credit

cooperatives from about 9,000 societies into approximately 400 agricultural cooperative societies. At the same time the total number of various types of cooperatives, which had been over 10,000 societies, was reduced to only 1,498. Besides, there was a change in 1972 which dissolved the Ministry of National Development and placed the cooperative administration within a Ministry of Agriculture and Cooperatives.

At present, there are six main types of cooperative in Thailand (Machima 1976a). They are: agricultural cooperatives, land settlement cooperatives, fishery cooperatives, consumers' cooperatives, thrift and credit cooperatives and service cooperatives. (See Table 2.1.)

Agricultural cooperatives are the most important type of cooperative in Thailand: 61.7 percent of all cooperatives are agricultural cooperatives, and their members make up nearly 45 percent of total membership. This is rather a low share considering that Thailand is an agricultural country with 75 percent of the population engaged in agriculture as a livelihood. It is my purpose to investigate this matter fully and more details will be given later.

TABLE 2.1
NUMBER OF COOPERATIVE SOCIETIES, 1976

Types of Cooperative	No. of Societies	Membership	
		Total	Average per Society
1 Agricultural Cooperatives	588	465,502	791
2 Fishery Cooperatives	4	501	125
3 Land Settlement Cooperatives	51	29,808	584
4 Consumers' Cooperatives (Cooperative stores)	117	214,803	1,835
5 Service Cooperatives	46	17,720	385
6 Thrift and Credit Cooperatives	147	316,826	2,155
Total	953	1,045,160	1,096

Source: Cooperative League of Thailand, 1968-76.

Fishery cooperatives are organized as multi-purpose societies with the objectives of increasing the productivity of small fishermen and providing a higher return. In 1976, there were 4 fishery cooperatives with a total membership of 501 households.

Land settlement cooperatives were established in 1938 for the purpose of helping both landless farmers and those with uneconomic cultivated lands to own and operate the conserved or public land allotted to them. The next step is to make a land-use plan to include all the necessary things for living such as medical clinics, electric power supplies for housing, water tanks or ponds, water-ways, a market place, barns, roads, schools etc. In 1976, there were 51 land settlement cooperatives, about 5.4 percent of total cooperatives, with 29,808 farm households.

Consumers' cooperatives were first organized in 1938 among the urban as well as the rural population to help consumers in their daily purchase of commodities. The cooperatives have met with competition from private business circles. However, the two largest cooperative stores in Bangkok are doing well in their business operations, due primarily to good management and progressive policies. At present they are expanding into department stores and supermarkets. Others are enjoying merely limited success. In 1976 there were 117 cooperative stores in operation with a total membership of 214,803 persons.

Service cooperatives are miscellaneous cooperatives organized among the rural people for the purposes of improving the method of production, providing credit and marketing services, and raising the members' income, through the principle of cooperation. Besides, they also serve members who use their spare time to engage in sideline

occupations. The other activities of service cooperatives are housing and taxi-drivers' cooperatives. In 1976, there were 46 service cooperatives with a total membership of 17,720 persons.

Thrift and credit cooperatives are distributed in every province throughout the country, with a majority in the Bangkok metropolis. This type of society started in 1949 to promote thrift and help members in clearing old debts and meeting necessary expenses in everyday life, by giving loans at a low rate of interest. By-laws provide for direct contributions by members, from their monthly salary to their saving accounts, and repayment of loans is made by instalments from their monthly salary. These cooperatives are quite successful, and have become very popular among school teachers, police, and salary-earners of various government departments and universities. In 1976, there were 147 societies with 316,826 members.

2.2 Raiffeisen Principles of Cooperation and their Relevance to Thailand

The Raiffeisen model was selected in 1916 for Thai cooperatives because it had been successful in Europe. At that time many of the poor peasants of Thailand were deep in debt, and were paying an average rate of interest ranging from 10-44 percent per year depending on the source of credit (Narksawasdi 1958, cited in Machima 1976a). Their land was their surety for the debt, so that foreclosure left peasants and their families homeless and without any means of supporting themselves. When traders gave credit, they expected not only to sell the peasant his requirements at the highest price, but to buy his crop at the lowest price, all or most of the profit being used to settle the principal and interest.

The Royal Thai government accordingly conceived the idea of relieving farmers from severe indebtedness and also maintaining their

land ownership by launching village credit cooperatives, based on the Raifeisen model. Conditions were judged to be similar to those which existed in Germany at the time (1846-7) when Friedrich Raifeisen succeeded in alleviating the economic conditions of some of the peasantry by forming credit unions.

According to the review by Bakken and Schaars (1937, p.82), the Raifeisen principles have become as basic to cooperative credit unions as those of the Rochdale pioneers to consumers' cooperative stores. The main features of the Raifeisen cooperatives are:

- (a) the local bank is owned and operated by, and in the interest of, its borrowers who are its members;
- (b) par value of shares is small and payable in instalments;
- (c) unlimited liability is the rule;
- (d) each cooperative serves a single village or two;
- (e) operation is not conducted for profit;
- (f) good character is the basis for a loan;
- (g) limited dividends, if any, are paid;
- (h) loans are made to members only;
- (i) low rates of interest are charged;
- (j) reserves are indivisible; and
- (k) an inexpensive management is elected by members, each of whom has one vote.

2.3 The Model Developed for Thailand

In many respects, the Raifeisen model of credit cooperatives was not best suited to Thai conditions. Even in 1916, not all of the

regulations listed above were adopted. For example, local banks were not created, nor were instalment payments allowed for member's share subscriptions.

By far the most important exception at this time was to point (k) above. In contrast to the Raifeisen ideal of self-reliance of members, the Thai movement was from the beginning promoted by the state. Officials helped to form societies and assisted in their running. In early societies, officials were assigned to help form groups of 10-20 farmers into a cooperative group, and each official supervised several of these groups as a full-time occupation.

2.4 Evaluation of the Cooperative System in the Past

2.4.1. Expansion of the Number of Societies

Many societies were created under government intervention; their number increased from 60 societies in 1920 to 191 in 1927, a rather slow increase resulting from a lack of working capital and from being in the first trial period.

After 1932, when Thailand changed from an absolute monarchy to a constitutional monarchy under a system of limited democracy, there was a sharp increase in the number of cooperatives. Because most members of the government at that time considered that cooperatives could work in Thailand, the government, therefore, expanded cooperative operation widely. At the end of 1954 there were 22 types of cooperative in Thailand consisting of 10,338 societies, both farm and non-farm. The expansion slowed after that, until before the launching of an amalgamation program in 1969, there were 9,684 village credit cooperatives with a total membership of 153,278 farm households which comprise only about 4.4 percent of a total of 3.5 million farm households. They existed in

286 districts of 63 provinces, out of a total of 539 districts of 71 provinces. This shows that the area coverage is still just 53 percent of the total districts (Thailand. Cooperative Promotion Department 1974a, p.11).

2.4.2. Uncertainty of the Financial Conditions of Societies

The financial and social success of the societies was limited: many got into difficulties and failed. The reasons for these financial difficulties appear to have been mainly inexpert management, lack of working capital and lack of commercial experience of the members. Corruption does not seem to have been an important problem.

Trading conditions were difficult and varied during the period before World War II. The price of rice, for example, Thailand's chief crop, was halved between the late 1920s and the early 1930s, so that credit extended by societies to farmers on the basis of high prices could not be repaid after the price collapsed and many societies foundered. During World War II foreign markets were disrupted. Post-war controls, and finally the rice premium (imposed by government to prevent domestic prices rising during the rice export boom of the early 1950s) both made commercial conditions too complex and volatile for most societies' managements to handle.

2.4.3. Major Cause of Failure

One important cause of failure of the cooperative societies under Raifeisen rules was the provision of unlimited liability, whereby each member became responsible for the debts or liabilities incurred by the society as a whole. It was no doubt very hard on the members, who may not have borrowed anything or who may have discharged in full any debts owed by them, to then be held responsible for the debts incurred by a defaulting member or members.

2.5 Reform of 1968

In the late 1960s a major reform of the cooperative movement was attempted by the government. This reform had two main aims, to help to modernize agriculture in general, and to assist the poorer farmers throughout the districts in particular. By the 1960s it was clear that the existing societies could not effectively carry out these aims, and so changing formulations and changing practices, to meet changing economic and social conditions, became unavoidable.

There were four main elements in this reform. First the Raifeisen principle of unlimited liability for members was dropped. Second, the role of officials of the ministry in charge of cooperatives was expanded. Third, the state compulsorily amalgamated the societies into larger entities, partly to make them more manageable by the bureaucracy and partly to enable them to enjoy economies of scale. Lastly, societies which had previously been confined to credit operations were encouraged to enlarge their sphere of operations and transform themselves into multi-purpose cooperatives, which also carried out such activities as crop purchase, milling and the selling of farm inputs and retail goods to members. Subject to some variations, detailed features of the reform can be summarised as follows:

(Thailand. Cooperative Promotion Department 1974a, p.13.)

Objectives:

- to relieve farmers from debt and to carry out other activities for the farmers' welfare.

Capital Structure:

- a principle of limited liability is adopted;
- no member can hold more than one fifth of total shares;

- all cooperatives are required to accumulate their own funds in the form of reserves, an amount equivalent to at least 10 percent out of annual net profit;
- the acceptance of deposits from members, both savings and time, is also energetically stimulated as a means of acquiring local funds for local use;
- the cooperative can keep a reasonable amount of funds in the office and its bank in the locality;
- the cooperatives are required to hold share capital at the Bank for Agriculture and Agricultural Cooperatives of at least 2 percent of the credit limit which they are allowed annually.

Loans:

- each member is required to buy a share or shares in the cooperative equivalent to at least 5 percent of his loan at the time of borrowing (some members purchased more shares than the amount required; however, each shall have only one vote);
- certain aspects of supervised credit methods are adopted;
- loan inspection is also made at least twice for each loan in order to ascertain that the loan proceeds are being used according to the purpose for which it was granted;

- lending procedures are simplified so as to shorten the time for loan processing and to relax security requirements;
- all cooperatives charge the same rate of interest of 12 percent per annum.

Activities:

- some cooperatives should maintain such farm machinery and equipment as tractors and sprayers to undertake contract work for the members;
- members are encouraged to make joint purchases of farm supplies and other necessities, and to sell their farm products jointly;
- the size of the cooperative is to be large both in terms of membership and area of operation, to ensure a large volume of business so that it can afford its own office and paid employees;
- extension services should be performed by the cooperative officials themselves, and/or through their contacts by local agricultural extension offices;
- informal group meetings of members are held from time to time for the purpose of credit education and dissemination of agricultural knowledge, together with discussion on problems and resolutions relating to their occupations and well-being.

2.6 Present Relationship between Government Agencies and Cooperatives

The newly reorganized Cooperatives Promotion Department (CPD) was established in October 1972 under the Ministry of Agriculture and Cooperatives, to be responsible for cooperation and consultation with the Cooperative League of Thailand (CLT), and to make every effort to bring about the rationalization of existing agricultural cooperatives. Overall the CPD is working with two categories of existing cooperatives, agricultural and non-agricultural, at three levels: district, provincial and national. This is illustrated in Figure 2.1. More intensive efforts will be made to improve the existing agricultural cooperatives to function as multi-purpose cooperatives integrating the services of credit, marketing, purchasing and farm guidance in one cooperative. Technical and training services are also provided when necessary to assist cooperatives (Thailand. Cooperative Promotion Department 1974a, p.29). Presently, a staff of slightly more than 2,300 is employed by the CPD. Under a central administration and a provincial administration, the CPD staff is divided into twelve functions as described in Figure 2.2.

2.7 The Structure of Agricultural Cooperatives

In Thailand, the structure of agricultural cooperatives is three-tiered, with the national level at the apex, the provincial level for secondary societies and the local level for primary societies as shown in Figure 2.3 (Machima 1976a, p.24).

Nominally, this structure is semi-independent, consisting of a voluntary association of cooperative societies at different levels. In reality, it is heavily supported by the state in two ways. Firstly, officials have not only helped to form the various bodies, but also participate in their day-to-day operations with advice or actual management. Secondly, the Bank for Agriculture and Agricultural Cooperatives (BAAC), derives most of its funds from the central government

FIGURE 2.1

RELATIONSHIP BETWEEN GOVERNMENT AGENCIES AND COOPERATIVES IN 1976

National Level

The Cooperative League of Thailand

The Agricultural Cooperative Federation of Thailand

Cooperative Promotion Department

Provincial Level

Provincial Federation

Provincial Coop Officer

Governor

District Level

Primary Society

District Coop Officer

District Officer

— = Supervision

- - - = Coordination

FIGURE 2.2

COOPERATIVE PROMOTION DEPARTMENT ADMINISTRATION, JANUARY 1976

Total Staff : 2,348

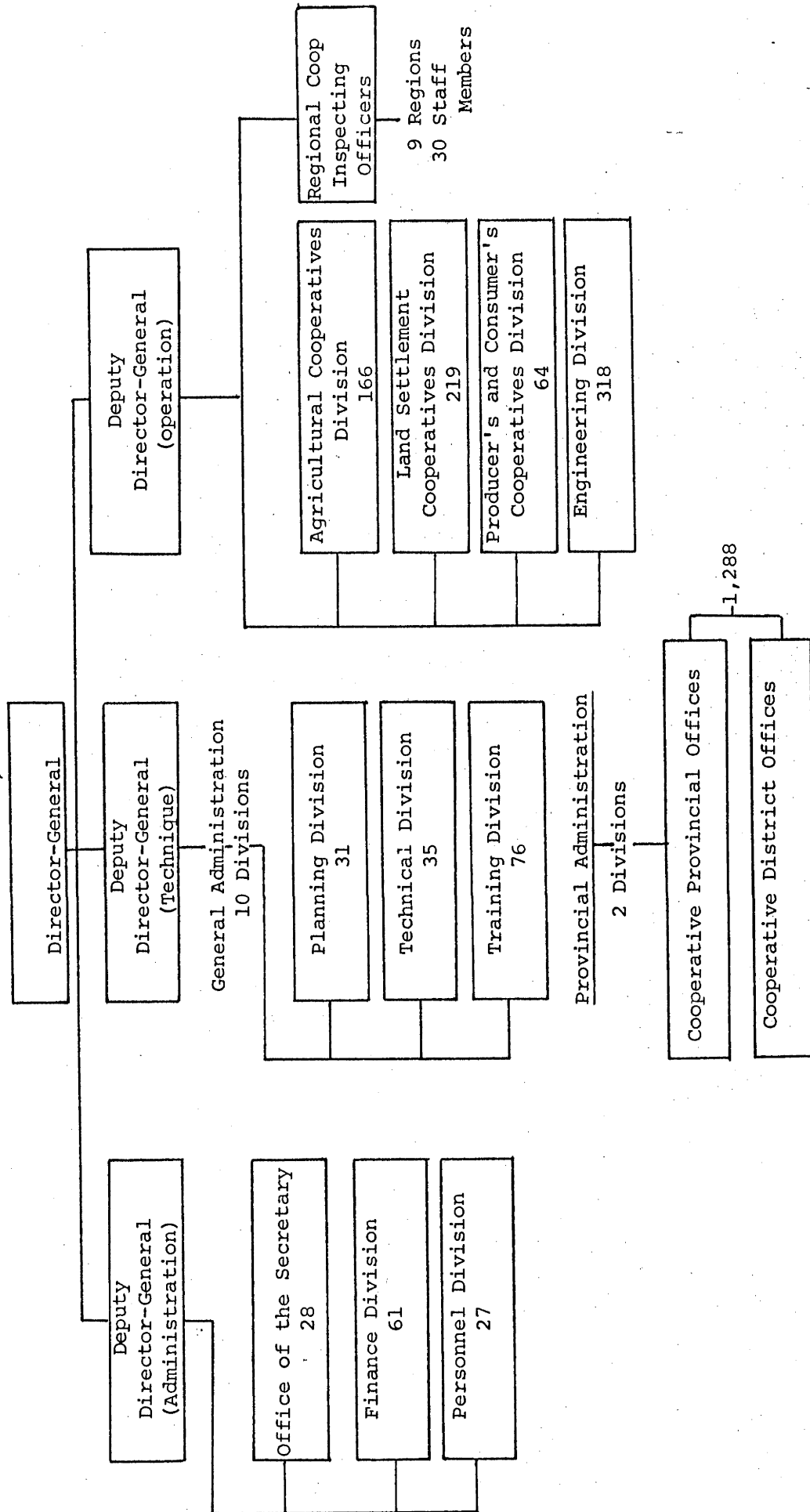
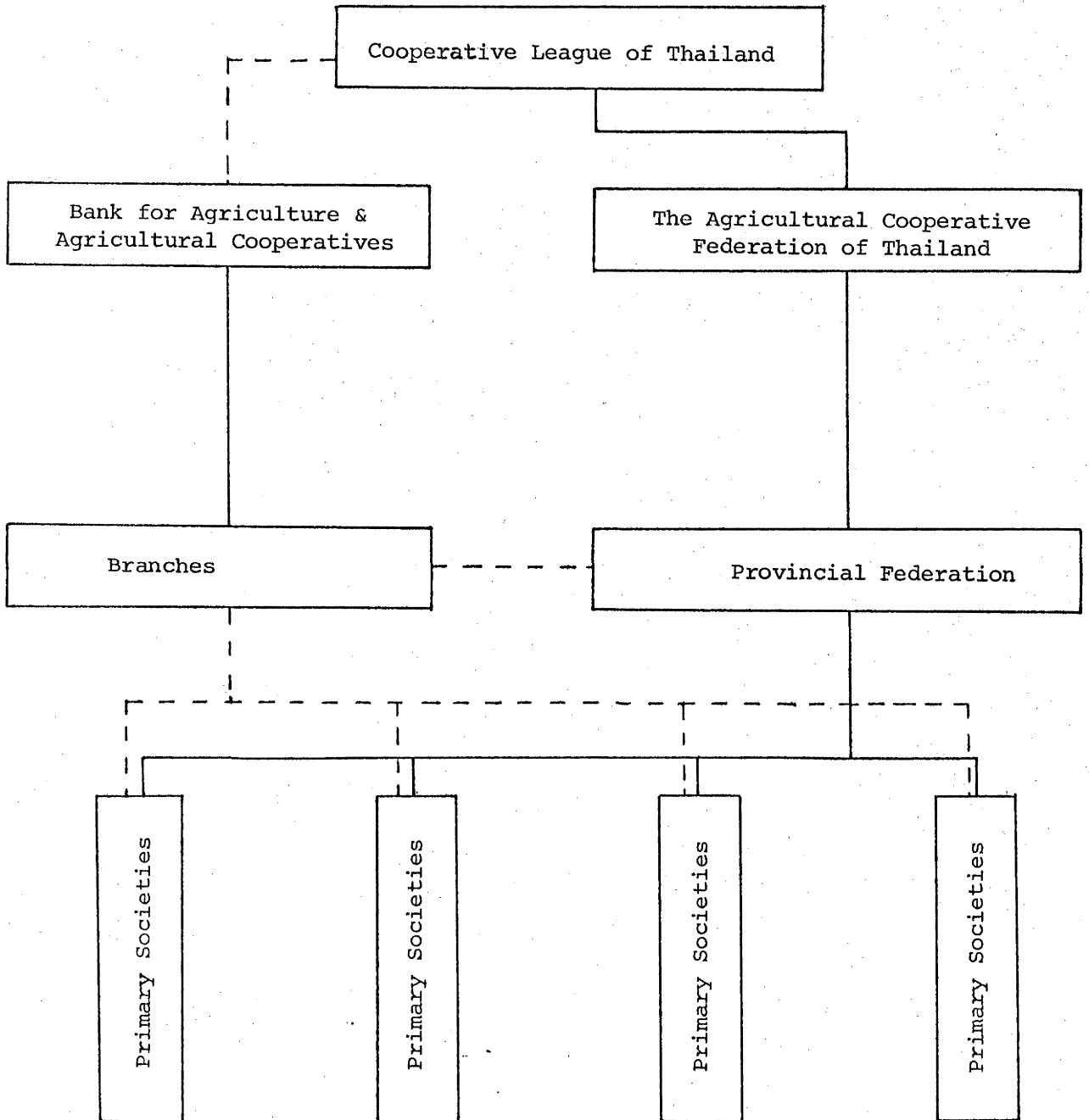


FIGURE 2.3

STRUCTURAL CHART OF AGRICULTURAL COOPERATIVES, 1975

National Level
Provincial Level
District Level



budget and is subject to ministerial control on broad lines of policy.

The primary societies comprise individual farmers at the district or local level. Each society is divided into various groups of farmers ranging from 5 to 30 groups. The main function of such societies is the provision of credit and other services to the members: marketing farm supplies, farm extension, processing, water management and funeral services.

The secondary level or provincial federation was first established in Chiang-Mai province in the north in 1951 and the second in Nakornrajasima province in 1957. This level comprises at least three or more societies in particular adjoining areas. Their main functions are similar to those of the primary societies but on a larger scale. Special processing activities are undertaken by the federations, such as rice milling, tapioca processing, feed stuff mixing and so on. In 1977 there were 21 federations.

The national level comprises representatives of primary and secondary societies. At present the Agricultural Cooperative Federation of Thailand (ACFT) is the apex society of agricultural cooperatives in Thailand; its headquarters are in Bangkok. This organization grew out of the former Cooperative Marketing and Purchasing Federation of Thailand Ltd. (CMPF). It has a long history of business re-organization. Its beginning goes back to 1937 when Thailand's first cooperative store, the Ban Gaw Cooperative Store, was established in Changwat Ayuttaya (Ayuttaya Province). Its responsibility was to operate a central cooperative store to provide assistance in buying and delivering products to cooperative stores in each region. It was replaced by the Cooperative Wholesale Society of Thailand Ltd. (CWST) in June, 1952. Later on, hoping to offer better services to cooperative members, the name was changed to the Cooperative Marketing and Purchasing Federation of Thailand Ltd. (CMPF) in August, 1969. The major reason for the latest change to ACFT in

October 1975 was to make it possible for the ACFT to borrow from the BAAC.

The membership of this Society is comprised of agricultural cooperatives. In 1975, 550 cooperatives throughout the country were members of this central body, i.e., roughly three-quarters of primary agricultural cooperatives.

The main responsibility of the ACFT is to serve as a national federation of almost all agricultural cooperatives for their business dealings: farm marketing, farm supplies, providing credit for marketing including the exporting and importing of the products marketed.

(Machima 1976a,p.25.)

Besides the ACFT, there are other related organizations functioning at the national level as well. For societies dealing mainly with credit, the most important of these is the BAAC which was organized under the Bank for Agriculture and Agricultural Cooperatives Act 1966. This state-sponsored bank is managed by a board of directors appointed by the cabinet. It consists of a chairman, a vice-chairman and ten other directors including representatives of the Ministries of Finance, and Agriculture and Agricultural Cooperatives. The board of directors appoints a general manager, who serves as an ex-officio director. Its objectives are to provide credit to agricultural cooperatives and farmer organizations, and to give technical advice in collaboration with extension workers. In 1975 there were 58 branch offices of the BAAC at the provincial level and 492 sub-branch offices at the districts (BAAC 1975, p.2).

The authorized share capital of the bank is 1,000 million Baht (\$US48m.) divided into 10 million shares of 100 Baht each. These shares can be sold by the bank to the Ministry of Finance, farmers, farmers' associations, agricultural cooperatives, financial institutions and others subject to the regulations of the bank. The Ministry of Finance is the

major shareholder. For advancing fresh loans, the bank has depended largely on funds made available by the government. However, the Bank of Thailand has agreed to provide facilities for discounting agricultural bills since 1968.

The other organization is the Cooperative League of Thailand (CLT) which is a non-government organization, a joint venture between the government and leadership within the movement. Its objectives are in general: to promote and develop the cooperative movement in Thailand; to educate and assist the leadership within the cooperative movement; to build and expand cooperative activities; and to serve as the representative of cooperatives in the country. Membership of the CLT is open to all cooperative societies in the country, both farm and non-farm. In 1975 there were 1,316 members, representing agricultural cooperatives, consumer cooperatives, thrift and credit cooperatives, land cooperatives, fishing cooperatives, and service cooperatives. The CLT has a permanent staff and a new headquarters building in Bangkok is owned by the League.

The management of the CLT is similar to that of primary cooperatives, i.e., the board of directors reserves for itself certain management functions. These take the form of operating policies, and the director of the CLT is expected to carry out his functions within the framework of these policy decisions. At present, the board of directors is composed of 33 members: the government appoints an executive director who is an ex-officio board member; five directors are appointed from various government departments dealing with cooperatives; and there are 27 representatives of the member cooperatives. The term of office on the Board is 2 years. There is an obligatory annual meeting which is held in November of every year.

The CLT obtains its revenue mostly from the contributions of member societies. Under the terms of the Cooperative Act of 1968, all member societies contribute a portion of net margins for the financial support of the league at the rate of 5 percent but not more than 5,000 Baht. Other revenue is made available from government aid and other income.

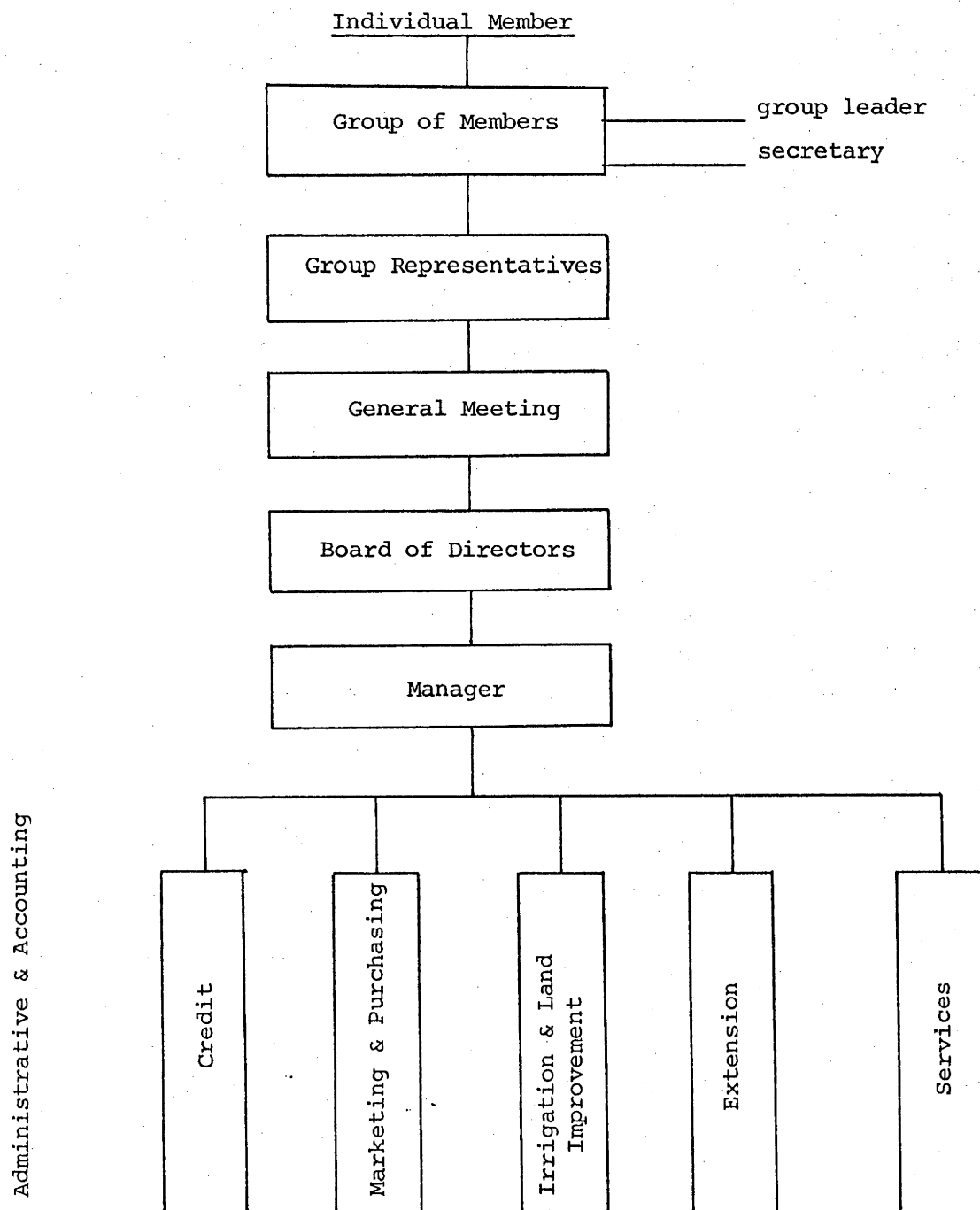
2.8 Organization and Administration of Agricultural Cooperatives

The cooperatives at the primary level consist of all members who form the general meeting. The general meeting elects the board of directors (Machima 1976a,p.26). The board of directors acts as the governing body in the cooperative. Its main powers and responsibilities are: to prescribe the form and maintenance of membership records and to approve membership; to render services; to establish policies, rules and regulations of the cooperative; to employ and dismiss the general manager and determine his responsibilities, duties and his remuneration; to know and understand the financial operation of the cooperative and satisfy itself that the records kept are accurate in every detail. The cooperative board is small with an average of 15 directors (Thailand. CPD 1974b,p.10) and the term of the board is 3 years. The board has a meeting at least once a month.

The manager of the cooperative administers the entire operation under the advice and supervision of the board of directors, e.g., he has the right to hire and fire his subordinates in various sections (as shown in Figure 2.4) according to a general policy created by the board; to plan, organize, direct, coordinate, conduct and control all the administrative and financial operations of the cooperative; and to make his periodic reports to the board of directors together with his recommendations concerning the cooperative operation.

FIGURE 2.4

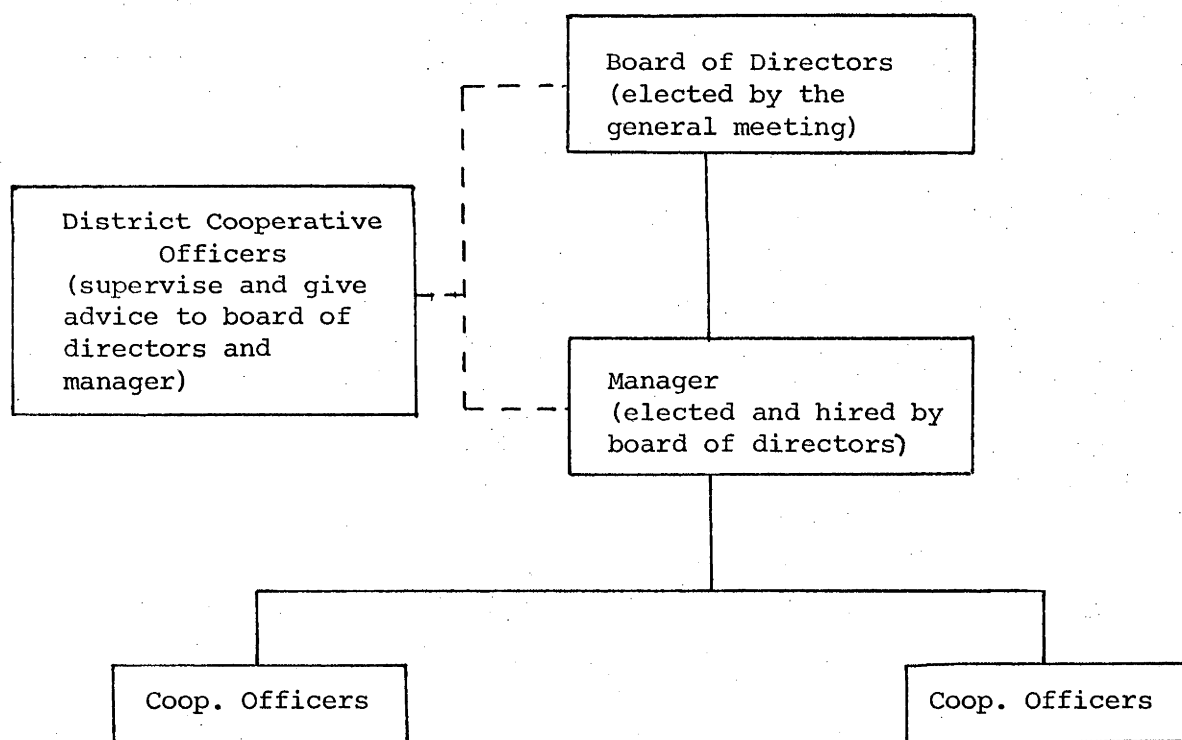
THE ORGANIZATIONAL STRUCTURE OF PRIMARY SOCIETIES, 1975



The structure outlined in Figure 2.4 illustrates the theoretical principles of organization. However, in actual practice, few cooperatives can be managed by themselves because there exists among the people a high degree of illiteracy and a lack of experience. Generally, the business of societies is conducted by the district cooperative officers, most of whom have been hurriedly recruited and trained for one year. We, therefore, can not really say that the cooperative societies in Thailand are truly owned and controlled by their member-patrons (Manuspaibool, (ed), 1972, p.14).

FIGURE 2.5

RELATIONSHIP BETWEEN DISTRICT COOPERATIVE
OFFICERS AND PRIMARY SOCIETY



2.9 Membership and Number of Societies

This year is the sixty-second year of the Thai cooperative movement. But we cannot look back with pride and claim that the success of

cooperatives has been very significant in terms of modernizing agriculture. Nominally, cooperatives cover less than 10 percent of the farm population today, and their effective coverage is far less (Singh 1970, p. 8) even though there has been a sharp increase in the number of cooperative societies and membership.

Table 2.2 shows the growth in numbers of societies in the five years to 1974 and the 50 percent increase in average membership per society compared to the previous four years. The sharp increase in membership and in numbers of societies in 1973 and 1974 seems to have been due to a government effort to expand the cooperative system.

TABLE 2.2
NUMBER AND MEMBERSHIP OF AGRICULTURAL
COOPERATIVES IN THAILAND
1970-1974

Year	No.of Societies	Membership	Average Membership
1970	304	129,334	425
1971	401	171,306	427
1972	395	171,074	433
1973	460	207,252	451
1974	544	354,501	652

Source: Department of Cooperative Auditing

The largest size of cooperative in terms of membership, those with a membership exceeding 1,000, constituted 14.7 percent of the total number of cooperatives in 1974 (see Table 2.3).

TABLE 2.3
THE SIZE OF AGRICULTURAL COOPERATIVES
CLASSIFIED BY MEMBERSHIP IN 1974

Size of Coops. (persons)	No. of Coops.	Percentage of Coops.
10-100	15	2.76
101-200	46	8.46
201-300	43	7.90
301-400	56	10.29
401-500	73	13.42
501-600	77	14.15
601-700	51	9.38
701-800	45	8.27
801-900	36	6.62
901-1000	22	4.04
1001 or more	80	14.71
Total	544	100

Source: Department of Cooperative Auditing

A more recent estimate given by the National Economic and Social Development Board, puts the number of agricultural cooperatives in Thailand in 1977 at 595. These are classified into 3 ranks, i.e., first-class, second-class and third-class agricultural cooperatives. The method of ranking is based on the cycle of business which consists of (1) assembly, production or processing (2) selling consumer goods or farming materials (3) loans to members (4) agricultural extension services (5) land improvement activities, which consist mostly of the provision of minor irrigation networks at the farm level and (6) education and training. In addition, membership, working capital and profit are also important.

At present there are 14 first-class agricultural cooperatives (about two percent of total agricultural cooperatives), 177 second-class and 404 third-class agricultural cooperatives (Thailand. Economic Studies Division 1977b,p.5).

According to the field visits of the Cooperative Resources Committee (CRC) team (1976,p.17), average cooperative membership was fairly low. The team held that at least a part of the reason for such low membership can be explained by requirements and procedures for cooperative membership that are rigid and tend to be exclusive.

In order to become a member a farmer proceeds as follows:

(1) he makes an application to the cooperative; (2) the application is then turned over to the group leader of the area where the applicant farms, it is reviewed by the group and then is passed on to the cooperative officer (a government employee); (3) the cooperative officer investigates the applicant and passes his recommendation on to the board of the cooperative; (4) the board makes the final decision on the application.

A farmer who owns no land is usually not accepted as a member. There are exceptions to this, however, and there is no clause in the national cooperative law that states that an applicant for membership must be a landholder before he can become a member. It would appear that considerable membership potential is being overlooked if land holding is a pre-condition. As the survey by CPD (Thailand. Economic Studies Division 1977c,p.1) shows, farmers who are members of farmer institutions (Farmer Associations and Agricultural Cooperatives) have land for cultivation at an average of 30 rai (4.8 hectares) while the overall farms averaged 14.7 rai in 1975.

It should also be mentioned that the rural society in Thailand is remarkably homogeneous throughout the country in terms of economic status and occupational role (Wilson 1950,p.52 cited in Hongladarom 1971).

Moreover, the Thai social system seems to be highly individualistic, as John Embree (1950,p.182 cited in Hongladarom 1971) described:

"The first characteristic of the Thai culture to strike an observer from the west, or from Japan or from Vietnam, is the individualistic behaviour of the Thai people. The longer one resides in Thailand the more one is struck by the almost determined lack of regularity, discipline and regimentation. In contrast to Japan, Thailand lacks neatness and discipline; in contrast to Americans, the Thai people lack respect for administrative regularity and have no industrial time sense."

The rural Thais want to live quietly, freely and peacefully and do not want to be disturbed by the authorities. The Thai, especially in the rural areas, is deeply influenced by Buddhist teaching and believes that progress is an individual task in which one may not look to others for assistance. Another important factor which seems to strengthen the characteristic of 'individualism' is the 'substantial luxury of resources' in which the Thai society has developed (Wilson 1950, p. 46-47 cited in Hongladarom 1971). That is the Thais could afford to become individualistic because of the abundance of their natural resources.

Village life is loosely organized and communal organizations are not strong. The institutions in the village such as the Buddhist temple and the government school are not concerned with the corporate entity. The rural people organize a particular cooperation at harvest time on the basis of reciprocity. This only concerns the work force and is entirely different from the true nature of cooperative organization.

Understandably, Thai peasants who become cooperative members are not familiar with democratic principles and methods. They have never before experienced being members of a "permanent" association such as the cooperatives. In addition, no other permanent group exists in rural Thai society beyond the family level or the sphere of religion. When peasants were assembled by a cooperative official who informed them of various "benefits" to be derived from being a cooperative member, most of them perceived economic advantages but not the social implications which are abstract and very strange to their traditional way of life. They join a cooperative society because they expect to get economic assistance from the government who originate, operate, and supervise cooperative affairs (Smuckarn 1972,p.35). This has been confirmed by a study by NIDA (1971, cited in Manuspaibool 1972,pp.87-88) which indicates that 66 percent of the Chacherngsao Agricultural Cooperative Society's members would not have joined the society if there had been no economic advantage (such as receiving loan with lower interest rate than the market rate). Some of them even said that a cooperative member has to go to meetings often which is a waste of time! In addition, cooperatives have so many rules and bye-laws that they feel inconvenienced as "free" persons.

It seems to me that the majority of cooperative members in Thailand feel more or less the same way toward their cooperative. In other words there is evidence of a lack of effort on the part of members in their activities and the spirit of "each for all, and all for each" has not been properly and adequately inculcated in them, which may make them become disloyal to their own societies. Nevertheless, according to the study of Smuckarn (1965 cited in Smuckarn 1972), cooperative members often call a cooperative official who is also a government official, "boss" (Chaonai). When they have problems they come to him to seek advice, they take orders

from him; they also respect (and in some cases fear) him. Such attitudes of the cooperative members radically impede the change toward "conscious" cooperation and self reliance which is the ultimate aim of the cooperatives.

Moreover, it should be borne in mind that the philosophy which guides cooperation in Thailand did not start from the grass roots but from the top. Officials have been sent out to instruct the people on cooperative principles and on operating methods. This contrasts with the theory subscribed to in many other countries where the movement was based on self-reliance, self-sufficiency and service to and promotion of the members' interests through a voluntary movement in which the noble ideals of equality, economic and social justice, and democracy are upheld (Marungi 1972,p.134). It was the government which actually looked into the welfare of the farmers and initiated the idea of setting up societies in order to help to relieve them from debts and increase their income as well as standard of living. This cannot be regarded as a mistake, for it is generally recognized that the usual way of organizing such a society in this part of the world is from the top not from the roots. This has been necessary so long as the people in these countries do not have sufficient education.

There have been many arguments about whether the cooperative is, or should be, a movement from above or from below. If cooperatives are to be initially established from the top, rather than arise from the expressed needs and desires of the people who should benefit from them, it has certain disadvantages because of the paternalistic nature of the cooperative system imposed. First, the farmers may not whole-heartedly accept the societies as their own creation, owned and controlled by them and having only such powers as are delegated to them by the farmers. Second, it is difficult for the authorities to maintain the pretence that they are either

democratic or truly cooperative. On the other hand, if their democratic character was abandoned as a false pretence, cooperatives might be seen merely as an administrative arm of the central government and, in the absence of broad rural reforms, might even be seen as a purposely inequitable instrument of local control.

A variant of these views is that held officially in Thailand. This is that in the social and economic conditions obtaining in developing countries it is necessary that the state should sponsor cooperation and initiate people into it but that it should not be necessary to go much further by way of aiding cooperatives. It was thought that an initial start having been given, cooperation would strike roots in the soil and would be able to attract a large membership and provide a variety of services to it. It is hoped by this policy to help in the establishment of a genuine cooperative movement which will become self-contained and self-supporting. These are complicated and seemingly difficult problems.

2.10 Farmer Associations

The government has also initiated less formal organizations for farmers in the form of Farmer Associations. These have been erected in order to avoid the constraints imposed by the Cooperative Act of 1968, which requires cooperative members who can put up land as a collateral for loans. In the Farmer Associations, by contrast, there are no rules and regulations to prevent a substantial number of landless farmers becoming eligible for membership of these institutions. The requirements to become a member of a Farmer Association are strikingly easy, i.e., mainly to be engaged in farming and to request membership. The criteria for membership and for loans is personal reputation or a lien over the member's crops.

There has not yet been any research into these Associations, other than to learn that they have grown rapidly, to 3,159 with a membership of 306,935 in 1976 (Thailand. Economic Studies Division 1977c), both as non-formal and formal associations. With legal status, the Associations can obtain credit from the BAAC and lend to members and may even get into marketing activities. The main form of official intervention is the requirement of an audit once a year by the audit division of the CDP.

The government's administration in the period of the Third Economic Development Plan (1972-1976), both agricultural cooperatives and Farmer Associations were made the responsibility of two departments within the Ministry of Agriculture and Cooperatives. That is the agricultural cooperative movement was put under the control of the CPD, while Farmer Associations were to be supervised by the Agricultural Extension Department. There was little coordination between these two departments. In the period of 1973-1976, two Farmer Associations converted themselves to agricultural cooperatives and undertook all the activities of a cooperative society. However, the Fourth Economic Development Plan (1977-1981) has no specific target to convert Farmer Associations to agricultural cooperatives, but has a strategy to promote the establishment of Farmer Associations annually for the creation of farmers' opportunity in participating in these agricultural institutions. Government would like to see these Associations expand to help the poorer farmers in the country.

CHAPTER III
THE MANAGEMENT STRUCTURE AND ACTIVITIES OF
AGRICULTURAL COOPERATIVES

3.1 The Management

According to Roy (1964,p.401), management of cooperatives concerns three entities: (1) the members, (2) the board of directors and (3) the operating manager. There is a reciprocal relationship between the members, the board and the manager. None of them can operate effectively without the others. The members need the board, and the board of directors requires a manager. The manager needs the board of directors, and the board exists only to meet the objective of the members.

3.1.1. The Membership in Cooperatives

Cooperative members are the legal owners of their business. Nominally, it is not the board of directors or the manager who has the controlling authority over the cooperative, but the members. In theory, it is the members who usually plan and form a cooperative, and it is the members who receive the benefit from the cooperative. It is only through them, by their actions and authority, that the cooperative will be a profitable and sound business enterprise (Roy, 1964,p.401). But, in practice, the members of the Thai cooperatives are usually relatively old and illiterate as has been explained in Chapter II. They are busy with their occupations and not very interested in the business of cooperatives. They joined the cooperative in order to get loans. This means that the cooperatives are not controlled by the membership. They, therefore, might easily be exploited by some unscrupulous people. It is said, for example, although we have no evidence to support this, that some cooperative committee members and big farmers get together to divert the bulk of

loans into their hands. Only those "near and dear" to the cooperative leadership can obtain significant funds. It is also possible in a society dominated by a rice miller, money lender or trader for him to use it to institutionalize his patron relationship with his small farmer clients. In other words, the operation of the societies can easily be diverted for the benefit of a small group of people. The majority of members may be satisfied by a little advantage given to them and obliged to keep their mouths shut, oblivious of the fact that the others are taking so much away from them.

In addition, according to the survey carried out by the Cooperative Promotion Department (1974b, p. 10) there is the problem of the society fitting in with the natural grouping of the community. The average membership of a society surveyed was about 587, divided into 15 groups (according to the vicinity of the members' farms). Each group had roughly 14 members, scattered in various villages. According to the rules, a village should represent a group. Yet, in practice, because of the small number of members, the members from several villages were gathered into one group. This resulted from the amalgamation of village credit cooperatives into agricultural cooperatives. It was found that there was little relationship between individual members in each group and the relationship between the members and their cooperative was also distant. oblivious of the fact that the others are taking so much away from them.

3.1.2. The Board of Directors

As has been said in Chapter II, according to the by-laws responsibility for overall control of the societies lies with the board of directors. But as a result of cooperative members' characters the societies lack directors who are efficient. They have no say in the running of the cooperatives. This means that most decisions come from the centre directly to the government officials. And, most district government officials do not understand how to approach the farmers, quite often they regard farmers as their clients or dependants, not as partners.

3.1.3. The Manager

In any business, success or failure hinges on management competence.

In a cooperative, the manager is commonly thought of as the spearhead of management (Roy, 1964,p.419). He has a dual challenge. He must

(1) solve the technical business problems which include external operating policies, such as sales promotion, preparation of products for market, purchasing and all problems that relate to the physical distribution and pricing of commodities and services; (2) manage the accounting, financing, personnel and other problems of internal operations. Furthermore, the board of directors must be a constant challenge to the manager if he is to work efficiently with them.

In the Thai cooperatives, according to the survey by the CPD (1974b,p.16), few managers are efficient. Most agricultural cooperatives have a manager or a deputy-manager who is usually appointed from the staff and has usually worked for the cooperative for a period of at least 3 years, and is approved by the board of directors' president and the district government official. In the case of an agricultural cooperative which does not have a manager or a deputy-manager, a director of the cooperatives will replace him in this post or there will be some circulation amongst the directors. For a staff of the cooperatives, the overall agricultural cooperatives hire an average of 2.3 employees per cooperative.

The survey also reveals the educational level of the managers and deputy-managers. About 46 percent were educated at the level of secondary school or lower, 8 percent from high schools and 46 percent from vocational schools. For the staff, most of them, about 69 percent, were educated in secondary schools. The others were educated at high schools and vocational schools in equal proportions.

The survey also discussed salary levels. It showed that a manager or deputy-manager is paid an average of about 1,074 Baht per month (\$US50), employees were paid about 908 Baht per month, and a director who worked as a manager was paid an allowance at about 25-30 Baht per day. These levels can be criticized as too low and for providing too small a margin over general staff for responsibility.

3.1.4. Regulatory Power

Another aspect that has turned the management of cooperatives into a rather inflexible bureaucratic organization is the regulatory powers resulting from the Cooperative Societies Act 1968. The Act gives to the Registrar of Cooperative Societies wide powers over the movement. First of all, he determines which society to register. Any regulation or amendment to the by-laws of a cooperative society must be approved by the Registrar. The Registrar appoints or approves the auditors for all registered societies. The Registrar can, of his own accord, direct and inspect the affairs of any society, and controls the cooperative societies on technical business and financial aspects. The Registrar may also order the dissolution of a cooperative society, and liquidators of cooperative societies are also appointed by the Registrar. The Registrar may also delete a cooperative's name from the register when he agrees with the liquidated accounts. The Registrar must grant the amount of annual loans or guarantees of all societies and further approve money lending of a cooperative society to any other cooperative societies. The Registrar may also approve the cooperative society's deposits or investment in any other cooperative society or any bank. In addition, the Registrar can approve the cooperative society's purchase of shares of other cooperatives or any institute whose business is to facilitate or promote the activities of cooperative societies.

It can be seen that government powers under the Act are wide. Ideally, it is expected that these agricultural cooperatives should function like any highly developed business institution. The government is aware, of course, that this ideal is not practicable at present. There are three important problems related to the government's execution of its control. One is that the Department concerned is understaffed and inexperienced. Second, there is the bureaucratic red-tape system that leads to delay in many activities. The third problem is that rules are often implemented without any serious regard for the peculiarities of each individual situation. The "rules are

made to be followed and followed without qualification" seems to be the motto of the field staff. Needless to say, this leads to adverse reactions in the cooperative movement.

Finally it must be noted that many conflicts between the government and the cooperative movement are the result of the inadequate methods by which the government tries to improve the quality of performance in the movement. The inflexible way in which state powers are exercised often alienates movement leaders and staff from the ambition of realizing the formally stated cooperative goals. Thus, government efforts, in many cases, do not contribute by breaking the vicious circle of poor management.

3.2 The Societies and Agricultural Credit

3.2.1. Funds or Working Capital

The funds of the societies can be divided into 2 categories namely, own and borrowed funds. Own funds consist of share capital, statutory reserves, retained profit and so on, while borrowed funds are obtained mainly from loans granted by the BAAC and government aid. In the early days of the cooperative movement, most of the finance for cooperatives came from within the movement itself, mainly through share capital contributed by members of primary societies. But nowadays, only a small proportion of funds is mobilized for expansion within the movement from the statutory reserves and unallocated annual net profits. At present, most of the working capital is obtained from outside the movement, mostly from short-term borrowings within a period of 1-1.5 years which contribute at least about 60 percent of working capital. This means that the societies depend more on the borrowed funds than their own funds.

The total funds of the societies obtained from various sources are shown in Table 3.1. As can be seen from the Table, the funds of the

TABLE 3.1

CATEGORIES OF WORKING CAPITAL OF AGRICULTURAL COOPERATIVES 1970-1974

(in million Baht)

Year	Categories of Working Capital						Total Working Capital	Percent Increase of Working Capital %	Percent Increase of Cooperative Capital %		
	Short-term Credit			Long-term Credit							
	Baht	%	Baht	%	Baht	%					
	Baht	%	Baht	%	Baht	%					
1970	335.4	59.8	-	-	-	-	225.4	40.2	560.8	100	-
1971	478.9	60.0	6.8	0.8	-	-	312.4	39.2	798.1	100	42.3
1972	525.0	60.4	10.6	1.2	-	-	333.7	38.4	869.3	100	8.9
1973	681.1	60.2	23.0	2.0	-	-	427.2	37.8	1,131.3	100	30.1
1974	1,213.7	67.1	33.8	1.9	3.8	0.2	557.0	30.8	1,808.5	100	59.9
											30.4

Source: Thailand. Department of Cooperative Auditing 1975, p.21.

societies have been increasing year after year. In 1970 the total funds of the societies were only 560.8 million Baht. They increased to 1,131.3 and 1,808.5 million Baht in 1973 and 1974 respectively. In other words, after 1970 their total operating funds more than tripled. This sudden increase in 1973 and 1974 resulted from a large amount of revolving funds allotted from the government budget for lending to agricultural cooperatives to finance paddy collections, building storages and operating rice mills.

3.2.2. Sources of Loanable Funds : the BAAC.

According to a report from the Department of Cooperative Auditing (Thailand. Department of Cooperative Auditing 1971) only 47.2 percent of loans made to the members of these cooperatives came from their own capital in 1971. In order to acquire enough funds to make loans to members, agricultural cooperatives have to borrow from outside. Their main source of loans, about 57.3 percent was the BAAC (Thailand. Department of Cooperative Auditing 1971) which provides a constantly expanding agricultural credit service through cooperatives, Farmer Associations and directly to farmers. As shown in Table 3.2 loans from the BAAC to cooperatives have increased from 129.4 million Baht in 1969 to 866.1 million Baht in 1975, nearly a six-fold increase at current prices. In total, cooperative loans amounted to 2.2 billion Baht (\$US101m.) over the 7 years.

Table 3.2 also shows that Farmer Associations, which are new claimants on the BAAC resources, have lately been obtaining a substantial share of funds allocated collectively. In 1975, such associations received almost half as much in loan funds from the BAAC as did the cooperative societies.

However, it should be noted that agricultural cooperatives have been unable to obtain from the BAAC the full volume of loans requested and that the approval rate is declining. As shown in Table 3.3 the BAAC approved only 82, 77 and 64 percent of cooperative loan requests in 1973, 1974 and 1975 respectively.

TABLE 3.2
 LOANS MADE BY THE BANK FOR AGRICULTURE AND
 AGRICULTURAL COOPERATIVES FROM 1969 TO 1975
 (in million Baht)

	1969	1970	1971	1972	1973	1974	1975
1 Individual Farmers	562.8	563.3	509.4	670.9	773.7	1203.7	2100.9
2 Agricultural Coops.	129.4	167.6	164.0	224.6	249.1	388.7	866.1
3 Farmers Associations	-	-	-	-	-	143.4	387.8
Total	692.2	730.9	673.4	895.5	1022.8	1735.8	3354.8

Source: BAAC, 1975,p.1.

TABLE 3.3
 AMOUNT OF LOAN REQUESTS AND AMOUNT OF LOANS
 RECEIVED FROM THE BAAC PER AGRICULTURAL
 COOPERATIVE, 1973-1975
 (Unit:Baht)

Year	Amount of Loan Requests	Amount of Loans Received	Percent of Loan Received
1973	1,083,077	890,112	82.00
1974	1,678,528	1,286,732	77.00
1975	2,787,727	1,776,566	64.00

Source: Cooperative League of Thailand, 1976,p.2.

The main reason for the BAAC to turn down agricultural cooperatives' requests for loans is their default record. This in turn results from the default on loans of cooperative members (this matter will be discussed later). The other reason is a shortage of funds of the BAAC. Therefore, the BAAC prefers to give loans to individual farmers with the interest rate of 12 percent compared to 9 percent interest rate obtained from the cooperatives (Cooperative League of Thailand, 1976). This can be seen from Table 3.2 which shows that only a fifth to a quarter of all BAAC loans to farmers was made through the cooperatives.

The direct clients of the BAAC are mainly larger farmers because of the administrative costs involved in lending to smallholders. The BAAC employs its own credit officers many of whom are resident in the up-country areas and who are closely in touch with the farmers in many respects. Their work includes investigating evidence of land holding, occupation, farm machinery, product, income expenses and other aspects concerned and then selecting eligible borrowers who mostly are middle-size or larger farmers. Moreover, the credit officers almost always investigate whether the loans are used productively and quite often they supervise their clients.

The BAAC's more generous treatment of individual farmers might cause members to resign from being members of the cooperatives to be clients of the BAAC. This in turn might cause the collapse of the cooperative societies. The provision of credit to farmers in a district both as individual clients of the BAAC and as members of the cooperative societies which often receive a substantial part of their funds for the BAAC is unsatisfactory. It often leads to much dissatisfaction between agricultural cooperatives and the BAAC staff, because both are doing the same business in the same area, and at the same time, the agricultural cooperatives have to depend on the BAAC for borrowing.

The procedure for lending through the cooperatives is as follows. The cooperative supervisor assists in the preparation of the loan applications and the required supporting documents. Then the applications are forwarded to the credit department of the head office of the Bank. That department processes the applications and passes them on to the banking division for remitting the approved funds to the cooperative, usually through a branch office of the Government Savings Bank. This procedure involves trouble and expense.

3.2.3. The Loan Repayment Records to the BAAC

As a result of default on loans of cooperative members and the refusal of some loans by the BAAC, the repayment records of the societies are very indifferent. In 1976, the Cooperative Resource Committee (CRC) carried out field visits to discover the explanations for this extensive loan delinquency. The main reason given by the cooperatives was that it took so much time and effort to obtain a new loan from the BAAC, that it was to their interest to relend the loan repayments of farmers rather than remit them to the Bank in repayment of the cooperative loans. From the survey of the CLT in 1975 this occurred on average 118 times per society per year (Cooperative League of Thailand 1976,p.3).

It is found from the Table 3.4 that even at best in 1968, annual repayments to the BAAC amounted to only 32.7 percent of net loans outstanding. By the mid-1970s, accumulated bad debts had risen so greatly that annual repayments amounted to little over 10 percent of accumulated net loans granted.

The delinquency record is better if repayments are related to recent debts, rather than to debts accumulated over a long period. This is done in Table 3.5, which was derived from the Table 3.4 by a 3 year moving average method. It relates average repayments in one period to average loans made in a period lagged by one year. It is rather a crude measure, as some repayments are for loans from before the period and some loans run

LOANS FROM THE BAAC AND THE REPAYMENT
RATE OF AGRICULTURAL COOPERATIVES
1967-1976
(in million Baht)

Year	Accumulated Loans, net ^{a)}	Loans During the Year	Total Debts	Repayment During the Year	% of Repayment to the Total Debts
	(1)	(2)	(3)	(4)	(5)
1967	217.39	125.07	342.46	95.84	28.0
1968	259.19	135.33	394.52	129.13	32.7
1969	295.76	129.46	425.22	132.67	31.2
1970	317.59	167.56	485.15	106.47	21.9
1971	409.18	164.04	573.22	73.18	12.8
1972	539.45	224.63	764.08	134.64	17.6
1973	681.49	249.10	930.59	203.22	21.8
1974	785.29	388.66	1,173.95	207.37	17.6
1975	966.58	866.13	1,832.71	190.69	10.4
1976 ^{b)}	1,642.36	672.07	2,314.43	244.77	10.5

a) Up to 1973, figures appear to include small components, averaging about 8 percent, for interest or administrative costs.

b) To September 1976.

Source of Columns 1, 2 and 4: Thailand. Economic Studies Division 1977c.

beyond the period. However, it gives a somewhat more favourable picture. The repayment rates seem to be from two-thirds to three-fourths of fresh loans and even at best, in the late 1960s, covered under 95 percent of sums due.

As figures on repayment rates continue to deteriorate, administrative costs, of course, are high. This is likely to be a serious problem confronting the BAAC. The improvements of the BAAC must be developed within the Bank itself and it must find a way to attract the properly qualified people needed and also to establish in-service training programmes. Otherwise, it would be expected that the Bank will have serious administrative problems.

TABLE 3.5

THREE YEAR MOVING AVERAGES OF LOANS DURING THE
YEAR FROM THE BAAC AND THE REPAYMENT RATES OF
AGRICULTURAL COOPERATIVES
(in million Baht)

3 Yr Moving Averages	Loans During the Period (1)	3 Yr Moving Averages	Repayments During the Period (2)	% of Repayment 2:1
1967 - 69	129.95	1968 - 70	122.75	94.5
1968 - 70	144.12	1969 - 71	104.11	72.2
1969 - 71	153.69	1970 - 72	104.76	68.2
1970 - 72	185.41	1971 - 73	137.01	73.9
1971 - 73	212.59	1972 - 74	181.74	85.5
1972 - 74	287.46	1973 - 75	200.43	69.7
1973 - 75	501.30			

Source: Estimated from Table 3.4

3.2.4. Other Sources of Funds

The Royal Thai Government's (RTG) Committee for Farmers' Aid has allocated funds from the RTG budget for lending to agriculture to help farmers to increase production and also to improve their productivity. The Prime Minister is the chairman of the committee. The committee allocates this money to various agriculturally related departments and agencies in support of specified projects. Up to 1972 the government gave financial assistance through government agencies, a total amount of 489 million Baht. This financial assistance is free of interest charge (Machima 1976a,p.40) and is not included in the sums loaned to cooperatives through the BAAC.

For 1974 the Bank of Thailand reports that cooperative societies borrowed 42.3 million Baht from the Cooperative Promotion Fund and 22 million Baht from the funds provided by the Committee for Farmers' Aid. In addition, from January 1 to November 30, 1975 the Cooperative Promotion Department received 130.6 million Baht in support of cooperative projects of rice storage and processing and 25 million Baht for the ACFT grain silo project. These loans are long-term and bear a 2 percent interest rate (Cooperative Research Committee 1976,p.8). In brief, the government allotted 205.6 million Baht for collecting paddy during 1972 - 1975 and 79.7 million Baht for construction of storage during 1971 - 1977 (Thailand. Economic Studies Division 1977c).

However, the role played by the government in the field of credit can be criticized as inadequate in amount, unequal in distribution and inappropriate in its basis of security. For example, all government loans granted to agricultural cooperatives through government departments amounted to less than 2 percent of all loans obtained by the cooperatives in 1975 (Machima 1976a,p.53).

The commercial banks also supply credit direct to the well-to-do farmers, who too often live in urban areas rather than rural areas. Such credit is extended solely on the basis of tangible security. The rates of interest charged by the commercial banks vary from 7.5 to 15 percent per year. However, the commercial banks have played an active role in extending agricultural credit to farmers in the last decade. As will be seen in the Table 3.6, total loans outstanding by all commercial banks was 2,266 million Baht in 1975 which was a substantial increase over the year before. The contribution of foreign banks was negligible. Moreover, 29 banks deposited 1,668 million Baht with the BAAC for relending to farmers, cooperatives and Farmers' Associations (Cooperative Resources Committee 1976,p.7).

The commercial bank funds deposited with the BAAC were provided by agreement among the banks that they would channel 5 percent of their total outstanding loans, as of December 1974, to agricultural financing. Each of the banks determined the share of these funds that they would lend direct to cooperatives. However, the major portion of such commercial bank lending to the cooperatives was made through the BAAC, presumably because the banks were not too optimistic about prospects for getting this money back on direct lending. The BAAC pays 8 percent interest to the commercial banks for this money.

TABLE 3.6
AGRICULTURAL CREDIT PROVIDED BY COMMERCIAL
BANKS IN 1975
(in million Baht)

	Outstanding at November 30, 1975	Increased from December 31, 1974	Deposit with BAAC December 31, 1974
1 Banks Incorporated in Thailand (16 banks)	2,265.5	1,432.2	1,432.6
2 Banks Incorporated Abroad (13 banks)	0.2	0.2	235.25
Total	2,265.7	1,432.4	1,667.85

Source: Cooperative Resources Committee 1976, p.8.

3.2.5. Loan Operation of the Societies

It can be seen from the Table 3.7 that, on the average, each cooperative society advanced short and intermediate-term loans amounting to 705,000 Baht each year (\$US33,880) during the three year period. Of

this amount just under 20 percent were short-term loans and 80 percent were intermediate ones. The proportion of short-term loans tended to decrease from 27 percent in 1970 to 18 percent in 1972. A short term loan is defined as up to 1 year, extendable up to 3 in certain circumstances and intermediate loan from 1 to 5 years.

TABLE 3.7

AVERAGE LOANS PER AGRICULTURAL COOPERATIVE SOCIETY,
SHORT AND LONG TERM LOANS DISBURSED FROM 1970 - 1972

Year	Short-term		Intermediate		Total	
	Baht	%	Baht	%	Baht	%
1970	109,374	26.9	297,595	73.1	406,969	100.0
1971	150,614	18.4	665,973	81.6	816,587	100.0
1972	160,747	18.1	729,862	81.9	890,609	100.0
Average 3 Years	140,245	19.9	564,477	80.1	704,722	100.0

Source: Machima 1976a,p.54.

Earlier it was stated that the government's two main aims in drawing up the cooperative scheme of the late 1960s were the modernization of agriculture and assistance to the poorer farmers in the community. Whether the achievements are in this direction could not be ascertained fully since no data regarding the amount of loans disbursed by farm size are available. Small farmers usually tend to borrow more short-term loans since they have small size of land holding and tend to operate near to the subsistence levels, so that they must borrow for financing consumption expenditure. This may probably be the reason why the short-term loans are proportionately lower than the intermediate ones.

At the same time, comparatively, the bulk of credit is going to modernization. It will be seen from the Table that four-fifths of loans during the 1970 - 1972 period went in intermediate term credit, i.e., credit of over one year, principally for three to five years. Such credit is used for financing investment in agriculture, e.g. the acquisition of farm machinery, the construction of irrigation wells etc. This meant that those farmers who were already better off were best able to obtain such intermediate-term loans.

Security conditions favour owner-cultivators. The security required is a mortgage on land or two sureties, usually neighbouring farmers, one of whom has land. The amount advanced can not exceed 60 percent of the appraised value of the land. The ceiling for individual loans varied with the society, the range being 6,000 Baht to 10,000 Baht. A uniform rate of interest of 12 percent per annum is charged on all types of loans. Since the cooperatives pay 9 percent on loans from the BAAC, they have a margin of 3 percent to cover administrative expenses and build up funds.

For the lending procedures, a member who wishes to borrow from a cooperative sends his application to the group leader of the area where the applicant farms in order for it to be reviewed and then it is passed on to a district cooperative official. The cooperative official will investigate the application and pass his recommendation on to the board of directors which will make the final decision on the application. And it is favourable only if the applicant agrees to mortgage his farm to the cooperative. One point should, however, be mentioned here. That is that the district cooperative official not only scrutinises applications for loans before they are sent to the board, but also sits on the board which decides on the application.

3.2.6 Loan Repayments of the Members

As indicated in Table 3.8 and 3.9 the gap between repayment due and actual repayment is a higher proportion of the intermediate loans than in the short-term loans. This is rather unexpected. It might be thought that the members who borrowed for short-term loans would be the poorer farmers in the society who would have less capacity to repay. In fact, their repayment record has been better. However, the trend is in the opposite direction. In the case of the short-term loans it was decreasing, e.g. from 114.5 in 1970 to 62.2 percent in 1972 where as in the intermediate term loans it was 30.7 percent in 1970 which increased to 46.5 percent in 1972.

It should be observed here that even though the loans made to members are only short and intermediate term loans, the percentage of loan repayment of members is rather low. According to the survey by the CPD (Thailand. Cooperative Promotion Department 1974b,p.28) the loan repayment of members depends on their yearly production and type of occupation. The members who cultivate several crops or double crops have a better repayment record than the members who cultivate single crops. In addition, the prices of crops or livestock also influence loan repayments.

It has previously been mentioned that societies hesitate to repay BAAC loans because they fear that they will not get fresh funds. The same consideration has an effect upon members in relation to their societies. They are afraid that if they repay the loan at the date due they will be unable to receive it again. Therefore, instead of paying back all the principal and interest owed to the societies, they only pay the interest and keep the principal (Marukatut 1972,p.79).

TABLE 3.8

SHORT-TERM LOANS : COMPARISON OF REPAYMENT RECORD OF
MEMBERS PER SOCIETY DURING 1970 - 1972

Unit : Baht

Year	Lent	Due Repayment	Actual Repayment	% of Repayment
1970	109,374	110,172	126,180	114.5
1971	150,614	156,563	100,172	63.9
1972	160,747	189,596	117,911	62.2

Source: Machima 1976a,p.58.

TABLE 3.9

INTERMEDIATE-TERM LOANS : COMPARISON OF REPAYMENT
RECORD OF MEMBERS PER SOCIETY DURING 1970 - 1972

Unit : Baht

Year	Lent	Due Repayment	Actual Repayment	% of Repayment
1970	297,595	857,400	263,082	30.68
1971	665,973	1,031,072	429,186	41.63
1972	729,862	1,210,749	563,118	46.51

Source: Machima 1976a, p.58.

Another partial explanation for the low rates is the ease with which a farmer can extend repayment. For example, when short-term loans cannot be repaid as scheduled they can be extended at one year intervals for up to 3 years. Also, as refinanced loans become more difficult to collect each successive year they remain outstanding. Last but not least, the low repayment rates may be due to the society's management, personnel and enforcement system. It can be expected that default rates will increase over the next few years unless corrective actions are taken.

The default on loans is a major problem for the cooperatives since they are unable to make new loans to other members who need them and their ability to repay the loan to the bank is also very low. This problem is an important one to all agricultural cooperatives and cannot be solved in a short time. As long as the problem has not been solved, the operation of these societies is doomed to failure and they are unable to serve the needs of their members.

In days of unlimited liability the society as an entity was responsible for its members' debts. Now, although individual defaulters are debarred from receiving fresh loans, their society as a whole is not excluded. Nor is there mention of the sureties being called upon to make good the debts they guarantee. If the loan repayment record remains so poor, the BAAC will clearly have to take action or cut back on its loan program to cooperatives. One possibility might be to reintroduce collective responsibility of societies for their members' debts, a system which has disadvantages which have been discussed above (p. 19)

3.2.7 Interest Rates on Agricultural Loans

One of the possible reasons for the low repayment rate could be the interest rate which is below the market rate. As mentioned earlier the rate of interest charged by the cooperative to its members is lower than in the case of commercial or other credit which means that the

interest rate is lower than the equilibrium rate of interest thereby creating a situation of excess demand. Because of this, credit has to be rationed either by supplying it to only a few of the potential borrowers, or by fixing certain ceilings on borrowing, or both.

Usually, the larger farmers happen to have easier access to financial markets than the small farmers. This is partly because of the farmers' socio-economic and political influence and partly because the per unit cost of administering many small loans is much higher (Gonzalez-Vega 1977). This means that instead of a large number of small farmers receiving loans only a few large farmers obtain them - in effect, the large farmers are obtaining the benefit of the government subsidy which enables the cooperatives to offer cheap credit. Hence the income gap between these two groups is further widened. Furthermore, an unduly low interest rate regime creates distortions in the economy by way of misallocation of resource. This can happen as follows. For a given production technology the marginal product of capital in the case of large farmers may be relatively lower than for the small farmers because the large farmers' previous access to capital - either their own or borrowed - has created a situation of diminishing returns to capital on their holdings. (Gonzalez-Vega 1977). Hence, where large farmers have relatively easier access to capital the scarce resource (credit in this case) is diverted from more the productive section to the relatively less productive one - a situation which is both socially and economically undesirable, especially in a developing country like Thailand.

A further advantage of a higher interest rate structure in the cooperative system is that it would enable the cooperatives to attract more savings by offering higher interest on deposits made with them. Once a cooperative has established a good reputation, members may find it preferable, because it is less risky, to lend indirectly through the

cooperative, rather than to lend privately. The interest rate it offers on deposits need not therefore be as high as on funds for private lending. It is possible that the total volume of rural savings might be stimulated in this way, so that investment is also stimulated.

3.3 The Marketing System

Aside from lending operations, other businesses of the agricultural cooperatives are the business of purchasing and the business of marketing of members' produce. These other two businesses are getting more important both absolutely and relatively to the cooperatives total activity.

3.3.1 The Business of Purchasing

The business of purchasing of the agricultural cooperatives comprises: (1) farm supplies, i.e., fertilizer, insecticides and pesticides (2) farm equipment business, i.e., water pumps, hand operated sprayers, shovels, plows, harrows, mowers etc. The latter one is on a somewhat limited basis. The market for farm equipment is quite competitive among the many sales agencies, and the price of farm equipment is reasonable. Moreover, follow-up services, which cooperatives are illfitted to provide, are a very important part of the sales package for equipment.

Agricultural cooperatives have rather been involved in selling farm-supplies, especially fertilizer. Nowadays, the application of chemical fertilizer in Thailand is increasing rapidly. Yet the price of fertilizer is considered to be too high in relation to the farm prices of produce. One reason is that the fertilizer system in Thailand is monopolized. Most of the fertilizer (about 90 percent) in Thailand is imported from Japan by a few companies, and there is only one plant which manufactures chemical fertilizer in Thailand, i.e., TJC Chemical Co.Ltd. This plant was founded by joint collaboration between Thai and Japanese Cooperative Federations. At present this plant is facing high costs of production and the competition from the importers (Agricultural Cooperative Federation of Thailand 1976,p.25).

Agricultural cooperatives in Thailand obtain their fertilizer supplies from the ACFT. The ACFT has imported it from the UNICO OF JAPAN for several years on credit by the guarantee of the commercial banks. The ACFT supplies to agricultural cooperative members both for cash and credit. The sale of fertilizer through cooperatives before 1975 was about 10,000 tons per year. This was small because the new agricultural cooperatives were not yet in the business of selling fertilizers. However, fertilizer sales are increasing as these societies are prepared to undertake the sales. Unfortunately, there has recently been a shortage of fertilizer from Japan because of the oil crisis. The ACFT could not supply fertilizer to members adequately. For example, the ACFT had made a three-year contract (1973 - 1975) for 60,000 tons of fertilizer, but UNICO OF JAPAN dissolved the contract and sent only a portion to the ACFT (Cooperative Marketing and Purchasing Federation 1974,p.8).

During 1975, heavy losses were made on the cooperative marketing of fertilizer. The government had a policy of making fertilizer available at cost and on easy term credit to farmers in 1975. In order to do so, it put out a tender for the supply of fertilizer and then sold out to the ACFT on 2 year credit about 30,000 tons at the price of 3,800 Baht per ton (\$US183) so that the ACFT could supply its members at the lowest price. This deal cost the ACFT some 114 million Baht. The ACFT then supplied about 22,000 tons of fertilizer to agricultural cooperative members and to Farmers' Associations. But, owing to the decreased price of fertilizer in the world market, the ACFT was not able to sell the remaining 8,000 tons and also there is some stock of fertilizer left in those cooperatives and Farmer Associations that cannot be sold. In addition, the ACFT has encountered the problem of collecting money from the societies and the

Farmer Associations, and was owed 45 million Baht by the societies and 9 million Baht by the Farmers' Associations. The effects of the fertilizer price and government policy have caused a big loss in the whole system of agricultural cooperatives and has not yet been solved.

3.3.2 The Marketing of Members' Produce

Every single agricultural cooperative clearly states as one of its most important objectives the marketing of farm produce on behalf of its farmer-members. Among other things, it also intends to process agricultural produce into the form of readily marketable commodities. Of all the 544 agricultural cooperatives, very few indeed have been able to market the members' crops in the quantity which represents a reasonable proportion of members' total sales. (Manuspaibool 1972b,p.55,) Processing activity is almost non-existent, except for that of a few cooperative-owned rice mills that operate on an off-and-on basis. However, of all the marketing of members' produce, rice and maize are the major business. Even this is complicated.

3.3.3 General Structure of Rice Marketing

In general, commercial paddy and rice marketing is operated by general merchants, mostly Chinese who have been in this kind of business for decades. The remainder is conducted by Thais and cooperatives.

Although the Chinese hold a near monopoly in the business and they organize and administer all marketing functions such as collection, processing, grading, storage, packaging, shipping, transportation, selling as well as exporting, Thais play a small role in several areas of the rice business. Some may be engaged in all aspects of marketing: they own warehouses, transportation equipment, rice mills, money institutions and other important related businesses. This domination of commercial business by Chinese is more due to ethno-linguistic characteristics than to any other barriers to entry (Hongladarom 1971, p. 7).

There are four levels of marketing practices in Thailand, namely; local assembly markets, regional assembly markets, central assembly markets and export markets. The role of the cooperatives will be discussed later.

The local assembly markets include all the places where initial assembly of paddy occurs through rural collectors or small businessmen and cooperatives. The middlemen may either be local millers who process the paddy for local consumption or merchants who forward the commodity to the district for regional assembly markets. The volume of business at the local market has its peak during the harvest months of December to April and then declines heavily thereafter.

The next assembly point is the regional assembly markets where rice and paddy are pooled at district levels or at big business centres which are located at places highly accessible to transportation facilities. At this level, the merchants themselves may ship paddy to terminal markets for retailing. Alternatively, they may also sell directly to wholesalers at nearby markets or to exporters in Bangkok.

The central assembly market is the principal rice market centre, whether in the Central Plain, in Bangkok or up-country. The principal function of this level includes collecting paddy for processing and storage as well as distributing the milled rice to wholesalers and exporters.

Finally, there are also terminal markets where rice is distributed to consumers whether directly or indirectly. Based on this criterion each of the above markets whether local, regional or central may at the same time be categorized as terminal, if it retails and distributes processed or white rice to end users.

For export markets, government and private ventures can be found in the rice export business in Thailand. The government has a direct role

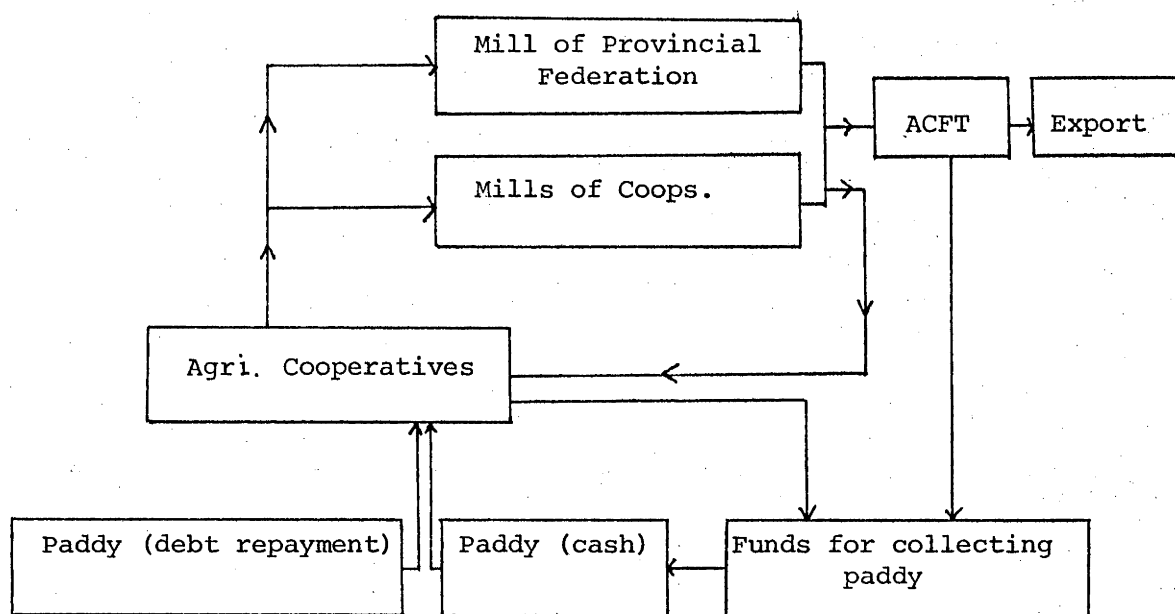
in the export trade manifesto in the case of government to government business transactions. But, the rice export trade of Thailand is by and large dominated by private entrepreneurship and the role of the government becomes regulatory in nature. The traders are licensed and supervised by the government. A prospective exporter must first secure an annual permit from the Ministry of Economic Affairs. The temporary but renewable permit provides the government an instrument for exercising tight control and supervision over the activities of the rice exporters. They are particularly discouraged from trade malpractices on the matter of quality and quantity of rice exported to other countries and are subject to rice export premiums and sometimes to quotas. In this way, the price of rice in the internal market as well as level of domestic food reserves can be regulated to a large extent by the government (Machima 1976a,p.72).

3.3.4 Rice Marketing System of Agricultural Cooperatives

In the past, after collecting paddy from both members and non-members, agricultural cooperatives had kept it in storage for 3-6 months and then sold it to middlemen or local millers. At present, these paddies are milled at the mills of societies. Any societies which do not own mills will deliver to the mill of their provincial federation for milling. Part of the milled rice will be delivered by the societies to the ACFT or to the provincial federation for export in terms of government to government contracts, and some will be supplied to members of the societies both for cash and credit.

In 1976, the agricultural cooperatives collected 90,037 tons of paddy from members. This was classified into 2 categories, i.e., direct purchase, for which the societies paid at once to the members on delivery at current prices, to the amount of 49,531 tons, and on a consignment basis

FIGURE 3.1
RICE MARKETING SYSTEM OF AGRICULTURAL
COOPERATIVES, 1976



(debt repayment for fertilizer, loans and others) in terms of paddy, which amounted to about 40,506 tons. For glutinous rice 7,750 tons was collected, partly in terms of cash, about 1,200 tons, and 6,550 tons for debt repayment.

For export, in 1975 the government allocated a 10 percent quota out of 38.6 percent of total exports made by the government in terms of government to government contracts to the agricultural cooperatives, i.e., 20,166 tons. The ACFT, however, was able to deliver to the government only about 16,134 tons. In 1976 the ACFT delivered 36,656 tons to the government (Thailand. Economic Studies Division 1977a, p.19).

These volumes formed only a very small share - less than 2 percent - of total rice exports, which amounted to 0.9 million tons in 1975, and 1.9 million tons in 1976.

3.3.5 Cooperative Rice Mills and Storages

The 26 rice mills of both agricultural cooperatives and provincial federations have a combined total capacity of about 1,332 tons per day or

about 400,000 tons per year. The agricultural cooperatives, however, were able to supply only approximately 100,000 tons of paddy in 1976 or 25 percent of capacity. Moreover, the study by Machima in 1974 on the rice mills of seven agricultural cooperatives showed even greater under-utilization, demonstrating that these rice mills were able to utilise only 14.1 percent of their capacity. This was because the rice mills were not able to collect adequate paddy either from members or from outside customers, owing to a shortage of funds and their delays in paying cash to farmers for their paddy deliveries. Moreover, rice was still being delivered to local money lenders to pay debts.

TABLE 3.10
NUMBER OF RICE MILLS OF AGRICULTURAL
COOPERATIVES AND PROVINCIAL FEDERATIONS
1951-1976

	No. of Rice Mills Constructed During the Period	Average Replacement Cost at Current Prices (Million Baht)	Total = Col.1 x Col. 2 (Million Baht)	Capacity Tons per Day
	(1)	(2)	(3)	
1951-1957	3	4.6	14.0	180
1968-1970	2	2.8	5.6	100
1972	8	2.5	20.0	330
1973	-	-	-	-
1974	5	4.6	23.0	340
1975	5	4.0	20.0	212
1976	3	4.3	13.0	170
Total	26	3.8	95.6	1,332

Note: Cost of construction at present price.

(1) 80 tons/day cost 5 million Baht

(2) 40-50 tons/day cost 4 million Baht

(3) 20 tons/day cost .66 million Baht

Source: Thailand. Economic Studies Division 1977d,p.65.

There are 314 agricultural cooperative storage facilities scattered throughout the country with a capacity to store about 150,000 tons of paddy, while the amount of paddy collected was only about 100,000 tons (Thailand. Economic Studies Division 1977d,p.20).

TABLE 3.11
NUMBER OF RICE STORAGES OF AGRICULTURAL COOPERATIVES
1963-1976

Year	No. of Storages Built in Period	Average Price (Baht)	Estimated Cost for Construction (Million Baht)	Capacity (Tons)
1963-1970	102	150,000	15.30	51,000
1971-1972	30	300,000	9.00	15,000
1973	20	300,000	6.00	10,000
1974	80	320,000	25.60	40,000
1975	-	-	-	-
1976	82	340,000	27.88	41,000
Total	314	282,000	83.78	157,000

Source: Thailand. Economic Studies Division 1977d,p.64.

Most of the funds for paddy collection came from the budget, i.e., cooperative promotion fund, farmers' aid fund and revolving fund for paddy collection. Besides, agricultural cooperatives used their own funds, i.e., share capital, reserves and savings. In 1976, the total revolving fund for paddy collection from the government was about 205.6 million Baht which had to be repaid within one year. This amount of money which is the major part of revolving capital for paddy purchase, is being circulated among agricultural cooperatives at primary and secondary level.

However, in this case too, as in the case of cooperative credit, the societies have not repaid the government on time, possibly because they fear that they may not be able to get it back the next season. If this non-repayment continues, it will mean that government will cease to provide funds to cooperatives for paddy purchase. The cooperative paddy collection will then have to be financed from the three sources: member's repayments, cooperative funds and the revolving fund which they have already received.

The following observations may be made about the rice marketing of agricultural cooperatives:

- (a) the accounting system of agricultural cooperatives should be adjusted urgently. Any business which concerns several sources of funds and the business of assessing the price (repayment in terms of paddy) should have a proper accounting system.
- (b) There is great underutilisation of cooperative investments, i.e., rice storages, rice mills and funds for paddy collection. Government investments in this field so far have not proved profitable. It may be that the balance between investment in fixed assets and in working capital is inefficient. Unless capacity utilisation can be improved by better management and more adequate working capital, it would seem sensible to halt government investment in capital projects.
- (c) It cannot be assumed to be the business of agricultural cooperatives to serve government policy unsubsidised. In several cases government requirements have caused a lot of problems for the societies. In practice, the government should be responsible for the losses involved in undertaking non-economic activities and the accounting system should be separated properly.

- (d) The system of repayment in terms of paddy should be adjusted urgently. The important point is to assess the price for paddy. For example, in the era of the government by Prime Minister Kukrit Pramote there was a rice price support policy. At that time the agricultural cooperatives ran into losses in buying paddy from farmers because of changing rice prices. It is not yet known how severe this problem is, because of the lack of data.

3.3.6 Cooperative Maize Marketing

Like rice marketing, the agricultural cooperatives collect members' maize destined for overseas markets through the ACFT. The market of the ACFT is ZEN-NOH (Agricultural Cooperative Federation of Japan). But the procedures are somewhat different from rice. The procedure is initiated from the ACFT which informs each agricultural cooperative society which is a member of the Federation how much maize it wants according to the ACFT export quota and this quota is allocated for all agricultural cooperative members. The maize that is not yet exported is kept in the modern maize silo of the ACFT, with a capacity of 30,000 metric tons (it can handle 500,000 tons of maize over the year). This silo was purchased at a price of 89 million Baht (\$US 4.1 million). Of this amount 29 million Baht has been paid to its previous owner by the cooperative promotion fund, and the BAAC has a loan application for the balance of 60 million Baht.

As regard to the funds, the ACFT has a revolving fund of 27 million Baht for this maize business. Of this sum 10 million Baht has been borrowed from the Cooperative Promotion Department, 13 million Baht

from the Japanese Cooperative, and 4 million Baht from the share capital of the ACFT. Of this amount, the ACFT lends ACFT-linked agricultural cooperatives funds for collecting maize with 7 percent of interest per year. The member-societies can borrow this amount of money at the amount of about 70 percent of total value of maize expected to be collected. Yet, the ACFT is short of operating funds. Therefore, in the case of shortage of funds, the societies may wait for money for about 3 - 5 days after delivering maize to the ACFT; that is when the ACFT has managed to deliver the maize to the ship and gathered the necessary documents to receive money from the bank, and then passed on this money to agricultural cooperatives, which then pay their members. In operating the business, the ACFT charges 25 Baht per ton for keeping and exporting the maize, the residual, i.e., the transportation cost on delivering the maize to the ACFT, falls to the societies.

As can be seen from the Table 3.12, ACFT maize exports increased from 51,174 tons in F.Y. 1969 to 123,216 tons in F.Y. 1975. However, when considering the quantity, this was only a small share of the country's total maize exports, which had risen to 2.1 million tons by the end of this period. Accordingly, this does not help the farmer members in terms of commodity price, and, that amount of maize sold would have been sold anyway with or without the ACFT.

It is noticeable that most of the maize exported by the ACFT comes from the collection by agricultural cooperatives, and the residual from private merchants in terms of cash by the ACFT. For example, 93,300 tons or 76 percent of total ACFT maize exports came from 83 agricultural cooperatives in 1975/6. In addition, from the survey by the Faculty of Economics and Business Administration, Kasetsart University in 1974,

TABLE 3.12

VOLUME OF MAIZE EXPORTS BY THE ACFT COMPARED TO
THE COUNTRY'S TOTAL MAIZE EXPORTS

1969-1976

Year	Maize Exported by the ACFT (1) (metric tons)	Country's Total Maize Exports (2) (metric tons)
1969/70	51,174	1,544,815
1970/71	59,883	1,447,955
1971/72	79,752	1,873,461
1972/73	40,979	1,843,619
1973/74	97,163	1,386,374
1974/75	100,000	2,232,275
1975/76	123,216	2,104,733

Source: (1) The Agricultural Cooperative Federation of Thailand, 1976

(2) Bank of Thailand, 1978

members of agricultural cooperatives marketed only 31 percent of their maize through the societies in 1972/73. And, in 1976, the ACFT estimated 50 percent of maize produced by their members would be marketed through the societies (Thailand. Economic Studies Division 1977d,p.22).

This indicates that the members of the societies were not sufficiently loyal to their own society. The reasons for this might be: first, a lack of sense of responsibility resulting from a low level of education; second, there is still a relationship between cooperative members and local merchants, who may be offering better prices for top quality grain; and last, the delay in receiving money from their own society or the convenience

of selling their produce to local merchants. Having realized the above mentioned problems, it thus will not be beneficial to the overall cooperative system if the situation remains unchanged.

3.4 Cooperative Education and Training

Among the supporting activities of the cooperative movement, to which the Thai government is committed, education occupied a central position. Cooperative Education in Thailand is placed under the charge of the Cooperative Promotion Department (CPD) and the Cooperative League of Thailand (CLT). The CLT aims directly at cooperative education, training and seminar programmes for all people, especially cooperative members, board members, and for the employees of the cooperative societies as well. The CPD by the work of the Training Division, apart from helping to educate and train several people in the same way as the CLT, will also aim directly at educating and training its district cooperative officials. At the university level there is offered a bachelor's degree in the faculty of Economic and Business Administration, majoring in cooperatives, at Kasetsart University.

Table 3.13 shows that the CPD trained 1,173 trainees during 1970 - 1976. Of these, 552 were upper staff, including managers, and 198 accountants. The others were either district cooperative officials or students, almost all of whom were qualified by one year of the high school curriculum.

The CLT provided programmes for agricultural cooperatives in 1977 (Cooperative League of Thailand 1977,p.6) as follows:

- (a) Seminars for managers and board members dealing with the milling business, 171 participants.

TABLE 3.13

NUMBER OF TRAINEES BY THE CPD, 1970 - 1976

Type of Trainees	Number of Trainees							
	1970	1971	1972	1973	1974	1975	1976	Total
Managers of Cooperatives	31	34	39	34	32	30	28	238
Accountants of Coops.	-	-	-	29	84	55	30	198
Creditmen of Coops.	-	-	-	-	-	28	58	86
District Cooperative Officials	-	-	-	-	-	-	80	80
Students about Cooperatives	39	26	29	30	24	27	39	214
Students (curriculum by mail)	-	-	-	92	92	92	91	91
Total	70	60	68	185	232	232	326	1173

Source: Thailand. Economic Studies Division 1977c.

- (b) Conference of the leading members of the agricultural cooperatives and land settlement cooperatives, 90 participants.
- (c) Training of creditmen, 30 participants.
- (d) Training of accountants, 80 participants.
- (e) Training of board members of the agricultural cooperatives and land settlement cooperatives, 6,938 participants. This training programme is done through 9 mobile training units of the CPD with financial support from the CLT.
- (f) Training of accountants organized in Self-help Settlement Projects of the Public Welfare Department, 48 participants.

It is a pity that work evaluations have not yet been conducted. It is, therefore, difficult to find out the impact of cooperative education. If the results were evaluated, several things could be tested. It could be discovered whether most trainees who have returned back to the movement after a training course at the CPD or CLT have improved their performance and have benefited their sponsoring organizations. It is sometimes argued that some of the better trained employees in the movement have left their employers; some because they were offered better jobs in the private sectors; others because they had been unable to get along with their board members, as a result of the educational course making them "too clever" for their employers, which caused the board members to become suspicious of their newly trained employees and to assume that they might cheat them. Their retirements have often meant a great loss to the movement, as qualified and experienced employees are scarce. Nevertheless, it must be remembered that their knowledge and experience are made available to the economic development of Thailand through other institutions. From the point of view of the national economy, therefore, these transfers are not a waste.

So far, the priority in the field of cooperative education in Thailand has been to train board members and employees. Ordinary members have hardly had the same opportunities. This is an understandable policy. It might be that training ordinary members is generally more difficult. First of all, it is a complicated affair to attract them in sufficiently large numbers. Most of them are busy and cannot stay away from their farms, businesses or other occupations for very long. To deal with this, the Cooperative Techniques Division has a number of mobile training units to provide members' education up-country. Again some of mobile training staff do not have sufficient basic education to educate the others (Manuspaibool 1972a,p.17). A large sum of money is loosely spent for the mobile training activities while there is little, if any, evidence of achievement. However, the most urgent matter which should be looked into

is to arrange "crash programmes" for training the leaders, the employees and the members. Otherwise, the "knowledge gap" between cooperative leaders and the rank and file membership will increase. The latter have even fewer opportunities to exercise their control of the management as most matters are unfamiliar to them, while the board members or the society employees or the district cooperative officials always have an answer in hand. This will become a problem specific to the cooperative movement in Thailand.

This description has dealt with management problems as far as the personnel and extent of activities are concerned. In the following chapter we will take up the question of financial management, at least so far as it can be judged from the financial statements of the societies.

CHAPTER IV

THE FINANCIAL CONDITION OF THE SOCIETIES

4.1 Financial Data

Data on the financial condition of the cooperative societies in Thailand are very inadequate. It is known that many agricultural societies are not doing well and that the government has repeatedly had to come to their aid either with financial support or with administrative assistance. But it is difficult to judge the extent of the societies' weakness from the information available.

The aggregate accounts presented for the movement as a whole by the Department of Cooperative Auditing (DCA) are also inadequate. First, because they do not follow conventional accountancy procedures in every instance, they are hard to interpret. Second, and much more important, because even the conventional presentation of the accounts does not show the true financial condition of the societies. It fails to deal properly with the question of doubtful or bad debts.

Table 4.1 presents the balance sheet of the societies for the years ended March 31, 1970-4 according to data of the DCA. Figures have been rearranged into the double entry book keeping system. It will be noticed that, in the 1972-4 years, the net profit does not quite balance, especially in 1974. This discrepancy in net profit will be discussed on page 90 .

4.2 Assets of the Societies

The assets of the societies consist of current assets, fixed assets, investment and other assets. As can be seen in the Table 4.1, the current assets increased remarkably from time to time. For instance,

TABLE 4.1
THE BALANCE SHEET OF AGRICULTURAL COOPERATIVES
(in thousand Baht)

Particulars	1970	1971	1972	1973	1974
<u>Assets</u>					
Current Assets:					
Cash	39,217	33,532	39,540	74,195	113,749
Debtors (loan)	455,680	676,993	731,852	867,093	1,215,412
Debtors (trade)	-	-	-	-	83,838
Other Debtors	-	122	1,517	37,111	15,673
Goods & Inventory	-	824	5,219	27,543	128,789
Accounts Receivable	41,077	47,514	41,351	54,843	106,828
Total Current Assets	535,975	758,985	819,479	1,060,785	1,664,289
Fixed Assets:					
Land	5,148	8,260	11,282	17,516	32,051
Building	4,709	4,351	7,717	15,370	41,305
Machinery	-	-	-	-	2,338
Transport Equipment	-	-	-	-	1,848
Appliances	-	4,613	4,586	7,506	6,454
Total Fixed Assets	9,857	17,224	23,585	40,392	83,996
Other Assets:					
Income Earning Investment	12,714	20,659	23,794	28,884	58,267
Deferred Charges	-	-	-	-	1,448
Others	2,264	1,232	2,490	1,243	463
Total Other Assets	14,978	21,891	26,284	30,127	60,178
Total Assets	560,809	798,099	869,348	1,131,304	1,808,462
<u>Liabilities and Coops' Equity</u>					
Current Liabilities:					
Creditors (borrowings)	321,150	466,758	507,534	624,522	1,076,099
Other Creditors	12,328	9,684	5,383	24,177	72,124
Deposit from Members	-	-	9,807	28,819	39,107
Accounts Payable	1,898	2,447	2,297	6,587	26,429
Total Current Liabilities	335,376	478,889	525,021	681,105	1,213,759
Fixed Liabilities:					
Creditors (borrowings)	-	6,202	9,556	20,529	32,754
Others	-	581	1,024	2,446	1,069
Total Fixed Liabilities	-	6,783	10,580	22,975	33,823
Other Liabilities:					
Deferred Credit	-	-	-	-	137
Others	-	-	-	-	3,659
Total Other Liabilities	-	-	-	-	3,796
Coops' Equity:					
Share Capital	43,915	73,479	84,735	122,061	189,084
Statutory Reserves	159,655	200,394	197,521	224,312	262,757
Other Reserves	7,720	14,323	23,201	37,053	78,846
Annual Net Profits	14,142	24,231	28,354*	44,371*	40,866*
(Losses)	-	-	(63)*	(574)*	(14,469)*
Total Coops' Equity	225,433	312,427	333,748	427,224	557,084
Total Liabilities and Equity	560,809	798,099	869,348	1,131,304	1,808,462

* Discrepancies: See page 90 and Table 4.8.

Source: Derived from Thailand. Department of Cooperative Auditing 1975, Part 1, p.15.

they were only 535.9 million Baht in 1970 as compared with 1,060.8 and 1,664.3 million Baht in 1973 and 1974 respectively. This was a substantial increase in real terms, since the general level of prices rose by less than 20 percent over the five years. Up to 1973, most of the current assets were in the form of debtors. The share of inventories and accounts receivable rose slightly in 1974. The debtors include loan debtors, trade debtors and other debtors respectively, but loan debtors are by far the most important, accounting for an average of 86 percent of current assets between 1970 and 1973. In the following year their share declined to 73 percent.

It will be seen that most of the societies' assets was made up of loans to members. But it is not clear whether these loans were all really recoverable; interest on them was being repaid but repayments of principal were much overdue. A more prudent accountancy practice would seem to have been to establish a contingency reserve (i.e., to deal with uncertain events) to partly write down these loan assets. At least the accounts should show the difference between short-term loans which are due within the year and longer term loans.

As regards the fixed assets which consist mainly of land, buildings and appliances, it is noticeable that the total value of fixed assets increased in 1973 and 1974. This was due mainly to the establishment of office buildings. The reason for this is an objective of the government to encourage the societies to have their own buildings. No item for depreciation of fixed assets appears in the accounts. It is possible that this has already been deducted, but depreciation should be listed separately.

It should be observed that the balance sheet does not classify the amount of cash of the societies into cash on hand and in current account. However, it is considered improper to have a big amount of cash on hand,

for there is a possibility that someone may misappropriate it without the knowledge of the members. The societies should deposit money in the bank as soon as possible.

According to the by-laws the only investment permitted to the societies has been in the form of depositing their funds in the Government Saving Banks or any other manner permitted by the Registrar. This matter has been very much criticized. It is argued that the societies should have permission to invest their funds in other businesses that yield more profit to the societies than deposit in the banks.

4.3 Financial Ratio Analysis

An analysis of financial statements provides an important basis for valuing securities and appraising managerial performance. If these are fully and adequately presented, the relationship between one item or group of items in the balance sheet and another item or groups of items can be established. For example, commercial management may be judged by estimating the financial ratios and comparing such ratios with standard ratios.

4.3.1 Profitability Ratios

One basic measure of the success of a cooperative is its net profit picture. It is true that profit making is not the principal objective of cooperatives, but service to members. Nevertheless, if it is to survive over the years, the society must at least break even over the longer term, and must yield surpluses on operations if it is to expand by ploughing back undistributed profits.

Relative to this, two ratios have been computed from Table 4.2, net profit as a percent of total assets and net profit as a percent of cooperative equity (net worth). The results are as follows:

TABLE 4.2

NET PROFIT AS A PERCENT OF TOTAL ASSETS AND NET
PROFIT AS A PERCENT OF COOPERATIVE EQUITY (NET WORTH)

1970-1974

Year	Net Profit/Total Assets	Net Profit/Net Worth
1970	2.5	6.3
1971	3.0	7.8
1972	3.3	8.5
1973	3.9	10.4
1974	2.3	7.3

Based on the results in Table 4.2, profit margins as a percent of total assets are less than satisfactory. One measure of this is the fact that the rates from operations are considerably less than the going rate of interest for commercial banks (reported by the Cooperation Resource Committee to be around 14 to 15 percent at the present time). Even when net profits are considered as a percent of net worth, (i.e., cooperative equity) the percent is not equal to the going rate of interest for agricultural loans up-country. This presents a problem for the cooperatives that need to borrow funds from sources other than the BAAC, and which wish to attract deposits from their members.

4.3.2 Net Worth Ratios

So far we have indicated that the financial condition of the societies have been considered as unsatisfactory. Besides, it can be seen from Table 4.3 that the net worth ratio, which measures shareholders' funds as a proportion of the total assets of the societies has been deteriorating over time.

TABLE 4.3
TOTAL VALUE OF NET WORTH, ASSETS AND THE
NET WORTH RATIO OF SOCIETIES
1970-1974

Year	Total Value of Net Worth (Million Baht)	Total Value of Assets (Million Baht)	Net Worth Ratio
1970	225.4	560.8	2.5 : 1
1971	312.4	798.1	2.6 : 1
1972	333.7	869.3	2.6 : 1
1973	427.2	1,131.3	2.6 : 1
1974	557.1	1,808.5	3.2 : 1

Table 4.3 shows that the net worth ratio in 1970 was only 2.5 : 1. This means that shareholders' funds contributed only one part of the value of assets of 2.5 parts or roughly 40 percent. In other words, about 60 percent of the assets were derived from borrowed funds. This is an important and significant ratio when a cooperative wishes to borrow funds against its assets. That is, the ratio of net worth to total assets should be much higher than 40 percent if a cooperative is to use its assets to secure funds from commercial sources and probably roughly this level when borrowing from government. Generally, it is recognized that if the net worth ratio is 2 : 1 the financial condition of a business enterprise is sound (Narkswasdi 1967,p.28). However, when the business is being expanded the net worth ratio may be temporarily higher than 2 : 1 because more borrowed funds will be used to secure additional assets in order to increase the productivity of the business themselves.

From 1971 to 1973 the net worth ratio was maintained at 2.6 : 1. It is difficult to judge from the balance sheets presented whether such comparatively good ratios were realistic. The societies' accountants may well have wished to maintain the proportion of owned assets to outside borrowings at roughly the previous level in order to qualify better as borrowers of public funds. At the same time, as we have argued above, it was not clear whether loans to members were all really recoverable. If these loan assets had to be written down, the net worth, which is a residual, would also have to be written down. In this case, the net worth ratio would not appear so favourable. That is cooperative equity would have had to be correspondingly written down, and would have formed a smaller proportion of total assets.

In 1974, when the societies expanded their business, especially in selling crops, they financed this largely from borrowed funds, so that, according to their accounts, their net worth ratio deteriorated to 3.2 : 1, i.e., dependence on outside funds rose to 69 percent.

4.3.3 Current Ratios

The comparison of current liabilities and current assets, known as the current or liquid ratio, can also reflect the financial situation of the societies. In other words, the ability of the societies to repay the amount due to their short-term creditors is determined by the value of their current assets. In principle, should the value of such assets be more than that of the current liabilities, the societies will be able to repay their short-term debts as soon as they are demanded (the obligations are usually falling due in one year). Normally, the current liabilities consists of bank overdraft, trade accounts payable, accrued creditors payable and so on. On the other hand, the current assets consist of

cash in hand and at the bank, inventories, debtors, accounts receivable and so on.

It is evident that no provision for tax need be made in liabilities, as cooperative societies are exempt from income taxes except for business taxes from milling rice. This last item is a very small amount because few cooperatives undertake rice milling. It probably has, therefore, been included in the item of other liabilities in the balance sheet.

TABLE 4.4
TOTAL VALUE OF CURRENT ASSETS, CURRENT
LIABILITIES AND THE CURRENT RATIOS
1970-1974

Year	Total Value of Current Assets (Million Baht)	Total Value of Current Liabilities (Million Baht)	Current Ratio
1970	536.0	335.4	1.6 : 1
1971	759.0	478.9	1.6 : 1
1972	819.5	525.0	1.6 : 1
1973	1,060.8	681.1	1.6 : 1
1974	1,664.3	1,213.8	1.6 : 1

The comparison of the value of current assets and current liabilities of the societies can be seen in Table 4.4. According to these records, the current assets of the societies have always been greater than the current liabilities which is in theory very satisfactory. However, in practice, there are some notable exceptions. For example, loan debtors are classified

under current assets, and constituted 86 percent of total current assets during 1970 - 1973 (See Table 4.1). In reality, attention should be drawn to the fact that some loans are doubtful debts or are not recoverable, some other payments are much overdue. These latter consist of part of trade debtors (for goods sold on credit) and accounts receivable. It could, therefore, be difficult to appraise the societies' ability to meet their current obligations.

4.4 Income and Expenditures

In the past, the main business of cooperatives was lending or credit. Other immediate activities such as purchasing of farm supplies (fertilizers, insecticides and pesticides) goods for selling to members, and marketing of members' produce, were a very small portion. Yet, at present, after the further development of cooperatives into a multi-purpose type, (according to the new Act of 1968) the business activities of the cooperatives have expanded rapidly. Most of the agricultural cooperatives have been diversifying their own enterprises.

4.4.1 Income

Table 4.5 gives the income statement for the agricultural cooperatives, as published in "Agricultural Cooperative Financial Report 1975" by the DCA (in Thai) for 1970-74 (Thailand. Department of Cooperative Auditing 1975). As shown in the Table, almost the whole of the 1970 income was derived from interest on loans. This share decreased to 20 percent in 1974. In that year, marketing of members' produce accounted for nearly 51 percent of total income and the selling of goods to members for 28 percent.

The same Table reveals that income of the cooperatives increased rapidly from 37.8 million Baht in 1970 to 107.9 million Baht in 1971 and 600.5 million Baht (roughly \$US30m.) in 1974.

TABLE 4.5

INCOME STATEMENT OF AGRICULTURAL COOPERATIVES

(in thousand Baht)

Particulars		1970	1971	1972	1973	1974
<u>Income</u>	Interest on Loans	36,654	73,777	88,497	109,095	117,884
	Goods Sales	-	32,444	24,775	170,403	166,200
	Crops Sales	-	-	-	-	300,519
	Services	-	29	-	695	6,927
	Total Income	36,654	106,250	113,272	280,193	591,530
<u>Costs</u>	Interest Expenses	18,107	38,374	47,630	58,677	66,539
	Bad Debts	21	1,582	1,847	1,694	4,375
	Cost of Goods Sales	-	28,002	22,508	150,280	154,532
	Cost of Crops Sales	-	-	-	-	276,715
	Cost of Services	-	77	-	720	5,641
	Total Costs	18,128	68,035	71,985	211,371	507,802
	Gross Profit (Losses)	18,526	38,215	41,287	68,822	84,341 (614) *
<u>Deduct</u>	Operating Expenses					
	Administrative Expenses	5,502	15,597	15,277	28,227	39,919
	Selling Expenses	-	-	-	-	25,074
	Service Expenses	-	-	-	-	349
	Total Expenses	5,502	15,597	15,277	28,227	65,342
	Operating Profit (Loss)	13,024	22,618	26,010	40,595	33,906 (15,521) *
<u>Add</u>	Other Income	1,120	1,608	2,161	3,669	8,938
	Annual Net Profit*(loss)	14,144	24,226	28,354* (183) *	44,371* (107) *	40,866* (13,544) *
Net Profit as % of Total Expenditures		59.9	29.0	32.3	18.5	4.8

* Discrepancies, see text page 90 and Table 4.8.

Source: Thailand. Department of Cooperative Auditing 1975, Part 1, p.7.

[In this calculation, "the other income" (members' fees, interest from banks, dividends from investment etc.) from the bottom of the Table has been included in total income.] This expansion is because the cooperatives were offering other activities such as purchasing and marketing. As a result, income from other business increased and in the meantime members received more and better services from the cooperatives. When income increased, it was of course for the cooperatives to expand and develop activities for the future.

4.4.2 Costs

The chief costs up to 1972 consisted of interest payments to the BAAC or other banks, largely on loan money for relending to members. It will be seen that the provision for bad debts is only a maximum of two percent of total expenditure over the five years. In view of the poor repayment record of members, this appears to be very low. The cost of goods sales has been getting more important since 1973 and also the cost of crops sales in 1974. They together constituted about 71 and 85 percent of total costs in those years. This is explained by agricultural cooperative involvement in marketing.

In this section of the income statement, no item appears for inventories (stocks). The need for stock statements now that the co-operatives are handling goods will be discussed in Chapter VI.

4.4.3 Gross Profit

The gross profits (i.e., excluding operating expenses) in Table 4.6 are computed from the information in Table 4.5. From Table 4.6 it can be calculated that gross profits on the sale of goods other than crops ranged from nearly 8 percent to 16 percent. There is little information on what goods are sold, but they are mainly dry goods (blankets, soaps, rice etc.) or non-perishable farm inputs (fertilizers, seeds, small tools, etc.). The figure for crop sales are available for only one year; they show a gross profit margin, excluding operating expenses, of 8.6 percent.

TABLE 4.6
GROSS MARGIN ON SALES OF GOODS AND CROPS

(in thousand Baht)

Particulars	Year	Income	Expenditures	Gross Margin
Goods	1971	32,444	28,002	4,442
	1972	24,775	22,508	2,267
	1973	170,403	150,280	20,115
	1974	166,200	154,532	11,668
Crops	1974	300,519	276,715	23,804

4.4.4 Operating Expenses

By operating expenses is meant the cost of running the business, including selling expenses for multi-purpose cooperatives. These have, as is to be expected, declined proportionately with the growth of turnover. They were 23 percent of total expenses in 1970 and dropped to 11 percent in 1974. There are no data on the share of total expenses which are fixed and variable costs.

It is not clear from Table 4.5 where depreciation is included. Usually depreciation, which represents the allowance made for the decline in the useful economic value of an asset due to use and obsolescence, is included either against manufacturing costs (if fixed assets such as a rice mill, storage etc. are being depreciated) or against operating expenses where office equipment or other things concerned with distributing products is being dealt with.

Operating expenses should, however, also be taken into account. There is no means of knowing what share of these should be allocated to

the credit business of the societies, and what to sales of goods or produce. If, for example, the operating expenses are shared out between the various sections in the same proportion that these sections form of total income, then they would wipe out the gross margin on goods sales in each year except 1973. For 1974 crop sales, a proportionate share of operating expenses added to costs would result in a loss of some 9 million Baht (See Table 4.7).

TABLE 4.7

COMPARISONS OF GROSS PROFITS OF GOODS AND CROP SALES
AND CALCULATED OPERATING EXPENSES

(in thousand Baht)

	Total Income	Total Operating Expenses	Value of Goods Sales	% of Income from (3)	Calculated Share of Operating Expenses	Gross Margin on Sales	Net (6) - (5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
			<u>Goods</u>				
1971	106,250	15,597	32,444	30.5	4,757	4,442	- 315
1972	113,272	15,277	24,775	21.9	3,346	2,267	- 1,079
1973	280,193	28,227	170,403	60.8	17,162	20,115	+ 2,953
1974	591,530	65,342	166,200	28.1	18,361	11,668	- 6,693
			<u>Crops</u>				
1974	591,530	65,342	300,519	50.8	33,194	23,804	- 9,390

The same sort of calculation can be made for loan operations: i.e., income (interest received) from loans is put on one side of the balance and

interest expenses and a proportionate share of operating expenses deducted from it. This exercise can not be exact, as it is not known how operating expenses should be split up between the different sections of the business. But it is clear that the bulk of net profits according to the accounts are derived from the loan business throughout the five years 1970 to 1974. This is unfortunate, since it has been argued above that cooperative credit operations are not in a healthy state, owing to default on the capital account in repayments of principal.

4.4.5 Net Profit

The income statements presented in Table 4.5, especially in 1974, are set out by the DCA report in a confusing way. The Department of Cooperative Auditing wished to explain that most of the societies were profitable, and so shows their profit separately. Thus in 1974, 482 out of 544 societies had surpluses of approximately 40.9 million Baht. The remaining 58 societies, or 6.6 percent of the total number, had deficits of approximately 13.5 million Baht. Those societies in deficit were newly established, and it was hoped that some improvement would be made in the following years. The aggregate position was not shown clearly in the income statement.

The writer has, therefore, derived Table 4.8 (from Table 4.5) for easier understanding. The net profit of 40,866,000 Baht shown is not the net profit for all societies taken as a whole, because we should have to take discrepancies into consideration, which are noted in parentheses in the original data. Operating profit for 1974 shows a discrepancy of 15,520,000 Baht, made up of an understatement of aggregate costs of 614,000 and an overrecording of aggregate operating profit of 14,907,000 Baht. One should, however, set off against this, an addition of 1,978,000

which is an unexplained reduction of the sum of operating profit and other income. Net discrepancies for 1974 are thus - 13,542,000 Baht (- 14,907,000 - 614,000 + 1,978,000). The adjusted net profit for 1974 (40,866,000 less 13,542,000) is 27,324,000 Baht, i.e., 4.8 percent over total expenditures. There are similar discrepancies in previous years, but these are quite small.

TABLE 4.8

ADJUSTED INCOME STATEMENT OF AGRICULTURAL
COOPERATIVES, 1974

(in thousand Baht)

	Statement	Corrected Sub Total	Discrepancy	Adjusted
Total Income	591,530			591,530
Total Costs	<u>507,802</u>			<u>507,802</u>
Gross Profit	84,341	83,727	- 614	83,728
Operating Expenses	<u>65,342</u>			<u>65,342</u>
	33,906	18,999	- 14,907	18,386
Other Income	8,938			8,938
Net Profit	40,866	42,844	+ 1,978	27,324
Net Adjustments	<u>- 13,542</u>		- 13,542	
Adjusted Net Profit	<u>27,324</u>			

Calculable net profit as % of expenditures = 4.8%

* Discrepancies in original; see text.

Deductions are the losses of the group of unprofitable societies.

Source: Derived from Table 4.5.

It is obvious that adjusted net profits of the societies in the earlier years as shown in Table 4.5 are extraordinarily high, at least in theory. According to the auditors' statement, income in 1970 amounted to a total of 37.8 million Baht (including "other income") and expenditures (total cost + operating expenses) to 23.6 million Baht (See Table 4.5). This would show a net profit of roughly 60 percent over total expenditures. Taking the same simple sums for the following years, net profits as a percentage of total expenditures were 29, 32 and 18.5 percent respectively. In 1974, net profit as recorded fell drastically, to less than 5 percent.

Apart from the discrepancies discussed, the net profits here did not present the true picture, for two reasons. Firstly, because provision for doubtful or bad debts under costs in the income statement should have been higher if the cooperative societies had not been too optimistic about getting the principal on their loans repaid. Secondly, because the total assets (See Table 4.1) seem to have been used unproductively in earlier years. When income is related to total assets, it will be seen that in 1970, it was found that it was less than 7 percent. In 1971 and 1972 it rose to about 13 percent. In 1973 and 1974, however, it rose to 25 and 33 percent respectively. The low ratio of earnings to assets in 1970-72 seems to be explained by various factors, such as government by laws constraining investment and lack of managerial experience or depressed business conditions.

The foregoing chapter has dealt with aggregate data for the whole cooperative movement. The next chapter will deal with the activities of three primary societies, in order to give as much detail as is available of a cooperative in action.

CHAPTER V

THE SAMPLE COOPERATIVES : A GENERAL SURVEY

5.1 A General Description

Three of the primary agricultural cooperatives which operate at grass-roots level were chosen for an intensive study. These are:

- (a) Soong-Nern Agricultural Cooperative Ltd
at Nakornrajasima Province in the
Northeastern region;
- (b) San-Pa-Tong Agricultural Cooperative
Ltd at Chiengmai Province in the
Northern region; and
- (c) Ban Lard Agricultural Cooperative Ltd
at Petchaburi Province in the Southern
region.

Of these (a) and (b) were judged by a government committee set up to encourage the cooperative movement to be the best all round cooperatives in Thailand in 1974 and 1975 respectively (Machima 1976b and 1977) while (c) was also judged a successful and good example (Machima) 1975.

In the sections that follow a general description of each of the cooperatives will be given. These will deal with their historical background, availability of working capital; loans to members; repayment records of the members; business of purchasing; business of marketing; income, expenditure and non-operating profit; and comparisons of the three cooperatives. Finally, an attempt will be made to judge to what extent they were successful in reality and to explain such qualified success as they had.

5.2 Historical Background

5.2.1 Soong-Nern Agricultural Cooperative Ltd

Soong-Nern Agricultural Cooperative was launched by the amalgamation of 43 village credit cooperatives in December 1969. At first the society was organized to be a finance association with its 699 members and had only one business, i.e., the lending business. The society was converted into a multi-purpose cooperative in June 1971 and finally transformed into an agricultural cooperative in October 1973, combining several activities, i.e., credit, processing, purchasing and marketing. Its membership increased from 668 in 1971 to 958 in 1975. The members represented 10.5 percent of the farmers in the district in 1975.

The Soong-Nern District is one of the 22 districts in Nakornrajasima Province which is located in the Northeastern region of Thailand, 250 kilometres from Bangkok. Its population in 1971 was about 45,732 or 8,094 households. About 70 percent of the population are engaged in farming, and cultivated an area of 59,083 rai (9,453 hectares).¹ The main crop is rice which is the major source of farmers' income in this area. Other crops are maize, potatoes, kenaf, cotton etc. In 1977, the total land holdings of members was 34,454 rai (5,513 hectares), i.e., nearly 60 percent of the district's land. Of this amount about 92 percent belongs to members. About 75 percent of the land of members is located in an irrigated area (CPD 1977,p.13).

1 1 rai = 0.16 hectares

5.2.2 San-Pa-Tong Agricultural Cooperative Ltd

Before becoming San-Pa-Tong Agricultural Cooperative, latest registration 1975, the society was amalgamated several times. Looking back to 1935 when cooperatives were introduced in San-Pa-Tong District, there were 6 village credit cooperatives. The number of societies had increased to 38 by 1953. Yet, before that time the San-Pa-Tong Soya Bean Cooperative was organized in 1947 with its objective to serve members in selling soya beans. This society proved quite good and owned 7 rai of land for building its office and 2 storages with the capacity of 1,000 metric tons. At present this land is the location of the newly created San-Pa-Tong Agricultural Cooperative.

According to the Act of 1968, 21 village credit cooperatives were amalgamated into a society called San-Pa-Tong Agricultural Cooperative 1 with total membership of 453 in October 1970. The remaining 17 village credit cooperatives were also amalgamated into another society called San-Pa-Tong Agricultural Cooperative 2 with a total membership of 373 in April 1971. Finally, in order to be a multi-purpose society, these two societies and the San-Pa-Tong Soya Bean Cooperative were amalgamated into one society called San-Pa-Tong Agricultural Cooperative Ltd with a total membership of 1,010 in June 1971. The newest change in April 1975 was to amalgamate with "Fai Pong Sanuk Land Improvement Cooperative" with its membership of 345. Therefore the total membership increased from 862 in 1971 to 1,882 at the end of 1975. The members represented 10.2 percent of the farmers in the district in 1975.

San-Pa-Tong District is one of the 18 districts in Chiangmai

Province which is located in the upper part of Northern Thailand, about 750 kilometres from Bangkok. The district is about 23 kilometres down to the south of the province. Its transportation is very convenient. The district is comprised of 12 sub-districts and 121 villages. Its population was about 98,000 or 18,200 households in 1971. About 90 percent of population are farmers in a cultivated area of 65,000 rai (10,400 hectares). Farmers can double crop because of the availability of irrigation. The main crop is rice and glutinous rice which is the most famous of the country. Other crops are soya bean, garlic and others.

In 1977, farmers in the agricultural cooperative held 25,559 rai (4,089 hectares), i.e., 39 percent of the district's cultivated area. They owned about 93 percent of their land. The whole of the cultivated area of members is located in the irrigated area (CPD 1977, p.26).

5.2.3 Ban Lard Agricultural Cooperative Ltd

The society was first organized in Ban Lard district of Petchaburi Province as a village credit cooperative in 1940. Up to 1952, there were 32 village credit cooperatives in 12 villages with a total membership of 495, an average of 15.5 members per society (Machima 1976a,p.62). These societies proved fairly useful to members in credit activity from the beginning but carried out no other activities. Late in 1969 these village credit cooperatives were amalgamated into a large unit called "Ban Lard Agricultural Cooperative". Its main objectives were to provide necessary services such as credit, marketing, farm supplies and farm extension to farmers which proved to have served a useful purpose. Finally, the

society was transformed into a multi-purpose cooperative in October 1972 with two more activities, i.e., rice milling and funeral services. At present the society has its own office built on its land. Total membership increased from 689 in 1971 to 1,540 members in 1975. The members represented 21.7 percent of the farmers in the district in 1975.

Ban Lard District is one of the 6 districts in Petchaburi Province which is located in the upper part of Southern Thailand, about 170 kilometres from Bangkok. The district is comprised of 16 sub-districts and 103 villages, a total area of 305 square kilometres. In 1971, its population was 40,910 or 6,294 households. The majority of the people, about 95 percent, are farmers living on their farms in its cultivated area of 77,744 rai (12,439 hectares). Rice is the main product in this area. Other products are non-rice crops, fruits and vegetables. In 1977, the total land holdings of members was 40,967 rai (6,555 hectares) (i.e. 53 per cent of the district's cultivated land) of which 84 per cent belonged to farmers. About 44 percent of the cultivated area of members was located within an irrigated area (CPD 1977, p.40).

TABLE 5.1

MEMBERSHIP OF THE THREE SOCIETIES, 1971-1975

Name of Society	1971	1972	1973	1974	1975
Soong-Nern Agricultural Coop ¹	668	662	838	872	958
San-Pa-Tong Agricultural Coop ²	862	894	952	1,098	1,882
Ban Lard Agricultural Coop ³	689	707	846	1,012	1,540

Sources: 1 and 3 from Doungsawasdi, 1976, pp.18;32.

2 from Machima 1977, p.33.

5.3 Size of Land Holdings

It is clear from the figures available that those farmers who were members of the three cooperative societies had much larger land holdings than non-members in their districts. Figures cannot be calculated exactly, since population figures are available only for 1971, and land holdings are for 1977. Nevertheless, a rough idea can be given, as in Table 5.2.

Total farm household figures in Table 5.2 are based on the following assumptions: that the number of households in each district grew at a rate of 3.0 percent a year between 1971 and 1975; and that the population of total households who were farmers remained constant, i.e., about 70 percent in Soong-Nern, 90 percent in San-Pa-Tong and 95 percent in Ban Lard. It should be pointed out that if either of these assumptions is wrong, the number of non-cooperative farmers in each district may have been overestimated and thus their average land holdings underestimated. But an adjustment for this would not change the overall picture.

According to the calculations in Table 5.2, the average land holdings of cooperatives' members ranged between nearly 14 rai to 36 rai (2.2 ha to 5.8 ha). This was 3.7 to 8 times larger than the average for all non-cooperative farmers, which on the assumptions given, average only 0.43, 0.7 and 1.1 hectares in the three districts.

TABLE 5.2
AVERAGE FARM HOLDINGS IN THREE DISTRICTS
(1977)

	Soong-Nern District			San-Pa-Tong District			Ban Lard District		
	Total	Coop	Other ^{a)}	Total	Coop	Other ^{a)}	Total	Coop	Other ^{a)}
No. of Farm Households ^{b)}	9,100	958	8,142	18,400	1,882	16,518	7,082	1,540	5,542
Percent ^{c)}	-	10.5	-	-	10.2	-	-	21.7	-
Total Land Holdings (rai)	59,083	34,454	24,629	65,000	25,559	39,441	77,744	40,967	36,777
Percent ^{c)}	-	58.3	-	-	-	39.3	-	52.7	-
Average Land Holdings (rai) ^{b)}	6.5	36.0	3.0	4.0	13.6	2.4	11.0	26.6	6.6

a) Residual.

b) On assumptions given in text.

c) Percentage of total in cooperative.

5.4 Working Capital or Funds of the Societies

As has been mentioned in Chapter III, a part of the societies' funds are obtained from government sources through government agencies. Cooperatives obtaining funds from government sources have privileged access to cheap credit and those which obtain the largest share from the lowest interest funds are particularly privileged. Interest rates are different for the various state sources and for various purposes. If the loanable funds are made available directly by the government

for lending to members, this financial assistance will be free of interest. However, if the loanable funds are for investing in rice collection and rice storage or mill buildings, the societies will be charged a 2 percent interest rate. Rates from the Bank for Agriculture and Agricultural Cooperatives (BAAC) are 9 percent. Moreover, since 1975 commercial banks have lent to the cooperatives on the basis of tangible security with lower interest rates (7.5 - 15 percent) according to the government requirement as mentioned in Chapter III. However, most of such commercial bank lending is made through the BAAC as the BAAC pays 8 percent to the commercial banks. Information on the proportion of borrowed funds of the three societies from different sources is shown below (Table 5.3).

TABLE 5.3
INTEREST RATE CHARGES TO COOPERATIVE SOCIETIES
(1975, percent)

Commercial Banks	7.5-15
Bank for Agriculture and Agricultural Cooperatives	9
Provincial Federation	9
Cooperative Promotion Fund	0-2
Government Farmers' Aid Fund	0-2
Government Farmers' Relief Fund	0-2
United States Operations Mission (USOM)	0-2

5.4.1 Soong-Nern Agricultural Cooperative

Like other societies, the total funds of the society have increased substantially, as shown in the Table 5.4. As can be seen in this Table, the funds of the society have been growing year after year. In 1971 the total funds of the society were only 4.6 million Baht. They increased to 9.3 and 13.2 million Baht in 1974 and 1975 respectively. In other words, within 5 years of its operation the total funds expanded by about 187 percent. The cooperative is a society that has one of the largest amounts of working capital in the country, e.g. its total funds of 9.3 million Baht in 1974 was nearly triple the average working capital of overall agricultural cooperatives. The society has, therefore, expanded its activities rapidly and widely.

Most of its funds were derived from borrowed funds, which constituted 59 percent of the total in 1971 and increased to 66.3 percent in 1975. This means that the society depends more on borrowed funds than its own funds. The borrowed funds (Table 5.5) were obtained mainly from the BAAC and the government controlled Cooperative Promotion Fund which charged 9 percent and free or 2 percent of interest rate respectively. Other borrowed funds were obtained from the United States Operations Mission (USOM) and from the Government Farmers' Aid Fund which started from 1973 and is also free of interest. As shown in Table 5.5 in 1975 there were no commercial borrowings. Of funds borrowed from state agencies, 50 percent came from the BAAC, 43.5 percent from the Cooperative Promotion Fund, 3.6 percent from USOM and 2.9 percent from Government Farmers' Aid Funds. Since approximately 50 percent of loanable funds was charged at 9 percent interest

TABLE 5.4

CATEGORIES OF WORKING CAPITAL, 1971-1975 : SOONG-NERN
AGRICULTURAL COOPERATIVE

	1971		1972		1973		1974		1975	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
Share Capital	432.7	9.5	635.3	11.4	751.5	9.9	897.6	9.6	1,212.1	9.2
growth rate	-	-	46.8	-	18.3	-	19.4	-	35.0	-
Reserves	1,083.4	23.7	1,364.0	24.5	1,556.3	20.6	1,805.2	19.4	2,208.4	16.7
growth rate	-	-	25.9	-	14.1	-	16.0	-	22.3	-
Other Funds	205.6	4.5	524.6	9.4	671.4	8.9	205.0	2.3	233.2	1.8
growth rate	-	-	155.1	-	28.0	-	-69.5	-	13.8	-
Borrowings	2,703.2	59.1	2,626.2	47.1	4,034.3	53.5	5,297.8	56.8	8,750.5	66.3
growth rate	-	-	-2.9	-	53.6	-	31.3	-	65.2	-
Deposits	14.2	0.3	21.5	0.4	28.1	0.4	311.1	3.3	263.4	2.0
growth rate	-	-	51.5	-	30.9	-	1,006.4	-	-15.3	-
Surplus not yet Distributed	132.5	2.9	399.9	7.2	504.2	6.7	804.1	8.6	522.6	4.0
growth rate	-	-	201.8	-	26.1	-	59.5	-	-35.0	-
Total	4,571.6	100	5,571.4	100	7,545.8	100	9,320.8	100	13,190.1	100

Source: Derived from Doungsawasdi 1976,p.19.

TABLE 5.5

SOURCE, AMOUNT AND PERCENTAGE OF BORROWED FUNDS 1971-1975 : SOONG-NEERN
AGRICULTURAL COOPERATIVE

Year	CPF ^{a)}		USOM		GFAP ^{b)}		BAAC		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	1,068.8	39.6	320.0	11.8	-	-	1,314.4	48.6	2,703.2	100
1972	1,040.0	39.6	346.1	13.2	-	-	1,240.1	47.2	2,626.2	100
1973	1,285.0	31.9	322.1	8.0	250.0	6.2	2,177.1	53.9	4,034.3	100
1974	1,753.7	25.0	322.1	1.8	410.0	9.3	2,811.9	63.9	5,297.8	100
1975	3,810.0	43.5	315.0	3.6	250.0	2.9	4,375.5	50.0	8,750.5	100

a) Cooperative Promotion Fund.

b) Government Farmers' Aid Fund.

Source: Dongsawasdi 1976,p.20.

rate and the remainder at 0-2 percent, average interest rate must have been about 5 percent, compared to commercial bank rates of 7.5 to 15 percent.

Table 5.4 shows that the total share capital has grown at a decreasing rate since 1972, i.e., from 46.8 percent in 1972, the annual increase slowed down to 18.3, 19.4 and 35.0 percent in 1973, 1974 and 1975 respectively. This is due mainly to the fact that the total numbers of members has increased very slowly. The reserve funds have also increased at a decreasing rate, i.e., from 25.9 percent in 1972, they increased by 14.1, 16.0 and 22.3 percent in 1973, 1974 and 1975 respectively. Other funds tended to decrease as well and dropped by 69.5 percent in 1974. Besides, the proportions of the share capital, reserves and other funds to the total funds decreased during 1973-75 as borrowings from state institutions rose.

The society has been earning relatively small net operating profits each year, especially in 1975, when net operating profits dropped by 35.0 percent. This resulted from the government policy on rice price support.

Another type of society funds was the deposit from its members which was small compared to other funds, although it increased year after year except in 1975. Yet, the proportion of deposits to total funds was only 2 percent in 1975 inspite of an interest rate given to members of 9 percent for 1 year time deposit which is 1 percent higher than the interest rate from the commercial banks. This may be because the wealthier farmers can lend more profitably to poor non-members. However, about 56.8 percent of the deposit is as time deposit.

5.4.2 San-Pa-Tong Agricultural Cooperative

By 1971 the society had a working capital of 6.2 million Baht. Over the next three years it became well-established, with working capital rising to nearly 17 million Baht in 1975. Capital increased by 174 percent during 1971-75. In 1974, its funds were three-fold higher than the average overall working capital of the country (See Table 5.6).

Most of the funds for the society has come from outside the movement, i.e., borrowed funds. Almost all these come from state agencies, at relatively high average interest rates. The borrowed funds of 3.8 million Baht in 1971 rose to 5.3 million Baht in 1974 and to over 11 million Baht in 1975. The proportion of the borrowed funds tended to increase, i.e., from 60.8 percent in 1971 to 66.3 percent in 1975. The main source of the borrowed funds was the Provincial Federation (Chieng-Mai Province), an average of 74.3 percent during 1971-75, with 9 percent interest rate. It is noticeable that even the amount of total borrowing from the Provincial Federation tended to increase gradually but its proportion to the total borrowings tended to decrease, i.e., borrowings increased from 3.3 million Baht in 1972 to 7.8 million Baht in 1975 but its proportion decreased from 82.1 percent in 1972 to 69 percent in 1975 (See Table 5.7).

Another source of borrowing is the Cooperative Promotion Fund. Not only the amount but also the proportion of borrowing from this source tended to decrease. The amount of borrowing decreased from 1.2 million Baht to 594.7 thousand Baht and its proportion decreased from 32.7 percent in 1971 to 5.3 percent in 1975. This is because the government withdrew some funds to help other societies.

TABLE 5.6
CATEGORIES OF WORKING CAPITAL, 1971-1975 : SAN-PA-TONG
AGRICULTURAL COOPERATIVE

	1971		1972		1973		1974		1975	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
Share Capital	539.6	8.7	582.7	8.2	707.5	9.3	1,061.9	10.7	1,503.0	8.8
growth rate	-	-	8.0	-	21.4	-	50.1	-	41.5	-
Reserves	1,584.2	25.6	1,647.1	23.1	1,786.2	23.6	1,908.9	19.2	2,032.3	12.0
growth rate	-	-	4.0	-	8.5	-	6.9	-	6.5	-
Other Funds	53.8	0.7	115.4	1.6	186.9	2.5	271.4	2.7	338.0	2.0
growth rate	-	-	114.2	-	62.0	-	45.2	-	24.5	-
Borrowings	3,766.2	60.8	4,076.2	57.3	4,028.1	53.2	5,260.6	53.0	11,261.5	66.3
growth rate	-	-	8.2	-	-1.2	-	30.6	-	114.0	-
Deposits	54.0	1.0	351.2	4.9	516.6	6.8	939.8	9.5	1,183.0	7.0
growth rate	-	-	550.8	-	47.0	-	81.9	-	25.9	-
Surplus not yet Distributed	202.3	3.2	347.9	4.9	344.6	4.6	488.3	4.9	666.3	3.9
growth rate	-	-	72.0	-	-0.9	-	41.7	-	36.4	-
Total	6,200.1	100	7,120.4	100	7,570.0	100	9,930.9	100	16,984.0	100

Source: Derived from Machima 1977,p.34.

TABLE 5.7

SOURCE, AMOUNT AND PERCENTAGE OF BORROWED FUNDS, 1971-1975 :
SAN-PA-TONG AGRICULTURAL COOPERATIVE

Year	CPF ^{a)}		GFAF ^{b)}		Commercial Bank (Bangkok Bank)		Provincial Federation		BAAC		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	1,230.0	32.7	-	-	-	-	2,536.3	67.3	-	-	3,766.2	100
1972	729.8	17.9	-	-	-	-	3,346.3	82.1	-	-	4,076.2	100
1973	482.4	12.0	100.0	2.5	-	-	3,445.7	85.5	-	-	4,028.1	100
1974	799.4	15.2	154.4	3.0	-	-	3,988.9	75.8	317.9	6.0	5,260.6	100
1975	594.7	5.3	960.0	8.5	317.9	2.8	7,774.0	69.0	1,614.9	14.4	11,261.5	100

a) Cooperative Promotion Fund.

b) Government Farmers' Aid Fund.

Source: Machima 1977,p.35.

Other reasons for the reduction of borrowing from the two sources above are that the society had recently obtained borrowings from the Government Farmers' Aid Fund with no charge of interest since 1973, from the BAAC since 1974 and from the commercial banks in 1975. Briefly, about 86.2 percent of borrowed funds came from the sources that charged 9 percent interest rate in 1975, so that the average interest rate on all state loans was 7.9 percent in that year. The reserved fund of the society decreased its proportion of the total funds from 25.6 percent in 1971 to 19.2 and 12 percent in 1974 and 1975 although it had increased by the amount of 1.6 million Baht in 1971 to 2 million Baht in 1975.

The share capital of the society increased tremendously from 539.6 thousand Baht to 1.5 million Baht, i.e., a 178 percent increase in the five years to 1975. This increase resulted from the amalgamation which has already been described. However, the proportion of the share capital to the total fund did not change much, i.e., its proportion was 8.7 percent in 1971 and increased to 8.8 percent in 1975.

Other sources of funds from within the movement include undistributed net operating profit and deposits. Undistributed net operating profits tripled from 202.3 thousand Baht in 1971 to 666.3 thousand Baht in 1975. The proportion of the undistributed net operating profit was about 4 percent during 1971-75. For the deposits, there was a substantial increase from 54 thousand Baht in 1971 to 1.2 million Baht in 1975 and its proportion to the total funds increased from 1.0 percent in 1970 to 7 percent in 1975. This means that its members are better off and more interested in depositing their money with the society, i.e., they trust their society more. About 65.5

percent of deposits are as time deposits of at least a one year period.

5.4.3 Ban Lard Agricultural Cooperative

The total working capital of the society increased moderately during 1971 to 1975 from 4.8 million Baht to 8.3 million Baht, i.e., a 74 percent increase during the period (Table 5.8). The total working capital in 1974 was more than double the average working capital of agricultural cooperatives in the country. Much of the increase was contributed by deposits from its members.

The highest proportion of working capital was contributed by outside borrowed funds, i.e., the proportion of 49 percent during 1971-75. There were some big fluctuations in borrowings. The marked drops in the borrowings of the society in 1972 and 1973 made a sharp reduction in their proportion to the total working capital from 64.7 percent in 1971 to 54.6 and 34.8 percent in 1972 and 1973 respectively. It increased to 38.0 and 52.1 percent in 1974 and 1975. The reason for the slow long term growth rate in borrowings could result from the substantial increase in deposits from members. The increase of the deposits had reached the highest level at 2.8 million Baht in 1974 and had then fallen to 2.1 million Baht in the following year, notwithstanding, its proportion to the total working capital was still high, i.e., 25.5 percent in 1975.

A large part of borrowings of the society distributed in 1971-75 was obtained from the BAAC, about 41 percent during the period. Others obtained from the Cooperative Promotion Fund at about 25.2 percent and 23.6 percent from the Government Farmers' Aid Fund during the same period. In 1975, the society was able to borrow over 1.4 million Baht from the Government Farmers' Relief Fund, which represented

TABLE 5.8

CATEGORIES OF WORKING CAPITAL, 1971-1975 : BAN LARD
AGRICULTURAL COOPERATIVE

	1971		1972		1973		1974		1975	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
Share Capital	341.9	7.2	411.3	7.7	525.4	9.4	724.7	9.8	1,082.9	13.0
growth rate	-	-	20.3	-	27.7	-	37.9	-	49.4	-
Reserves	485.4	9.7	553.9	10.4	604.7	10.8	688.2	9.3	757.2	9.1
growth rate	-	-	14.1	-	9.2	-	13.8	-	10.0	-
Other Funds	60.7	1.3	21.0	0.4	17.8	0.3	28.7	0.4	100.3	1.2
growth rate	-	-	-65.4	-	15.1	-	60.9	-	249.0	-
Borrowings	3,066.1	64.7	2,912.5	54.6	1,959.7	34.8	2,803.8	38.0	4,326.0	52.1
growth rate	-	-	-5.0	-	-32.7	-	43.1	-	54.3	-
Deposit	721.7	15.2	1,276.4	24.0	2,290.1	40.7	2,819.3	38.2	2,118.5	25.5
growth rate	-	-	76.9	-	79.4	-	23.1	-	-24.9	-
Surplus not yet Distributed	88.9	1.9	153.0	2.9	226.3	4.0	313.6	4.3	-(78.6)	(.9)
growth rate	-	-	72.2	-	47.9	-	38.6	-	-	-
Total	4,764.6	100	5,328.1	100	5,624.0	100	7,378.2	100	8,306.3	100

Source: Derived from Dongsawasdi 1976,p.33.

34.3 percent of the total borrowing in that year. Of the three societies, Ban Lard borrowed the smallest share of funds from relatively high interest rate government sources. In 1975, only 33 percent of borrowed funds were obtained from the sources that charged a 9 percent interest rate, so that the overall average rate was just over 3 percent (Table 5.9).

The total share capital of the society rose from 341.9 thousand Baht to over 1 million Baht in 1975, partly through the increase of new membership and partly through shares bought by its members. The progress of share capital was both in its growth rate and proportion to the total working capital.

The surplus not yet distributed constituted only a very small proportion of the total working capital. Table 5.8 shows that the amount of surplus varied markedly from year to year and that there was even a loss in 1975. This was because of a fire in the society's mill.

Another source of working capital from within the movement are reserves. The increase of the reserves fluctuated from year to year and also the proportions of the reserves to the total working capital. However, it increased at an average of 11.8 percent during 1971-75 and its proportion was about 9.8 percent during the same period.

5.5 Loans to Members

5.5.1 Soong-Nern Agricultural Cooperative

In the five-year period from 1971-75 the society advanced short and intermediate-term loans amounting to an average of nearly 3 million Baht (as shown in Table 5.10), i.e., they had increased 4.4 times by 1975. Of this amount, 16.7 percent were short-term loans

TABLE 5.9

SOURCE, AMOUNT AND PERCENTAGE OF BORROWED FUNDS, 1971-1975 : BAN LARD
AGRICULTURAL COOPERATIVE

Year	CPF ^{a)}		GFRF ^{b)}		GFAF ^{c)}		BAAC ^{d)}		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	970.0	31.6	-	-	262.5	8.6	1,833.6	59.8	3,066.1	100
1972	865.0	29.7	-	-	812.5	27.9	1,235.0	42.4	2,912.5	100
1973	606.4	30.9	-	-	812.5	41.5	540.8	27.6	1,959.7	100
1974	855.0	30.5	-	-	762.5	27.2	1,186.3	42.3	2,803.8	100
1975	500.0	11.6	1,486.0	34.3	912.5	21.1	1,427.5	33.0	4,326.0	100

a) Cooperative Promotion Fund.

b) Government Farmers' Relief Fund.

c) Government Farmers' Aid Fund.

d) Bank for Agriculture and Agricultural Cooperatives.

Source: Dongsawasdi 1976,p.34.

and 83.3 percent were intermediate ones. The proportion of the short-term loans to total loans outstanding increased from 17.0 percent in 1971 to 31.2 percent in 1975, but there was no report as to why the short term outstanding loans were extraordinarily high in 1975.

The survey by Machima (1976b,p.19) reveals that during 1969-73 about 49.2 percent of the total short-term loans made were for wage payments, 23.7 percent for contract ploughing, 14.6 percent for seed purchase, 6.8 percent for meeting payments on partially paid cooperative shares and 5.7 percent for machinery maintenance. As major parts of intermediate loans, about 38.4 percent was for purchasing cattle, 17.7 percent for purchasing land, 15.6 percent for clearing the land and almost all the remainder of the loans, about 24.5 percent, was tied specifically to farming. Only a very small share of the loans, about 3.8 percent, was for repairing houses.

TABLE 5.10

SHORT-TERM AND INTERMEDIATE TERM LOANS
DISBURSED TO MEMBERS, 1971-1975 : SOONG-NERN
AGRICULTURAL COOPERATIVE

Year	Short-term		Intermediate-term		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	262.2	17.0	1,280.4	83.0	1,542.6	100
1972	178.6	15.3	987.1	84.7	1,165.7	100
1973	199.9	9.6	1,884.5	90.4	2,084.3	100
1974	351.4	10.6	2,963.8	89.4	3,315.2	100
1975	2,067.4	31.2	4,578.1	68.8	6,645.5	100

Source: Derived from Doungsawasdi 1976,p.21.

5.5.2 San-Pa-Tong Agricultural Cooperative

Information on the total value of loans outstanding by the society is shown in Table 5.11. Lending activities of the society expanded at a rapid rate. The amount of loans increased more than six-fold from 1971 to 1975. The proportion of short-term loans to total outstanding was about 10 percent while 90 percent was for intermediate loans over the same period.

About 81 percent of the short-term loans were spent on farming and 19 percent for other purposes during 1974-75 (Machima 1977). Of intermediate loans, about 28.7 percent were granted for purchasing land, 23.8 percent for purchasing cattle, 27.5 percent for mending houses and the remainder about 20 percent for unspecified purposes. Thus, a higher proportion of loans was spent on non-agricultural purposes than in the Soong-Nern Society.

TABLE 5.11

SHORT-TERM AND INTERMEDIATE-TERM LOANS
DISBURSED TO MEMBERS, 1971-1975 : SAN-PA-TONG
AGRICULTURAL COOPERATIVE

Year	Short-term		Intermediate-term		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	215.3	16.2	1,113.7	83.8	1,329.0	100
1972	183.7	10.9	1,505.1	89.1	1,688.8	100
1973	314.8	13.9	1,954.3	86.1	2,269.1	100
1974	433.6	10.8	3,579.7	89.2	4,013.3	100
1975	680.5	7.8	8,028.3	92.2	8,708.7	100

Source: Derived from Machima 1977, p.36.

5.5.3 Ban Lard Agricultural Cooperative

The loans granted by the society more than doubled from 1971 to 1974. They declined from 3.8 million Baht in 1974 to 3.3 million Baht in 1975 or about 13 percent. The proportion of short-term loans to total loan outstanding was about 14.3 during 1971-75. The great majority of lending was in the form of intermediate loans, which were 85.7 percent of the total over the same period (See Table 5.12).

TABLE 5.12

SHORT-TERM AND INTERMEDIATE-TERM LOANS
DISBURSED TO MEMBERS, 1971-1975 : BAN LARD
AGRICULTURAL COOPERATIVE

Year	Short-term		Intermediate-term		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	263.0	16.1	1,469.0	83.9	1,632.0	100
1972	143.8	10.2	2,273.1	89.8	2,416.9	100
1973	217.2	9.6	2,689.7	90.4	2,909.0	100
1974	513.0	13.8	3,266.5	86.2	3,779.5	100
1975	875.2	26.6	2,413.7	73.4	3,288.8	100

Source: Derived from Doungsawasdi 1976,p.35.

5.6 Repayment Record of Members

5.6.1 Soong-Nern Agricultural Cooperative

As shown in the Table 5.13, the repayment records of the society's members demonstrate an interesting record. The 5 year average percentage of actual repayment was about 77.5 percent during 1971-75. Of this amount of repayment, the actual repayment of

short-term loans was relatively higher compared to the intermediate ones. That is, the actual repayment rates of short-term loans averaged 82.2 percent and 75.6 percent for intermediate loans during the same period.

It is evident from the 3 year average during 1971-73, that the total actual repayment of the members was 87.3 percent. This was considerably better than the overall country average, which was only 45 percent.

TABLE 5.13
REPAYMENT RECORD OF MEMBERS, 1971-1975 : SOONG-NERN
AGRICULTURAL COOPERATIVE
(in thousand Baht)

Year	Due Repayment			Actual Repayment					
	Short-term	Inter-mediate-term	Total	Short-term	%	Inter-mediate-term	%	Total	%
1971	235.0	1,258.8	1,493.8	249.6	106.2	834.0	66.3	1,083.6	72.5
1972	123.4	1,412.3	1,535.7	145.5	117.9	1,139.2	80.7	1,284.7	81.1
1973	153.6	1,421.8	1,575.4	137.7	89.7	1,512.9	106.4	1,650.6	104.8
1974	1,138.2	2,129.8	3,268.0	1,012.3	88.9	1,344.0	63.1	2,356.3	72.1
1975	1,823.9	2,713.9	4,537.8	1,310.0	71.8	1,928.9	71.0	3,238.8	71.3

Source: Doungsawasdi 1976, p.26.

5.6.2 San-Pa-Tong Agricultural Cooperative

Table 5.14 shows the repayment record of members of the San-Pa-Tong Agricultural Cooperative. The total actual repayment record was 70.8 percent during 1971-75, i.e., the actual repayment record for short-term loan was 80.2 percent and the actual repayment record

of intermediate-term was 68.9 percent. For the first three years during 1971-73 the average actual repayment was about 60 percent, i.e., 1.3 times higher than the overall country average during the same period. Moreover, it is obvious that the total actual repayment has been remarkably improved.

TABLE 5.14

REPAYMENT RECORD OF MEMBERS, 1971-1975 : SAN-PA-TONG
AGRICULTURAL COOPERATIVE
(in thousand Baht)

Year	Due Repayment			Actual Repayment					
	Short-term	Inter-mediate-term	Total	Short-term	%	Inter-mediate-term	%	Total	%
1971	289.5	2,076.2	2,365.7	167.5	57.9	946.2	45.6	1,113.7	47.1
1972	475.7	2,643.3	3,079.0	304.4	69.9	1,345.6	50.9	1,650.0	53.6
1973	390.3	2,740.3	3,130.6	305.4	78.2	2,076.3	75.8	2,381.7	76.1
1974	294.6	2,461.4	2,756.0	340.5	115.6	2,015.3	81.9	2,355.8	85.5
1975	865.9	3,271.1	4,137.0	739.7	85.4	2,708.2	82.8	3,447.9	83.3

Source: Machima 1977,p.41.

5.6.3 Ban Lard Agricultural Cooperative

The repayment record of the members of the Ban Lard Agricultural Cooperative reached 85.8 percent in 1974 which was the highest year of the total actual repayment. When compared to the average of 45 percent of the overall country, the members of the society could make a record of 65.3 percent during 1971-73. It was apparent that the repayment for intermediate-term loans was better than short-term ones, which was in contrast to the overall agricultural cooperatives (See Table 5.15).

TABLE 5.15

REPAYMENT RECORD OF MEMBERS, 1971-1975 : BAN LARD
 AGRICULTURAL COOPERATIVE
 (in thousand Baht)

Year	Due Repayment			Actual Repayment					
	Short-term	Inter-mediate-term	Total	Short-term	%	Inter-mediate-term	%	Total	%
1971	342.1	1,608.9	1,951.0	185.1	54.1	776.8	48.3	961.9	49.3
1972	360.6	2,013.1	2,373.7	253.8	70.4	1,469.5	73.0	1,723.3	72.6
1973	206.3	1,929.3	2,135.6	121.1	58.7	1,410.4	73.1	1,531.5	71.7
1974	545.1	2,120.0	2,665.1	493.5	86.4	2,214.2	85.6	2,707.7	85.8
1975	853.9	2,377.1	3,231.1	574.1	67.2	1,758.2	73.9	2,332.3	72.2

Source: Doungsawasdi 1976,p.40.

5.7 Business of Purchasing Goods for Sales to Members

5.7.1 Soong-Nern Agricultural Cooperative

The business of purchasing goods for resale to members was started in 1971. Initially the business was done in selling farm machinery and only amounted to a value of 900 Baht. During later years, when the society was formed to sell farm supplies as well, sales of fertilizer increased rapidly from 244.4 thousand Baht in 1972 to over 1 million Baht in 1975. Other farm supplies such as seeds and consumer goods were started in 1974 and halted during that year. But sales of farm machinery grew rapidly from 900 Baht in 1971 to over 1.2 million Baht in 1975. The total sales of farm supplies and farm machinery increased from 900 Baht in 1971 to 2.5 million Baht in 1975.

It should be noted that the sum of nearly 3 million Baht on a five year average was lent annually to members for all purposes

(Table 5.15). Of this total, the share used for the purchase of farm supplies, farm machinery, consumer goods and others from the society was a relatively small portion. That is, 516 thousand Baht for purchasing fertilizer, 20 Baht for seeds, 60 Baht for consumer goods and 29 thousand Baht for others, totalling 915 thousand Baht or about 31 percent of the total loans.

TABLE 5.16

COMPARISON OF LOANS DISBURSED AND SALES TO MEMBERS :
SOONG-NERN AGRICULTURAL COOPERATIVE, CLASSIFIED BY
TYPE OF BUSINESS, 1971-1975
(in thousand Baht)

Year	Total Loans Disbursed	Sales of Fert- ilizer	Sales of Seeds	Sales of Consumer Goods	Sales of Farm Machinery	Sales of Others	Total	% Total Sales to Loan
1971	1,542.6	-	-	-	.9	-	.9	-
1972	1,165.7	244.4	-	-	4.0	7.1	255.5	21.9
1973	2,084.3	435.9	-	-	107.8	63.3	607.0	29.1
1974	3,315.2	787.2	.1	.3	470.8	-	1,258.4	37.9
1975	6,645.5	1,112.4	-	-	1,266.1	73.6	2,452.1	36.9
5 Year Average	2,950.6	516.0	20.0 (Baht)	60.0 (Baht)	367.0	28.8	914.8	31.0

Source: Derived from Doungsawasdi 1976,p.22.

5.7.2 San-Pa-Tong Agricultural Cooperative

The business of purchasing farm supplies and farm machinery was formed in 1972. Its sales comprise fertilizer, feed stuffs, insecticides, seeds, plows, shovels and consumer goods. Unfortunately, detailed records of the earlier operations of the sales are incomplete, but it

is estimated that total sales of 597 thousand Baht in 1972 increased to over 3.5 million Baht in 1975.

Table 5.17 also shows the 4 year average of total sales of the society was about 49 percent of a four year average of loan disbursed to members. The business was developed on a large scale during 1972-75. At present, the society has a separate section for the business and for its store as well.

TABLE 5.17

COMPARISON OF LOANS DISBURSED AND SALES TO MEMBERS :
SAN-PA-TONG AGRICULTURAL COOPERATIVE, CLASSIFIED BY
TYPE OF BUSINESS, 1972-1975
(in thousand Baht)

Year	Loan Disbursed	Total Sales	% Total Sales to Loan Disbursed
1972	1,688.8	596.8	35.3
1973	2,269.1	1,721.3	75.8
1974	4,013.3	2,335.3	58.2
1975	8,708.7	3,538.8	40.6
4 Year Average	4,170.0	2,048.0	49.1

Source: Derived from Machima 1977,p.12.

5.7.3 Ban Lard Agricultural Cooperative

The society arranged to begin selling farm supplies and other goods to members several years ago. The business grew moderately and comprised several things as shown in Table 5.18. Total sales had reached a peak in 1974, i.e., about 1.2 million Baht. The sales fell sharply in 1975 to only 598 thousand Baht owing to the

TABLE 5.18

COMPARISON OF LOANS DISBURSED AND SALES TO MEMBERS :
 BAN LARD AGRICULTURAL COOPERATIVE, CLASSIFIED BY TYPE OF BUSINESS, 1971-1975
 (in thousand Baht)

Year	Loan Disbursed	Sales of Fertilizer	Sales of Insec- ticides	Sales of Seeds	Sales of Consumer Goods	Sales of Farm Machinery	Sales of Feed Stuffs	Others	Total Sales	% Total Sales to Loans
1971	1,632.0	300.9	5.7	6.7	1.0	150.0	8.1	-	472.4	28.9
1972	2,416.9	480.9	30.5	6.6	89.5	221.8	12.7	.8	842.9	34.9
1973	2,909.0	754.7	30.6	17.3	73.8	107.9	5.6	12.1	822.0	28.3
1974	3,780.0	608.3	42.9	38.7	67.5	101.3	337.4	.6	1,197.0	31.7
1975	3,288.8	296.3	47.7	-	-	111.2	5.1	138.0	598.3	18.2
5 Year Average	2,805.3	488.2	31.5	13.9	46.4	138.5	73.8	30.3	786.5	28.0

Source: Derived from Doungsawasdi 1976,p.36.

government action. It was because the government in 1974 had sent a number of officials for giving advice to farmers in this area about using technology in farming. The farmers were, therefore, aroused and that made the sale of farm inputs progress. Later, the government withdrew those officials to another area and total sales declined.

This is shown in the Table 5.18. A sharp decrease of total sales in 1975 was mostly due to the decline in farm supplies, i.e., feed stuffs, fertilizer and seeds. A 5 year average of total sales represented only 28 percent to a 5 year average of loans disbursed.

5.8 Business of Marketing and Processing Members' Produce

An important difference between the three relatively successful agricultural cooperatives chosen for intensive study and the majority of societies in the country, is that all three run rice mills which contribute substantial shares to their total net income. They also have rice storages and each collects paddy from its members for processing.

5.8.1 Soong-Nern Agricultural Cooperative

Because rice is a major agricultural product of this area, marketing of rice has become big business for the society. As a result, the society with the approval and financial assistance from the government decided to establish a small cooperative rice mill with a milling capacity of 16 metric tons a day in 1972. In addition, the society has 3 rice storages. This investment has served a useful purpose for the society, considering the net income from this business. The members can sell their rice at fair prices and the society makes profits and brings more income to the society.

Table 5.19 shows the amount of money spent by the society on paddy collection. It increased from 657 thousand Baht in 1971 to 5.3 million Baht in 1975, i.e., eight-fold during 5 years. In this period over half of the rise in value was accounted for by price increases. The total calculated volume handled, including deliveries from non-members, increased less than three-fold. Volumes figures in Table 5.19 have been estimated from average up-country prices. This is probably accurate enough to show the general trend. The calculation shows that after 1972 there was little increase in deliveries in real terms.

TABLE 5.19

VALUE, PRICE AND QUANTITY OF PADDY COLLECTION
AND THE PROPORTION OF PADDY COLLECTION FROM MEMBERS,
1971-1975 : SOONG-NERN AGRICULTURAL COOPERATIVE

Year	Value of Paddy Collected from Members (Baht) (1)	Price Baht/Metric ton (2)	Quantity (ton) (3) = $\frac{(1)}{(2)}$	% of Value from Members (4)	Total Paddy Collection (tons) (5) = $\frac{(3) \times 100}{(4)}$	% Increase
1971	657,147	743	884.5	94.30	938.0	-
1972	1,525,241	984	1,550.0	97.20	1,594.7	70.0
1973	3,109,530	1,560	1,993.3	98.39	2,026.0	27.0
1974	4,900,420	2,152	2,277.1	99.68	2,284.4	12.8
1975	5,293,949	2,221	2,383.6	99.95	2,385.0	4.4

Source: (1) and (4) from Doungsawasdi 1976,p.62;64.

(2) average yearly farm price of paddy, Grade 1

from:Thailand. Agricultural Economic Division 1975; 1976.

(3) This column is estimated by dividing the value by average up-country prices.

(5) Estimate based on assumption given.

The table also shows the proportion of paddy collected from members to the total paddy collection of the society. It will be seen that almost all the rice handled by the society's mill came from the members. No figures are available to show what proportion of members' marketings of paddy was made to the cooperative mill and what was sold commercially.

The collected paddy will be milled by the society's mill. The milled rice will have partly been sold to the nearby market, the residual will have been sent to the Provincial Federation in Nakornrajsima Province.

5.8.2 San-Pa-Tong Agricultural Cooperative

Like Soong-Nern Agricultural Cooperative, the San-Pa-Tong Society has its own rice mill with a milling capacity of 15 metric tons a day and 4 rice storages. In addition, the society owned 2 lorries, one middle sized and another small. They are used for facilitating transport of farm produce from members to the society.

In this society, a higher proportion of paddy was collected from non-members than the other two societies, especially in 1972-77. As can be seen in Table 5.20 the proportion of paddy collected from non-members to the total paddy collected was about 60-2 percent in 1972 and 1973. It declined to 48 and 21 percent in 1974 and 1975. It is clear from the figures that the society was able to attract less paddy from non-members for milling each year. By 1975, only about 137 tons was collected from non-members, not much more than a third of non-member deliveries in 1971.

From Table 5.20, the value of paddy collection from members increased from 294 thousand Baht in 1972 to 1,279.5 thousand Baht in

TABLE 5.20

VALUE, PRICE AND QUANTITY OF PADDY COLLECTION AND THE PROPORTION
OF PADDY COLLECTION FROM MEMBERS, 1972-1975 : SAN-PA-TONG AGRICULTURAL COOPERATIVE

Year	Value of Paddy Collected from Members (Baht)	Quantity (tons)	Price Baht/metric ton $P = \frac{V}{Q}$	% of Value from Members	Total Paddy Collection (tons)	Quantity Collected from non-members	% Increase of Total Paddy
1972	294,132	231.4	1,271	39.4	616.1	384.7	-
1973	414,590	222.3	1,865	38.1	573.7	351.4	- 6.9
1974	686,378	337.8	2,032	51.5	607.3	269.5	5.9
1975	1,279,527	601.2	2,128	78.9	738.6	137.4	21.6

(1) For this society, volume figures were given in source.

Source: Derived from Machima 1977, p.39.

1975, a four-fold increase during 5 years. This exceeds the increase in real terms, since over 60 percent of the increase in value resulted from price rises.

5.8.3 Ban Lard Agricultural Cooperative

The society was also engaged in milling rice. In 1972, it established a rice mill and a rice storage. The mill has a capacity of 20 tons a day. Very early in its history the society started paddy collection, valued at 80 thousand Baht in 1971. When the mill was put into full operation in 1972, the society collected paddy from members to the value of 939 thousand Baht. The value of paddy collection reached its peak in 1974 at about 1.7 million Baht and then declined to 1.4 million Baht. However, the total calculated volume of paddy handled by the society fluctuated widely during 1971-75 as can be seen from Table 5.21. It is noted that less than a fifth of the increase in the value of paddy collected from members resulted from larger deliveries. The main part was the result of higher prices.

Most of rice handled by the society came from its members. As shown in Table 5.21, the proportion of value was about 86 percent in 1971 and rose to 91 percent in 1975.

5.9 Net Income, Operating Expenditures and Net Operating Profit

It was earlier stated that the data given in the cooperative accounts were inadequate to form a judgement on their financial position. This shows up particularly when looking at the accounts calculable for the three societies being discussed, especially at their profit record.

A basic error seems to have been made in accountancy practice,

TABLE 5.21

VALUE, PRICE AND QUANTITY OF PADDY COLLECTION AND THE PROPORTION
OF PADDY COLLECTION FROM MEMBERS, 1971-1975 : BAN LARD AGRICULTURAL COOPERATIVE

Year	Value of Paddy Collected from Members (Baht) (1)	Price Baht/metric ton (2)	Quantity (ton) $(3) = \frac{(1)}{(2)}$	% of Value from Member (4)	Total Paddy Collection (tons) $(5) = (3) \times 100$ (4)	% Increase
1971	79,949	743	107.6	86.4	124.5	-
1972	938,606	984	953.9	98.0	973.4	682
1973	1,111,994	1,560	712.8	93.6	761.5	- 28.8
1974	1,705,642	2,152	792.6	79.0	1,003.3	31.8
1975	1,414,650	2,221	636.9	91.2	698.0	- 30.4

Source: (1) and (4) from Doungsawasdi 1976,p.62,64.

(2) average yearly farm price of paddy, grade 1: Thailand.

Agricultural Economic Division, 1975-1976.

(3) Estimate calculated on the basis of average up-country prices, as in Table 5.19.

which may have been one reason why these three societies have been judged to be "highly successful".

The term "net profit" appears to have been used inaccurately in the Thai analysis and to have been related to gross profit (i.e. to the gross margin on sales or net income) rather than to total incomes or expenditures. What is meant is apparently net operating profit, which is "the excess of gross margin on sales over operating expenses" (Kennedy and McMullen, 1968, p.145). From the gross margin other charges are deducted, such as fixed interest charges, rates and taxes. Kennedy and McMullen consider that the term "net operating profit" is confusing and that "net operating income" would be preferable. But in any case, net profits must be related to gross income (or expenditure) and not to net income, if profitability is to be discussed.

No data are given on total gross sales value of the three societies or on total credit extended, nor is any information given on the costs of goods sold or on loans. Figures given (see Tables 5.22, 5.25 and 5.28) are for net income, i.e., are the gross margins for each section of the business. Consequently, true net profit cannot be calculated as a percentage of income or of expenditure, so that profitability of the societies cannot be worked out.

"Net profits" have been calculated in the Thai original for these three societies as a percentage of gross margins (net income) which made "net profit" appear extraordinarily high, from 60-78 percent during 1971-75 for the Soong-Nern Society; similar high "net profits" have also been published for the other two societies.

Similarly the word "expenses" is not clear. They do not mean total expenditures of the societies. It seems to mean mainly operating expenses, that is costs of running the offices, selling, stationery, etc.

An example to explain the above is given as follows:

EXAMPLE
HYPOTHETICAL EXAMPLE, SETTING OUT AN ACCOUNT
('000 Baht)

Sales, net of discounts	1,000
Costs of goods sold	<u>900</u>
Gross margin on sales (net income)	100
Less operating expenses	<u>-55</u>
Net operating profit	45
Less fixed interest charges, taxes, etc.	<u>-5</u>
Net Profit	40

In the above example net profit would be only 4 percent. But if net profit is related to gross margin (net income) it would amount to 40 percent, which gives a false picture of the societies profitability.

5.9.1 Soong-Nern Agricultural Cooperative

Net Income. The gross margin of the society is derived from 4 sources, i.e., credit section, supply section, rice mill section and others which consist of such items as service charges, interest on bank deposits, membership admission fees and other miscellaneous items. During the 5 years between 1971 and 1975, the structure of the total net income had been changed as can be seen from Table 5.22. In 1971, about 92.4 percent of the total net income was obtained from the credit section. The others were 0.1, 4.2 and 3.3 percent from the supply section, rice mill section and "others" section respectively. By 1975, although the net income from the

credit section remained steady in absolute terms, it declined sharply to 35.4 percent of the total net income. This was because of the big increase in business of the supply section, rice mill section and "others" which contributed 17.7, 38.7 and 8.12 percent respectively in that year.

It should be observed that the highest amount of total net income, approximately 1.1 million Baht in 1974, fell to 801.3 thousand Baht in 1975. This was entirely due to a decline in net income of the rice mill section which was caused by the government policy on paddy collection as mentioned in Chapter III. Between 1972 and 1975, net income from rice milling contributed between 39 and 50 percent of total net income. In 1974, the total net income of the Soong-Nern Society was six times as large as the average for cooperatives in the country.

TABLE 5.22

SOURCES OF NET INCOME, 1971-1975 :
SOONG-NERN AGRICULTURAL COOPERATIVE

Year	Credit Section		Supply Section		Rice Mill Section		Others		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	206.3	92.4	.2	0.1	9.4	4.2	7.4	3.3	223.3	100
1972	184.5	36.0	42.2	8.2	257.0	50.1	29.1	5.7	512.8	100
1973	229.4	34.5	63.6	9.5	304.4	45.8	67.7	10.2	665.1	100
1974	238.0	22.2	102.9	9.6	659.5	61.4	73.5	6.8	1,073.9	100
1975	283.6	35.4	142.3	17.7	310.5	38.7	64.9	8.2	801.3	100

Source: Derived from Doungsawasdi 1976,p.23.

Expenses. The expenditures of the society as already pointed out, consist mainly of operating expenses, and exclude purchases of commodities etc. They are classified into 6 categories as shown in Table 5.23. The major expense of the society (excluding materials etc) is salary, about 27.4 percent of total expenses in 5 years average. Other expenses were living allowances and transportation costs of about 12.9 percent; depreciation counted for 27.5 percent. Those main expenses accounted for 67.8 percent of total expenses. The rest, 32.2 percent of expenses, was stationeries and "others".

From 1971-75 the expenses increased by over 200 percent from 91 thousand Baht in 1971 to 279 thousand Baht in 1975. Most items increased during the 5 year period except "other" expenses. However, the proportion of expenses on salary decreased from 36.9 percent in 1972 to 22.4 percent in 1975. This indicates that the management is becoming more efficient.

Net Operating Profit. The net operating profit of the Soong-Nern Society increased rapidly, from 132.5 thousand Baht in 1971 to 804.1 thousand Baht or six-fold by 1974 (See Table 5.24). This was due to the expansion of activities. It compared to the average of 57 thousand Baht in the country or fourteen-fold higher than the average for cooperatives. The net operating profit dropped to 522.6 thousand Baht in 1975, mainly caused by the stock of rice.

The net operating profit is to be allocated according to the cooperative by-laws. These are: patronage refund, reserves, bonus of board members and employees, subscription to the Cooperative League of Thailand and others. An important allocation that should be

TABLE 5.23
PROPORTION OF VARIOUS EXPENSES^{a)} 1971-1975 : SOONG-NERN
AGRICULTURAL COOPERATIVE

Year	Salary	Living Allowance and Transportation	Stationeries	Depreciation	Miscellaneous Expenses	Others	Total							
	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %							
1971	21.1	23.3	16.5	18.2	4.4	4.9	5.5	6.0	33.4	36.7	9.9	10.9	90.8	100
1972	41.7	36.9	12.4	11.0	3.6	3.2	10.7	9.5	18.7	16.6	25.8	22.8	112.9	100
1973	45.4	28.2	14.3	8.9	5.3	3.3	38.0	23.6	21.2	13.1	36.8	22.9	160.8	100
1974	52.1	23.0	29.9	11.1	17.1	2.8	61.7	22.8	47.4	17.5	61.7	22.8	269.8	100
1975	62.4	22.4	31.8	11.4	21.3	7.6	107.4	38.5	55.6	19.9	.2	.2	278.7	100

a) Excludes goods and materials.

Source: Derived from Doungsawasdi 1976,p.24.

mentioned here is reserves. The average proportion of net operating profit allocated to reserve funds during 1970-73 was 45.6 percent (Machima 1976b,p.35). This indicated that the society tried to build its own funds and took a longer term view of benefits to its members. In addition, patronage refunds are made to members in proportion to their business transaction with the society, and the average percentage of this allotted fund during the same period was only 16.1 percent. Other net operating profit allocations made directly to members were 14.6 percent as dividend, and 8.5 percent as bonus. The remaining 15.1 percent consisted of miscellaneous items (Machima 1976b).

TABLE 5.24
NET INCOME, EXPENSES^{a)} AND NET OPERATING PROFIT,
1971-1975 : SOONG-NERN AGRICULTURAL COOPERATIVE
(in thousand Baht)

Year	Net Income	Expenses ^{a)}	Net Operating Profit
1971	223.3	90.8	132.5
1972	512.8	112.9	399.9
1973	665.1	160.8	504.3
1974	1,073.9	269.8	804.1
1975	801.3	278.7	522.6

a) Excludes goods and materials

Source: Derived from Doungsawasdi 1976,p.25.

5.9.2 San-Pa-Tong Agricultural Cooperative

Net Income. Of all the four main sources of net income, (i.e., gross margins from each section) the net income from the credit section is dominant. This has nevertheless declined as a share of the total as other business of the society expanded. Its proportion to total net income was about 84 percent in 1971, and decreased to 41 percent in 1975. This is because the proportion of net income from the supply section rose substantially, as well as the proportion of income from the rice mill section and others as shown in Table 5.25.

Within this period, the net income from the credit section increased only slightly, from 447 thousand Baht in 1971 to 499 thousand Baht in 1975, which represented a fall in real terms. In the same period, net income from the supply section increased eleven-fold from 49 thousand Baht to 539 thousand Baht; net income from the rice mill fluctuated strongly during the period, e.g., from nearly 40 thousand Baht in 1971 it increased to 196 thousand Baht and 133 thousand Baht in 1972 and 1975 respectively. However, the total net income increased substantially during the period from 535 thousand Baht in 1971 to 1.2 million Baht in 1975. The total net income was 4.5 fold higher than the average for agricultural cooperatives throughout the country in 1974.

Expenses. From 1971-75 expenses (excluding materials etc) increased by 63 percent, from 333 thousand Baht in 1971 to 542 thousand Baht (See Table 5.26). Salary increased rapidly, i.e., 5.5 times; transportation, living allowance and stationeries all tripled. Other expenses also increased but slightly. This reflected mainly an increase in the business of the society in expanding both

TABLE 5.25

SOURCE OF NET INCOME, 1971-1975 : SAN-PA-TONG
AGRICULTURAL COOPERATIVE

Year	Credit Section		Supply Section		Rice Mill Section		Others		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	446.7	83.5	48.6	9.1	39.6	7.4	-	-	534.9	100
1972	556.2	65.4	95.8	11.3	195.5	23.0	3.0	0.4	850.5	100
1973	277.1	44.6	171.3	27.6	152.7	24.6	19.6	3.2	620.7	100
1974	351.1	45.0	256.8	32.9	90.8	11.6	81.6	10.5	780.3	100
1975	499.4	41.3	539.1	44.6	132.5	10.9	37.6	3.1	1,208.6	100

Source: Derived from Machima 1977,p.44.

activities and the society to a large scale unit. However, the increasing cost is still lower than the additional net income.

The major expense of the society is miscellaneous expenses, which consist of interest payments, free lunches, special fees for committees and others, about 44 percent of total expenses during 1971-75 but its proportion tended to decrease. It is noted that the miscellaneous expenses in 1972 were very high. This is because the interest payments accounted for nearly 86 percent of miscellaneous expenses in that year. The proportion of salaries to total expenses rose sharply from 9 percent in 1971 to 31 percent in 1975. Other expenses were depreciation of about 12.5 percent; stationeries accounted for 3 percent. The remaining 20 percent of expenses were spent for living allowance, transportation and others.

TABLE 5.26

PROPORTION OF VARIOUS EXPENSES^{a)} 1971-1975 : SAN-PA-TONG
AGRICULTURAL COOPERATIVE

Year	Salary	Living Allowance and Transportation	Stationeries	Depreciation	Miscellaneous Expenses	Others	Total							
	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %							
1971	30.4	9.1	16.0	4.8	9.4	2.8	21.2	6.4	195.2	58.6	60.5	18.2	332.6	100
1972	49.1	9.8	25.1	5.0	1.6	0.3	59.3	11.8	331.2	65.8	36.5	7.3	502.7	100
1973	57.3	20.8	14.9	5.4	7.4	2.7	51.1	18.5	63.2	22.9	82.2	29.7	276.1	100
1974	105.7	36.2	26.7	9.1	12.8	4.4	54.2	18.5	67.2	23.1	25.5	8.7	292.0	100
1975	165.9	30.6	44.2	8.1	29.2	5.4	58.1	10.7	197.0	36.3	48.0	8.8	542.2	100

a) Excludes goods and materials.

Source: Derived from Machima 1977,p.45.

Net Operating Profit. From Table 5.27, it is evident that the net operating profit of the society increased year by year, from 202 thousand Baht in 1971 to 488 thousand Baht and 666 thousand Baht in 1974 and 1975 respectively. The net operating profit was nearly nine-fold higher than the average in the country in 1974.

From the allocation of the net operating profit, the major allocation is patronage refunds. The average percentage of their allotted fund during 1971-75 was 38.2 percent of the total net operating profit (Machima 1977,p.27). This means that the society benefited its members, because 60 percent of net operating profit was given back to them. (In addition to the patronage refund, they also received 14 percent as dividend and 8.2 percent as bonus.) Other allocations were as follows: 24.2 percent as reserves; 15.4 percent as miscellaneous items (Machima 1977).

TABLE 5.27
NET INCOME, EXPENSES^{a)} AND NET OPERATING PROFIT,
1971-1975 : SAN-PA-TONG AGRICULTURAL COOPERATIVE
(in thousand Baht)

Year	Net Income	Expenses ^{a)}	Net Operating Profit
1971	534.9	332.6	202.3
1972	850.5	502.6	347.9
1973	620.7	276.1	344.6
1974	780.4	292.0	488.4
1975	1,208.5	542.2	666.3

a) Excluding goods and materials.

Source: Derived from Machima 1977,p.47.

5.9.3 Ban Lard Agricultural Cooperative

Net Income. Like the two societies above, Ban Lard Agricultural Cooperative obtains its net income from 4 sources. The total net income rose moderately from 1971 until it amounted to 448 thousand Baht in 1974 with approximately 34 percent annual average growth rate. The total net income was 2.6 fold higher than the average in the country. The net income dropped by about 39 percent in 1975 to 274 thousand Baht, as a result of a decline in income from every section but the rice mill section (See Table 5.28).

Within the same period, net income from the credit section reached the highest peak in 1974 because the society lent a large amount of money which made the proportion of net income from the credit section to total net income about 63 percent. This was exceptional. A year later in 1975, the net income from this section declined to 94 thousand Baht, slightly below the level of 1971-73.

Net income from the supply section peaked at 91 thousand Baht and decreased rapidly to 51 thousand and 5.5 thousand Baht in 1974 and 1975. This decline was the result of withdrawing the government officials from the area as has already been described.

For the net income from the rice mill section, it increased every year except in 1974, in which year the society collected less paddy than in other years. In that year the proportion of net income from the rice mill to total net income was about 9.4 percent compared to 63 percent in 1975.

TABLE 5.28

SOURCES OF NET INCOME, 1971-1975 : BAN LARD
AGRICULTURAL COOPERATIVE

Year	Credit Section		Supply Section		Rice Mill Section		Others		Total	
	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%	'000 Baht	%
1971	110.9	59.4	61.2	32.7	-	-	14.8	7.9	186.8	100
1972	99.8	38.4	51.4	19.8	92.3	35.5	16.4	6.3	260.0	100
1973	95.2	26.1	91.0	24.9	153.8	42.1	25.0	6.9	365.1	100
1974	281.7	62.9	50.9	11.3	42.0	9.4	73.4	16.4	448.0	100
1975	93.7	34.2	5.5	2.0	172.6	63.0	2.1	0.8	273.8	100

Source: Derived from Doungsawasdi 1976,p.37.

Expenses. In the 4 years from 1971-74 the expenses increased by an annual average of under 12 percent which is much lower than the increase in additional net income. The major expenses were salary and depreciation. The proportions of salary and depreciation to total expenses were about 37 and 28 percent during 1971-74, leaving 35 percent for living allowance and transportation, stationeries and others.

In 1975, the major expense was depreciation. It increased to nearly 225 thousand Baht and its proportion to total expenses rose to almost 64 percent. This was due to a fire in the rice mill of the society.

Net Operating Profit. Table 5.30 demonstrates the rapid increase of net operating profit from 89 thousand Baht in 1971 to 294 thousand Baht in 1974 or about 23.1 percent. This was about five-fold higher than the average for the country. In 1975, a loss of

TABLE 5.29

PROPORTION OF VARIOUS EXPENSES^{a)} 1971-1975 : BAN LARD
AGRICULTURAL COOPERATIVE

Year	Salary	Living Allowance and Transportation	Stationeries	Depreciation	Miscellaneous Expenses	Others	Total
'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %	'000 Baht %
1971	24.7 25.2	11.5 11.7	4.2 4.4	25.2 25.7	27.8 28.3	4.7 4.7	97.9 100
1972	41.8 39.0	7.1 6.6	2.8 2.9	37.1 34.6	12.8 11.9	5.4 5.0	107.0 100
1973	55.3 40.9	7.6 5.6	6.7 4.9	50.6 37.5	14.4 10.6	.4 .5	134.9 100
1974	62.4 40.5	11.0 7.1	9.7 6.4	25.8 16.7	18.2 11.8	28.9 17.5	153.9 100
1975	66.7 18.9	13.2 3.8	6.5 1.8	224.8 63.8	24.8 7.0	16.4 4.7	352.5 100

a) Excluding goods and materials.

Source: Derived from Dongsawasdi 1976,p.38.

nearly 79,000 Baht was incurred in the society resulting from several causes which could not be avoided, e.g. the government's rice price support policy and the mill fire.

TABLE 5.30
NET INCOME, EXPENSES^{a)} AND NET OPERATING PROFIT,
1971-1975 : BAN LARD AGRICULTURAL COOPERATIVE
(in thousand Baht)

Year	Net Income	Expenses ^{a)}	Net Operating Profit
1971	186.8	97.9	88.9
1972	260.0	107.0	153.0
1973	365.1	134.9	230.2
1974	448.0	153.9	294.1
1975	273.8	352.5	(78.6)

a) Excluding goods and materials.

Source: Derived from Doungsawasdi 1976,p.39.

5.10 Comparison of the Three Societies

5.10.1 Working Capital

Table 5.31 presents comparisons of the total amount of working capital for the three societies. The Table shows that the San-Pa-Tong Society had more working capital than the other two societies during 1971-75. And, all three societies had much larger working capital than the average for agricultural cooperatives in the country. In 1974, the total amount of just under 10 million Baht of the

San-Pa-Tong Society was three times as high as the average working capital of the overall agricultural cooperatives and the Soong-Nern and Ban Lard Societies had 2.8 and 2.2 fold the average respectively.

TABLE 5.31
COMPARISON OF WORKING CAPITAL OF THE THREE
SOCIETIES, 1971-1975
(in million Baht)

	1971	1972	1973	1974	1975
Soong-Nern Agri Coop	4.6	5.6	7.5	9.3	13.2
San-Pa-Tong Agri Coop	6.2	7.1	7.6	9.9	17.0
Ban Lard Agri Coop	4.8	5.3	7.4	7.4	8.3

However, the working capital per member of Soong-Nern Society was highest at approximately 10.7 thousand Baht each, while San-Pa-Tong had about 9 thousand Baht and the Ban Lard about 8.3 thousand Baht. This may be compared to the average of 5 thousand Baht of working capital per member for the overall agricultural cooperatives over the same period. In making this comparison between the better cooperatives' working capital and those of other cooperatives, it must be remembered that the latters' funds are largely tied up in doubtful debts.

The three societies depend heavily on borrowed funds rather than their own funds. During 1971-74 the San-Pa-Tong Society borrowed from outside about 56 percent of total funds while the shares of outside funds for the Soong-Nern Society and Ban Lard Society were

about 54 and 48 percent. This compared to the average of 63.5 percent for overall agricultural cooperatives. This more favourable position was because the three societies have been putting money to reserves and building their own funds more than others in the country.

The source of borrowed funds is also important because of the different interest rates charged. From the study, the San-Pa-Tong Society has borrowed about 82 percent of funds from the sources that charge 9 percent interest rate and obtained the remainder at 0-2 percent interest rate from the government sources during 1971-75. Its average interest rate was therefore around 8 percent. The Soong-Nern and the Ban Lard Societies obtained the average of a much higher share of funds, i.e., 45 percent and 59 percent from low-interest government sources respectively and paid 9 percent interest rate for the remainder, i.e., 55 and 41 percent respectively during the same period (See Tables 5.5, 5.7 and 5.9). Their average interest rates were therefore just over 5 and 4 percent respectively.

As a result of having inadequate funds of their own, the societies have therefore had many creditors every year. The amount due to these creditors has also been used temporarily as the funds of the societies. The total amount varied from year to year depending on the size of business and the decision toward the repayment of debts to such creditors.

5.10.2 Loans to Members

The amount of loans granted by the San-Pa-Tong Society was about 8.7 million Baht, which was 569 percent higher than in 1971, while the Soong-Nern Society and the Ban-Lard Society were about 340 and 138 percent higher, respectively. In 1974, loans disbursed

during the year per member were roughly the same in the three societies. In the Soong-Nern Society the average was highest at about 3.8 thousand Baht (\$US183), as compared to 3.7 and 3.6 thousand Baht of the Ban Lard and the San-Pa-Tong. This was not much higher than the average of three thousand Baht for the overall agricultural cooperatives throughout the country at the same time.

It should be observed that of the total amount of loans disbursed during 1971-75, the San-Pa-Tong Society was highest but the loans per member were lowest, although higher than the average over the country. This was probably because the society has a larger membership than the other two societies.

TABLE 5.32
COMPARISON OF LOANS DISBURSED TO MEMBERS
OF THE THREE SOCIETIES, 1971-1975
(in million Baht)

	1971	1972	1973	1974	1975
Soong-Nern Agri Coop	1.5	1.2	2.1	3.3	6.6
San-Pa-Tong Agri Coop	1.3	1.7	2.3	4.0	8.7
Ban Lard Agri Coop	1.6	2.4	2.9	3.8	3.8

5.10.3 Repayment Record

Table 5.33 gives comparisons of the repayment record of the three societies, showing that the Soong-Nern Society had a significantly higher repayment record both in short term and intermediate term loans

than the others up to 1973. However, it has recently deteriorated and is still too low for longer term viability. It is noted that the repayment record for intermediate term loans of the Soong-Nern and the San-Pa-Tong were better than short-term loans which was the opposite situation to Ban Lard.

In 1974, the actual repayment rate of the Soong-Nern, San-Pa-Tong and Ban Lard Society were about 72.1, 85.5 and 85.8 percent respectively, compared to 51.5 percent of overall country over the same year (DCA,p.23).

A tentative conclusion could be drawn as to why the members of the three societies can repay loans at the higher rates. This is due to the fact that most of the members were selected before becoming members. They are better-off and have several occupations. Besides, since the societies have several sources of borrowing, their members are more certain of being able to borrow again after repaying the old debts.

TABLE 5.33
COMPARISON OF REPAYMENT RECORD OF MEMBERS
OF THE THREE SOCIETIES, 1971-1975
(in Percentage)

Year	Soong-Nern			San-Pa-Tong			Ban Lard		
	Short-term	Inter-mediate-term	Total	Short-term	Inter-mediate-term	Total	Short-term	Inter-mediate-term	Total
1971	106.2	66.3	72.5	57.9	45.6	47.1	54.1	48.3	49.3
1972	117.9	80.7	81.1	69.9	50.9	53.6	70.4	73.0	72.6
1973	89.7	106.4	104.8	78.2	75.8	76.1	58.7	73.1	71.7
1974	88.9	63.1	72.1	115.6	81.9	85.5	86.4	85.6	85.8
1975	71.8	71.0	71.3	85.4	82.8	83.3	67.2	73.9	72.2

5.10.4 Business of Purchasing

The business of selling to members is an important activity of the societies. The total sales of farm supply and farm machinery have increased rapidly year after year. Table 5.34 shows the proportions of their loan money which is spent by members for purchasing commodities from the societies. During 1971-75, about 31, 49 and 28 percent of loans to members were spent on purchasing from the Soong-Nern, San-Pa-Tong and Ban Lard Societies respectively.

It is considered that the three societies have done more business with their members than other cooperatives in the country. For example, in 1974 the proportion of loan money spent on cooperative goods may be compared to 18 percent for the whole country over the same period (DCA, 1975).

TABLE 5.34

COMPARISONS OF PURCHASING PERCENTAGE OF MEMBERS
OF THE THREE SOCIETIES TO THE TOTAL SUM OF LOANS, 1971-1975

	1971	1972	1973	1974	1975	Average
Soong-Nern Agri Coop	-	21.9	29.1	37.9	36.9	31.0
San-Pa-Tong Agri Coop	-	35.3	75.8	58.2	40.6	49.1
Ban Lard Agri Coop	28.9	34.9	28.3	31.7	18.2	28.0

5.10.5 Business of Marketing Members' Produce

As already stated, there are no figures showing what proportion of members' crops are sold through their cooperatives. From the figures

of rice marketings, however, a rough guess can be made, from which it is clear that rather a low proportion of members' marketings goes through their societies. For the rice crop, rough figures of members' likely output can be calculated, by multiplying their known irrigated hectareage by estimated average rice yields per hectare. Then average deductions can be made for seed use and home consumption. Such a calculation shows that from 5 to 20 percent of members' rice surpluses were probably sold through the three cooperatives in 1975. Adjustments to the various assumptions would not raise these shares much and might reduce them. Moreover, they confirm field reports complaining of members' lack of loyalty to their societies, although the members' record in the three societies dealt with here in this respect is better than the average for cooperatives throughout the country.

TABLE 5.35

COMPARISON OF TOTAL PADDY HANDLED BY THE THREE
SOCIETIES, 1971-1975*
(in metric tons)

	1971	1972	1973	1974	1975
Soong-Nern Agri Coop	938	1,595	2,026	2,284	2,385
San-Pa-Tong Agri Coop	-	616	573	607	739
Ban Lard Agri Coop	125	973	762	1,003	698

* Includes deliveries from non-members.

Source: Tables 5.19, 5.20 and 5.21.

Based on the information available, two of the three societies' rice mills operated at well below capacity levels. The rice mills of the Soong-Nern, San-Pa-Tong and Ban Lard Society have a milling capacity of 16, 15 and 20 metric tons per day. These mills can in theory operate around the clock, seven days a week if necessary. However, according to the survey by CRC (1976) it is likely that there will be times when the mills will have to shut down owing to breakdowns. Therefore, allowing for some shut-down time in running a mill it could work an average of 16 hours a day of operation for 24 days a month (CRC 1976). This would mean that the Soong-Nern mill had a monthly capacity of about 255 tons, San-Pa-Tong of around 240 tons and Ban Lard of about 320 tons. On the assumption that all 3 mills run for 8 months in the year annual capacities would be roughly 2,000, 1,900 and 2,500 tons respectively. The actual volume in 1975 milled by the three were 2,385, 739 and 698 tons respectively. This would mean that the Soong-Nern mill was working at full capacity utilization. This can be seen from Table 5.2.2 (p.127) which shows that the Soong-Nern cooperative derived a higher proportion of its net income from rice milling than did the other two societies. The remaining two, however, achieved a level of about 39 and 28 per cent on the time assumption given.

It is apparent that the two societies' mills did not have sufficient paddy to keep their mills running at anything like capacity. The mills were able to operate only during the first crop harvest season, a period of four to five months. This is because in many cases it was clear that the rice was going to money lenders to pay for crop loans. Another reason, and an important one, is that the cooperative members are simply a very low percentage of the total number of farmers in the area served by cooperatives, the figure frequently given was lower than 10 percent (CRC,p.13). Besides, it

is probable that the societies are not efficient enough to attract many outside customers.

5.11 Summary of the Three Societies

In this chapter an attempt has been made to present an analysis of the three societies, because they were once judged to be the "most successful" agricultural cooperatives in the country. This study also shows that they were better than the average for agricultural cooperatives in Thailand, but it would not go so far as to call them "very successful" yet. Data were inadequate to judge their financial performance and profitability. It was, however, found from the comparisons that in many aspects they are growing more than the average in the country in membership, amount of working capital, volume of businesses, services to members and net operating profit allocated to members. Moreover, considering the volume of loans per member and the repayment record of members of the three societies, they were better than the average as well. Notwithstanding, the three societies have only served the aim of modernizing agriculture to a limited extent but failed to help the poorest farmers of their districts, as the requirement of land collateral for loans has still continued.

The three societies, i.e., the Soong-Nern Agricultural Cooperative Ltd, the San-Pa-Tong Agricultural Cooperative Ltd, and the Ban-Lard Agricultural Cooperative Ltd appear to have been better than the others because of the following factors:

- The three societies are located in the area of irrigation and nearby markets with good communications.

- Although most of the members are nearly illiterate, they have been able to cooperate with the cooperatives and will do more as they understand the cooperative concept.
- Before joining the societies, all members were selected and most of them are middle income class and have much larger land holdings than non-members in their districts.
- Amalgamation of small village credit cooperatives to a big agricultural cooperative in a district made larger scale business activities possible : larger volumes of business, more active participation from members and better supervision and control.
It could not have served such a useful purpose if the operation had been carried out by a small village credit cooperative as it was originally organized.
- The societies have a larger than average amount of working capital. Although the working capital is mainly obtained from the borrowing, it is charged with the very low interest rate.
- The three societies have tried to build their own funds in the longer term view by ploughing back a part of net operating profit to their reserves.

- The members have been found to be more loyal to their societies than have members of other societies. They have done a fair part of their businesses through the societies, e.g. deposits, marketing their produce and purchasing goods.

However, although the three societies are fairly successful in their operations there are some problems dealing with the societies as follows:

- Lack of revolving funds for purchasing paddy from members as much as this is possible because the societies have to pay large lump sums when doing the business.
- The repayment record of the societies' members is still low although they are better than the average in the country.
- Lack of agricultural extension services from state agencies and inadequate government training programmes, especially on credit administration and farm planning.
- The societies lack sufficient permanent agricultural extension officers of their own which impedes the expansion of members' production.
- Some groups of members lack better understanding of cooperative principles and technical know-how of production.

- The rice mills of two of the three societies are underutilized because of inadequate paddy collection and failure to attract outside customers.

CHAPTER VI

CONCLUSIONS

6.1 Summary

The Thai government considers the cooperative movement to be essential to help relieve the farmers from severe indebtedness and to provide credit facilities to farmers for the improvement of agricultural production. Therefore, village credit cooperatives were launched early in this century on the Raifeisen model. It was found fairly successful at the beginning on a very small scale. However, this type of cooperative did not make any progress since its main function was limited to the provision of credit with a small volume of business, which failed to render effective service to members and to provide sufficient income to cover minimum operating expenses.

The later attempt of the Thai government from the late 1960s onwards was to launch a multi-purpose society in order to serve the two principal objectives of government policy, that is, the welfare of the farmers, especially poorer farmers, and the modernization of agriculture. In principle, it is expected to serve many purposes such as credit, marketing, supply and agricultural extension services to cater for the needs of its members. In practice, however, it does not seem to have served any of these purposes well. For example, defaults on loans exceed repayments; middle men and money lenders continue to flourish; members do not patronize their societies adequately; the societies are too poor to hire competent staff; they are too remote to ensure access for their members to needed supplies and marketing facilities; economies of scale remain unrealized

owing to mismanagement; and the failure to exhibit real opportunities for participation discourages members unused to cooperation. Another and most important reason that Thailand's attempts at the launching of a multi-purpose cooperative society has not been more successful is that it has overlooked important limitations in the management skills available. The multi-purpose societies need such skills, administrative know-how and reliable staff for their management. These skills can now hardly be found among rural people and available leaders and advisors.

The negative impression of cooperative management may have been given too much prominence in Chapter III. Some cooperatives are more efficient than others, while some may have no trained management at all. From a closer look at cooperative management in Thailand, it is clear that less than half of the 544 agricultural cooperatives employ a manager, mostly selected from amongst their staff, while the others are managed by the board of directors or by district cooperative officers who are less experienced. Moreover, there are few staff in these cooperatives. The reason for this is the low pay in cooperatives and especially the low increments for responsibility. Many efficient young men and women show no interest in getting employment in agricultural cooperatives.

A further serious problem affecting the efficiency of management is that of democratic control. Cooperatives with thousands of members located in several villages have an entirely different problem in creating and continuing membership and responsibility than the small cooperative in which all the members live in the same community. It was found that members in many villages have little relationship with their societies and are not adequately informed about the activities of their organization. In addition, the complexity of Farmer Associations and farmers who are

individual clients of the Bank for Agriculture and Agricultural Cooperatives (BAAC) being in the same area in which a cooperative functions is also a problem.

Social factors also play an important role in the poor management. A major problem is the character of Thai peasant society itself. A majority of the members may be quite pleased with their organization. Most members, however, are not seriously interested in the business of the cooperative and have a weak sense of loyalty to their society. The lack of commitment is shown in situations where alternatives are opened, i.e., sale of produce to private traders, purchasing goods from local merchants etc. Those who show least sense of loyalty to the cooperative movement are, by and large, the very poor farmers who often have urgent cash needs that cannot be met fully or quickly enough by the society; hence they look for alternative means of selling their produce, and are frequently indebted to the village merchant or money lender who required delivery of the produce to apply on their debts to him.

It is clear from the same chapter that the Registrar of Cooperatives has wide powers over the cooperative movement. More specifically in many cases application of these powers leads to mismanagement and misallocation of funds. Moreover, cooperatives suffer from too much government involvement. They are not able to be either democratic or truly cooperative if they are run directly by a government official rather than the people who should benefit from them. Besides, serving the government's policy has made the whole cooperative system complicated because the government, so far, has not made clear a plan to implement their policy.

Concerning the main objectives of establishing the co-operatives, the Thai government emphasizes the objection of relieving the farmers from debts. But, since they are businesses, loans are made to those who supply reasonable surety of repayment. In this process, the small farmers are likely to lose out. In addition, loans from cooperatives can be criticized on the ground of inefficiency of supervision. This is because the cooperatives lack their own agricultural extension officers and the number and quality of government extension officers are not adequate for the cooperatives throughout the country.

There is no concrete evidence to show an inherent organizational inconsistency among various government departments concerning co-operatives. However, there are some indications to show that such a trend exists in the cooperatives. That is, the cooperative movement has been under the control of several Ministries. It was finally placed under the control of the Ministry of Agriculture and Cooperatives. Under this Ministry, the cooperative has some coordination with several departments. On the other hand, several departments seem to have more or less something to do with the cooperative activities. Indications are that the inefficiency and lack of coordination of the bureaucracy causes duplication of work, in spite of the government's shortage of resources.

Lack of sufficient funds is another major problem for all agricultural cooperatives. They depend heavily on funds from outside, especially from the BAAC, which cannot lend the cooperatives the volume of loan money requested. The result of this, is partly to cause a default on loans of the cooperatives to the lending

institution, which in turn results from a default on loans by the members. The societies not only lack funds for lending to members, but also lack funds for running their businesses. As a matter of principle, funds from the BAAC can only be used to lend to members. Any cooperatives which run other businesses, e.g. collecting produce from members and selling goods to members, have to seek the capital for these businesses from other sources and usually obtain only a very small portion from the movement itself. This is one reason why the societies cannot run the full business cycle properly.

Chapter III also deals with the operation of cooperative marketing. The analysis revealed that few societies can market members' produce in the quantity which represents a reasonable proportion of members' total produce. This is caused by a low response and participation of the members towards the societies and their activities. The inefficiency of management and government policy are also some of the factors that affect the operation of the societies. For the business of selling goods to members, once again their business has been very small and has shown very little significance. Moreover, the Agricultural Cooperative Federation of Thailand (ACFT), which is the national marketing organization which both purchases and sells on behalf of member societies, does not play a leadership role in marketing. Failure of this organization will surely be a major setback to the establishment of a sound marketing and purchasing system.

The last section of Chapter III deals with the supporting activity of cooperatives, i.e., cooperative education and training. It is, needless to say, an important way of instilling new ideas into

the management of rural cooperatives in Thailand. However, the main emphasis so far has been laid on leaders and staff, the ordinary members have hardly had an opportunity to be trained.

Chapter IV presents an analysis of balance sheets and income statements, which are intended to show the financial condition of the agricultural cooperatives in aggregate. It was found that the data on this aspect are very inadequate and not shown clearly. A few important items are missing; for example, provision for depreciation, a detailed cash flow statement which would provide specific information on the sources and amount of cash inflows and cash outflows for the period, with the balancing item being the increase or reduction of deposits of the BAAC. In addition, the account presentation is very confusing which easily leads to misinterpretation.

Chapter V discussed the three agricultural cooperatives which had been thought to be very successful in a previous Thai study. This judgement about success may have been an overestimate. Their financial success in fact seems to have been limited, and there is no useable data on profitability. Nevertheless, from the analysis in this thesis the three societies are shown to have been better than the average and to have served the aim of modernizing agriculture to a certain extent. That is, the societies are offering several services, e.g. extending cheap credits, selling farm supplies, purchasing crops, rice milling etc. But the aim of farmers' welfare in general seems to be largely neglected. The societies cannot take in the poorest farmers because of the requirement of land mortgage to obtain loans. Consequently only a very small share of farmers in each district are members and these are the larger landholders.

However, it was found that the advantages in social structure and the economic nature and extent of government support, are the chief factors that made the three societies more useful to their members than other cooperatives in the country. But the previous judgement that they were "highly successful" had to be modified.

6.2 Policy Implications

The study undertaken in this thesis has presented some existing problems which the agricultural cooperatives encounter. Owing to lack of data, however, no concrete conclusions can be drawn and this prevents the presentation of concrete policy implications to overcome those problems mentioned in Chapters II, III, IV and V. The best that can be done is to outline several of the current problems and to make suggestions aimed at improving the efficiency of cooperative performance so as to make the cooperative movement in Thailand more successful.

Starting from the problem of sloppy management, one way of getting around this problem has been to intensify cooperative education efforts. It is generally assumed that cooperative movement education is needed for improving performance in cooperatives. Increased understanding of management principles does help both the committee members and the staff of a primary society. But, again it must be borne in mind that once a society has been organized, it is necessary to instill the cooperative spirit into the members from time to time. Without adequate member education programmes, no cooperative organization can even approximate the goals of efficient member control. The finance of cooperative education should come from the government.

Parallel to this, another way of improving the efficiency of the staff is relative to salary increases and promotion. The policy

should be adopted that if a person works hard and the output increases as a result of it, he or she should be given encouragement in the form of better payment or promotion. There are various compensation methods that may be used, but it is likely that a straight salary plus a bonus or some type of fringe benefits will yield the best results. Doing this, however, might have an impact on the funds of cooperatives. In this case the government should help cooperatives by paying some part at the beginning as a subsidy until the cooperatives can help themselves.

As immediate reform might be to improve the efficiency of the accounting system both in methods and in timeliness. It is clear that the balance sheets and the income statements of agricultural cooperatives are very out of date and are presented confusingly. A starting point would seem to be better instruction on the drawing up of simple accounts, especially for the primary cooperatives. These need not be complicated, but the adoption of a double entry bookkeeping system and of a cash flow statement which summarizes the business transactions involving cash receipts and cash disbursements throughout each year would seem to be essential. Provision for doubtful debts and depreciation should also be shown in order to keep assets and net worth from being artificially inflated. For societies which are handling goods, the accounts should show the inventory or stock of goods sold on hand at the year's end and at the beginning clearly.

An area of concern is in regard to the role of the Thai government. Nobody can easily deny the fact that a heavy bureaucratic machinery to control the cooperative movement has become an increasing burden on society. Several schemes are being carried out by the government departments to improve the technical side of cooperative management. This will not solve all management problems in the movement. It is generally considered that the role of government

toward cooperatives should be gradually changed from a direct assistance role (management and financing) to a catalyst role (educational, regulating, facilitating).

However, there would be nothing inherently wrong if the government takes up the work of sponsorship in order to assist the growth of a sound cooperative movement. Because of the absence of a well thought-out constructive policy and financial and other needed support, a few cooperatives might have failed. With a constructive approach, the government should be able to take up the work of sponsorship in the interest of the community till the cooperatives are in a position to take upon themselves this responsibility.

Another area in which government affects cooperatives is under the Cooperative Law of 1968, which may have to be amended. The law contains many obsolete clauses which hinder the societies' growth. In addition, criteria should be laid down for the careful selection of cooperative department officials. Emphasis should be on the areas of business administration and finance rather than on cooperative philosophy and evolution as is normally the case until now (Manuspaibool 1972). More important, there should be a close coordination of the cooperative societies with the various departments concerned.

It is also considered that an important gap in government policy for creating better conditions for the development of cooperatives has been the lack of a clear-cut policy objective. Most policies are adopted to solve urgent problems. There should be a long term policy plan for cooperatives. In setting up a new society, there should be a feasibility study considering the possibility. The authorities should not lean on the policy of having cooperatives in every district but should concentrate on the quality and pre-feasibility study. In addition, consideration should be given to converting the farmer clients of the BAAC to be members of

agricultural cooperatives in order to allow them all to get assistance from one institution.

It may also be suggested that greater flexibility in the relationship between the government and the cooperatives is urgently needed. Since physical conditions vary so much in different places and different farming industries and communities, the pattern of the societies should not be rigid. In some places a single-purpose cooperative might be more effective than multi-purpose one, or in other places a small cooperative with very few members with close existing ties might be better than a large, loosely knit one. Some may need close official guidance or even supervision, others may be strong enough in local leadership to be left to flourish on their own. Greater flexibility could be allowed to the the first class cooperatives in management instead of applying the same regulations to all cooperatives.

It would be possible to have flexibility and foresee another alternative since there are limitation to the multi-purpose society. We can again turn to look at single-purpose cooperatives. It is not necessarily true that Thailand has always experienced the failure of single-purpose cooperative, as it did by and large with its credit cooperatives. There are some examples of successful one-purpose cooperatives which have been essentially built around groups of families with traditional ties. For example, in Southern Thailand a Group Marketing Organisation (GMO) is working which is a group of rubber smallholders who agree to improve the quality of their sheet rubber and to sell it together in bulk at an agreed place and time. Each smallholder processes his rubber with his own equipment (some may do it with friends or relatives, thereby forming themselves into a Group Processing Centre). A small GPC with about ten participants often works well for it is operative in a more friendly atmosphere.

This is a very simple form of cooperation with very little management, money and time involved with its main objective the improvement of rubber quality for group sales, which has produced satisfactory results (Chaiprasit and Lim 1976, p. 73). Another example of a successful single-purpose cooperative can be found in India where a dairy cooperative starting amongst small cattle farmers, has done so well under dedicated leadership that it is now serving as a model for all India (Subramaniam 1978).

The Farmer Associations with legal status like cooperatives should not necessarily be considered a pre-cooperative and should not be absorbed by existing cooperatives or developed into cooperatives in other cases. This is because these Farmer Associations at the moment serve a different class of clients. An attempt to force them into the cooperative form under the Cooperative Law of 1968, would force out the landless peasants and other poor farmers. Such absorption is official policy at present, but flexibility on these issues is important.

Moreover, a cooperative should consist of only one village which has an adequate amount of members to be able to establish a society. Last but not least, the cooperative would need to extend its scope to represent also the interests of particular subclasses such as the small farmers. The selection of members should not be judged by land ownership alone, but rather on a basis of desire, interest and the farmer's reputation.

The interest rate policies should probably be revised in this sector. As things are at present, it is noticeable that the shortage of funds of the cooperatives partly stems from the difference of interest rates between the various government rates and the commercial bank rates for agricultural lending. The government charges nil or 2-9 percent interest rates while the commercial bank rates are about 12-15 percent. As a result of this, the cooperatives have been prevented from obtaining more funds from their members or from the market. Because of this, the cooperatives

are demanding more and more funds from the government, whose funds are limited. Agricultural Cooperatives should not depend on the funds from the BAAC all the time. They must accumulate funds of their own, through reserves, deposits, other investment or the cooperatives should be granted permission to increase the interest rate charged on loans to members in order to become economically viable. In addition, if cooperatives were permitted to offer higher interest rates on members' deposits, they would probably be able to attract more funds. In other words, various capital accumulative programmes should be adopted.

Government policy of ensuring that cooperatives charge comparatively low interest rates on loans to their members needs to be reconsidered. This low interest rate policy has disadvantages in that it is providing the privilege of subsidised credit to cooperative members who are generally the better-off farmers in their communities. It thus widens income disparities between members and non-members.

As has been argued in page 59, the present low, interest rates charged create a rationing of credit, which operate in practice in favour of the large farmers. Gonzalez-Vega (1977) has argued that it is not the lowness of the government-sponsored interest rates charged which is important to the agricultural credit system, but the volume of relatively low interest rate credit that is available. More credit at a higher rate would benefit more farmers, especially the smaller farmer who are excluded by present effective rationing of cooperative loans. This argument has also recently been put forward strongly by the Asian Development Bank (1977).

Loans should be more closely tied to the adoption of better farming practices or to improvements in farm industry organization. The mere lending of money, at however low the interest rate, will be only a "one shot" benefit to farmers unless it provides a way of improving farmers' earning capacity. This means that cooperative funds should

generally be used for enabling societies to render cheaper or more efficient services to members in marketing, milling etc., or to provide them with the means to invest in raising the productive capacity of their farms. In view of the developing land shortage, this will generally be connected with the adoption of higher yield technology, so that often extension services and farm inputs would need to be provided simultaneously with the credit.

Now that the cooperative movement has expanded into a multi-purpose business, it is at a turning point, and government should provide an appropriate policy. It should concentrate on management to promote an increase in the farmer-member's patronage of his cooperative's services. In addition, the basic investment in paddy collection facilities is probably not the best use of government budgeted cooperative funds. Moreover, if the government wishes the cooperatives to carry out rice purchases for general community reasons, which may be risky or unprofitable, societies should be paid a subsidy or guaranteed against losses.

The success of the ACFT, especially, is very important to the development of agricultural cooperatives in Thailand. Its marketing functions are particularly important now that the societies are undertaking multi-purpose activities. It has to be upgraded to win the confidence of member societies. Technical assistance in planning, budgeting and execution is needed.

Clearly, the data available are too general and limited to be accepted as an approach to study the performance of cooperatives. It is thus necessary to revise the approach used by the department concerned and to strive for a better quality of information on decision making and performance in cooperative groups and associations.

Such an investigation must be based on very comprehensive field research and should also aim to take in the Farmers' Associations, about which little is known officially. Such basic research ought to indicate whether or not the cooperatives have benefited farmers and others in the rural community as well as whether social goals have been met.

Certainly, such an investigation should help not only to evaluate the cooperatives' performance in meeting their objectives but should also be an effective contribution to the social and economic development of the country.

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