

Ministers Conferences

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Executive Summary

The most visible effect of the Ministerial conferences among the countries reviewed is the enactment or drafting of new cooperative laws designed to closely conform with cooperative principles advocated during these conferences. Malaysia, Indonesia, the Philippines have new cooperative acts enacted just after 1990. Thailand has drafted a new law which remains pending only due to frequent changes in its government, while Singapore cooperative authorities felt that the existing laws are sufficient.

A. The Policy Environment and Beyond

Based on these new laws, there is a discernable shift from the traditional interventionist to a more supportive role among government cooperative authorities, although this varies from country to country.¹ Beyond the legislative and policy environment however, there are still many government programs that influence cooperative development, directly or indirectly, which are still based on traditional misconceptions of cooperatives (except in Singapore). Several factors help perpetuate governments' traditional perceptions and practices regarding cooperatives, among these are:

1. Large Government Bureaucracies

Except for Singapore and the Philippines, the ministries or agencies in charge of cooperatives are large bureaucracies with the resources and manpower that could permeate to the district level. As such, it will be difficult to expect even in the medium term a reversal of governments' concepts or a reduction of its pervasive role that are seen to hinder cooperative growth or run counter to accepted cooperative tenets. Unfortunately, it is not just a matter of reorienting bureaucratic thinking since it is almost a truism that bureaucracies (and politicians that could benefit from them) not only tend to justify their continued existence but also strongly advocate for expansion in resources and sphere of influence. And quite often they succeed since governments usually use "cooperatives" to pursue a multitude of socio-political agenda, other than just promoting them for the sake of their members.

2. Many Major Players

The ICA conferences were addressed to the cooperative ministers or authorities for obvious reasons. It was observed however, that cooperative development is not the exclusive turf of the designated authorities. Cooperatives are usually cited as among the cornerstones of national development strategies, especially for the rural-agricultural sector. Thus, many government agencies directly or indirectly affect cooperative development either due to their individual mandate or part of a collective effort in pursuing overall development objectives. Being

¹ Except where specifically mentioned, governments or countries referred to in this report are Indonesia, Malaysia, the Philippines, Singapore and Thailand - the countries reviewed under the study.

themselves bureaucracies, they also tend to grow even beyond the cooperative authorities' control. Examples of these are: agricultural ministries and related agencies, state (agricultural) banks, food or agricultural marketing authorities and some parastatal bodies. Some of these entities directly promote cooperative creation, often without a shared vision of cooperative principles and are even at odds with the efforts of the cooperative authority.

Another set of major players not quite observed, but which play key role in shaping government policies are the multi-lateral and bilateral funding agencies. Many of these agencies nurture governments' traditional cooperative misconceptions as indicated by: (i) the numerous credit programs they have supported using overnight "cooperatives" as conduits; and (ii) their growing mistrust of the term cooperative due to the "boom and bust" nature of said programs they support.

3. Cooperative Development Subsumed into Broader Objectives

Except Singapore, governments in developing economies give high priority to such objectives as food security, poverty alleviation or eradication, increasing agricultural productivity and ensuring social justice or equity. Strategies to achieve these goals continue to be laced with package of incentives and services that are viewed to weaken rather than empower "target beneficiaries" and their cooperatives. The common ingredients of classic government strategies include any or a combination of the following: massive provision of cheap credit, provision of highly subsidized inputs, direct marketing support mechanisms for agricultural produce and in some instances direct management of cooperative affairs by government or parastatal staff. In any case "cooperatives" are promoted in order to make efficient the delivery of such services deemed essential in the pursuit of broader objectives. Invariably, the assistance and the manner by which they are delivered help erode the very values or lack the elements deemed vital to cooperative development. For example: many studies have consistently shown that: (i) cheap credit is a disincentive to savings; (ii) massive government credit is usually viewed as dole outs and weakens credit discipline; (iii) subsidies and unbridled market support creates dependency and promotes inefficiencies; (iv) government programs often do not match the absorptive capacity of cooperatives due to excessive performance targets, and (v) direct government management of economic activities have seldom been found to be effective and stifles self-sustaining capacities of societies.

4. Socio-Political Agenda vs. Cooperative Development

In many instances this question was raised: "Does government really want strong cooperatives"? Given the varying political environment in these countries a follow up question could be: "If so, which type or what kind of cooperatives"? These questions are valid because cooperatives (and people empowerment) could be viewed as a double-edged sword: one blade as the cutting edge for national development or as a tool to level social inequities and another which could be viewed as a threat to political stability. It is the latter perception that makes governments uncomfortable when they are no longer in control of the growth and strength of cooperatives. Moreover, many

governments practice political patronage (that could be effectively distributed through "cooperatives") to help ensure the perpetuation of political power, but strong cooperatives tend to render ineffective such practice. Among the indications of governments' concern are: (i) instances of strong cooperatives being officially ignored; (ii) the politization of apex organizations apparently to ensure adherence to a political agenda; and (iii) continued strong government intervention in cooperative affairs varying from direct management of some societies within the movement to a total cooperative strategy which run counter to the avowed cooperative policy. In fact there is a cynical view among cooperative advocates that governments allow many players and appear inconsistent with its policies simply to sow confusion within the movement and to ensure that this does not wander beyond mundane economic affairs.

B. Cooperative Competitiveness

In the countries reviewed (except Singapore), there is a dichotomy of government-supported agri-based cooperatives and private-led cooperative societies. What is clearly emerging in all the countries is the vibrant and self-sustained growth of cooperatives of the latter type. No doubt, their growth and viability were greatly enhanced by the improved policy environment. Yet even where cooperative authorities were less than supportive, many societies were able to cope through sheer perseverance and strict adherence to cooperative principles.

It was observed that cooperatives achieve rapid growth once it reaches a certain critical mass in terms of resources and membership. This is logical since such state implies wider public acceptance and adequate resources that enable the cooperatives to: (i) avail of professional management; and (ii) provide better and more diverse services. These in turn enhance membership patronage and loyalty, that triggers still wider acceptability from potential members.

However, growth and expansion of societies also create some concerns, among which are: (i) certain cooperative principles and accepted practices are rendered impractical due to membership size and diversity of operations (e.g., slow decision making-process due to democratic process); (ii) societies become increasingly exposed to marketplace competition as they become major players in business activities; (iii) governments becoming wary of large cooperatives due to their potential impact to the economic sector these are engaged in (e.g., effects of adverse events among large financial cooperatives to the stability of financial system); (iv) legislative inadequacy to deal with governments' control concerns and cooperatives' desire for flexibility; and (v) inadequacy of apex organizations to respond to the diverse and specialized needs of large cooperatives.

Two corollary issues are also emerging due to the growth pains of societies. First: it is the opinion of more progressive cooperative advocates (notably from Singapore) to include "Enhancing Cooperative Competitiveness" as an additional tenet to present cooperative principles. This is to ensure membership loyalty through better or diverse services, specially in the light of increasing competition and trade globalization. Second: some large cooperatives are seriously considering their conversion to corporations to achieve better flexibility to avail of business opportunities.

1. Competitiveness of Agricultural Cooperatives

Across the Region, government intervention and support is very pronounced among agricultural cooperatives (except Singapore). This is due to the large agriculture base of the countries and the fact that a large portion of their poor are in the agri-based rural sector. It is also in this sector that cooperative development objectives are subsumed under broader national objectives discussed earlier. Competitiveness of agri-based coops vary from country-to country, below is a summary of the competitive edge of these societies.

At first glance, Malaysian cooperatives in treecrop plantations appear to be the most competitive in terms of resources, diversity of operations and management. However, this is largely due to heavy government intervention through massive financing, granting of monopolies for coops on certain activities, full marketing support and direct hands-on coop management by parastatal entities' staff. Doubts on the true competitiveness of these societies are raised once government support is stopped. Cooperatives or Farmers Organizations (FOs) of small farmers in the food crop subsector appear to be even much worse off. This is indicated by the continued management by government personnel of these FOs, for the simple reason that they are still deemed incapable of self-management (even after two decades).

Similar issues are raised for the *Kooperasi Unit Desas* (KUDs) of Indonesia, which have become the focal point of government cooperative development strategy. KUDs continue to be propped up by subsidized credit and monopoly participation in government distribution and procurement schemes. KUDs' resources are reported to be increasing but internal savings remain negligible reflecting the weak status of KUDs and implying that government support - not membership commitment - is the lifeline of the KUDs. Private-led dairy cooperatives however, appear self-sustaining and viable. Despite the threat of globalization, dairy cooperatives are reported to be confident that with minimal government support they could cope with the expected onslaught of formidable foreign competition.

Thai agri-based cooperatives, without qualification, appear to be the most competitive in the Region in terms of numbers, membership, product diversity, total resources, internal fund generation, and level of operations. Apart from its promotional effort in cooperative development, Government's responsive macro-economic and agricultural policies are crucial factors in these coops' strengthening. Thai agricultural policy have long been global market oriented. Thus, past and present government measures which are now paying off, include among others: packages of incentives and technology to encourage product diversity; massive investment in infrastructure (irrigation); balanced tariff structures which provided protection and incentives without promoting inefficiencies in the sector. All these, combined with an export-oriented and progressive agro-based private sector have resulted in a dynamic Thai agricultural sector which redound to the benefit of agri-based societies. However, basic strength are mostly among primaries, with secondary and tertiary apex societies suffering from serious management problems. Apparently, the volume of business at the apex levels create too much "moral hazards" and tempt coop apex officials towards deviant behaviour. This perhaps is the most serious threat for now to the inherent competitive strength of Thai agri-based coops. Corollary to this is the

recent move of Bank for Agriculture and Agricultural Cooperatives (BAAC) to promote its own version of provincial Agricultural Marketing Cooperatives (AMCs) and the Thailand Agribusiness Corporation (TABCO) at the national level, which are both seen to compete head on with the existing secondary and tertiary apex organizations.

Philippine agri-based societies appear to be the most vulnerable in the Region as government continues to grapple with correcting the effects of decades-old macro-economic and agricultural policies which stunted Philippine agriculture and seen to be bias against small farmers. These include: (i) inadequate investments in irrigation and rural infrastructure; (ii) inadequate technology and extension support for crop diversification and increased income opportunities for small farmers; (iii) perpetuation of production programs which lock farmers to a few "political crops" where price controls and government market intervention result in narrowing of income spreads; (iv) exchange rate and tariff structures which work against the agricultural sector; (v) lack of consistency in the agrarian reform program which discourages private sector investment in agriculture and (vi) unsustainable credit programs which spur the development of "mushroom cooperatives". Apart from about 7,000 "mushroom" agri-based cooperatives that are now dying with the unsustainable credit program that caused their emergence in the early 1990s, there are only a few viable societies whose number (less than 200), membership and resources are negligible compared with the sector's potentials. Even then, these coops have doubtful competitiveness, excepting the fact that they have remained self-sustaining and viable following the basic cooperative principles.

2. Competitiveness of Financial Cooperatives

Thrift and savings societies are the backbone of cooperative strength and shining examples of true cooperative spirit in the Region (surprisingly, except Singapore). They have rapidly grown in the last decade and have established a definite niche between traditional informal lenders and the formal banking system. Societies in Thailand, Malaysia and the Philippines, are now in the crossroad of mainstream banking, where the setting up of an apex (central) bank for cooperatives are being advocated or where large coops are considering conversion to full banks.

However, this very growth raises the issues discussed earlier, such as: (i) cooperative authorities and central banks becoming wary of inadequacies of the cooperative acts or banking laws to cover the gray areas that could unduly expose depositing publics from potential abuses; (ii) societies increasingly complaining of inflexibilities in coop laws that stifle their growth or diversity in options that could redound to the benefit of members; (iii) creeping competition between credit societies and state banks, especially in rural financial intermediation; and (iv) societies' concern over adverse effects of state banks' unsustainable credit programs which lower public acceptance and promote misconceptions of "cooperatives".

C. Recommendations

In view of the above, the study team proposes the following recommendations which should be addressed to the respective entities:

1. For ICA

- a. To identify other Government entities in member countries which play key roles in cooperative development and consider their representation in future dialogues.
- b. To advocate among major multi-lateral agencies (e.g., ADB, the World Bank) the adoption of "Policy on Cooperatives" which should have a shared vision on accepted principles.
- c. To initiate a thorough study or provoke analytical thinking among member countries regarding the possible "customizing" of some basic cooperative tenets and advocate for corresponding adjustments in cooperative laws to be responsive to the regional needs:
 - 1) given the political and bureaucratic realities of the Region.
 - 2) the pressures of competition due to trade globalization.
 - 3) diversity of needs and impact of technology in operations
 - 4) rapid growth which could result in erosion of cooperative values and favor privatization
- d. To provide or advocate for technical assistance (e.g., from cooperatives in developed economies) to the Regional country members' apex organizations and cooperative training centers to enable them to cope with the diversified and specialized training needs of rapidly expanding cooperatives.

2. For Cooperative Authorities

- a. As the lead agency of government, to advocate for and ensure a common perception and vision of true cooperative principles among government agencies which play key roles in cooperative development.
- b. To advocate for strategic alliances between cooperative movement and government agencies (e.g., state banks) to avoid unneeded competition and attain synergy in providing services in a manner that strengthens rather than weakens cooperative societies
- c. To formulate and advocate for legislation and policies consistent with "customized" cooperative tenets mentioned in para 1c above.

- d. **To advocate for macro- and sectoral policies and programs deemed vital to the development and competitiveness of the agricultural sector**

Malaysia

1.0 Development and Performance of Cooperative Societies

The first cooperative was registered in Malaysia in 1922. Since then the cooperative movement has grown to be one of the major resource mobilizers, servicing over 4 million members or about 22 percent of the population of Malaysia. As of end 1995, there were 3,553 cooperatives¹, with total assets estimated at RM 10.56 billion and share capital amounting to RM2.6 million (see Annexes 1 and 2 for statistical trends on cooperatives).

Overall, government is committed to develop cooperatives, especially among the small farming sector. It provides tax exemptions to all cooperatives less than 5 years old or those with total assets of less than RM 500,000. It also provides grants to small or deserving cooperatives for improving its operations and soft loans for some economic activities. This is apart from the special support services given to farmers organizations and cooperatives under land settlement and estate rehabilitation schemes (see detailed discussions in later sections).

Thrift and Savings Cooperatives remain the backbone of the movement in Malaysia. As of end 1994, about 466 cooperatives or 13.4 percent of total accounted for 40 percent (1.6 million) of total cooperatives membership and about 85 Percent (RM7.5 billion) of total cooperatives' resources. There are now two cooperative banks (wholly-cooperative owned commercial banks) with several societies owning sizeable equity in other banks.

The movement has diversified into trading consumer products, housing, transport, land development, industrial production, banking and insurance. There is also a shift towards multi-purpose cooperatives as societies acquire more resources and expertise to engage in other activities. While the trend is encouraging, some cooperatives have become too large or too profit-oriented that they have lost the basic cooperative values or the accepted cooperative systems have become impractical or irrelevant to them. Some of these cooperatives are planning to convert to corporations.

Secondary School Cooperatives are also on the rise with direct support from the Ministry of Education and DCD. The Cooperative Act 1993 encourages the formation of school cooperatives (e.g., lowering of age limit for members) and Government provides subsidies for management and procurement of equipment. School cooperatives are engaged in a variety of activities from running canteens, consumer cooperatives and even agri-based business in the rural areas (e.g., fish or chicken rearing). As of end 1994 there were close to 1,000 cooperatives with

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Excluding Farmers Organization, agricultural and fisheries cooperatives which have a small share of total resources of cooperatives anyway (see discussions in later sections).

.96 million members having an accumulated share of about RM 4.4 million and turnover of RM 65 million.

Agri-based cooperatives appear to have mixed performance and are largely influenced by the extent or effectiveness of Government support. Cooperatives under land development schemes, notably FELDA, are now engaged in allied or non-agricultural ventures. This is largely due to the massive capital and management support provided by the implementing agencies. On the other hand, the so-called Farmers Organizations appear to stagnate in the pre-cooperative stage despite heavy government intervention over the last two decades to develop them as self-reliant societies.

2.0 Government Role on Cooperative Development

There are presently four government agencies directly involved in cooperative development, namely: (i) the Department of Cooperative Development (DCD); (ii) the Farmers Organization Authority (FOA); (iii) the Fisheries Development Authority (FDA); and (iv) Cooperative College of Malaysia (CCM). The first three agencies mentioned are charged with promotion and supervision of cooperatives under sectoral groupings, while CCM is a state owned college providing education and training on cooperative matters. DCD is in charge of non-agricultural cooperatives, except those in land settlement or treecrop rehabilitation schemes and agri-based coops in East Malaysia. Cooperatives under DCD account for 94% of total resources, 78 percent of total members but only 39.9 percent of the total number of cooperatives. FOA which handles small farmer (non-plantation) cooperative development, accounts for 58 percent of total cooperatives, 20.7% of total members but only 4.3 percent of total assets of cooperatives. FDA which is responsible for fisheries cooperatives accounts for a negligible share of the cooperative sector in all aspects (see Annex __).

2.1 The Department of Cooperative Development

2.1.1 Overview

DCD was first established in 1922 as the sole department charged with cooperative development. With the formation of Farmers Organization Authority (FOA) in 1973 and the Fisheries Development Authority (FDA) in 1974, DCD's responsibility now covers the non-agricultural sector, except those cooperatives under the estate plantation and resettlement schemes (e.g., FELDA, FELCRA, RISDA, etc.) and agricultural cooperatives in Sabah and Sarawak where it covers all types of cooperatives.

2.1.2 Mission and Objectives

DCD's mission is to ensure the effectiveness and efficiency of the cooperative movement, through active collaboration between government and the cooperative sector, along the context of the National Development Policy emphasizing balanced economic development under a caring, prosperous and competitive society.

Given this, the objectives of DCD are to:

- a. assist the cooperative movement in creating a resilient and productive society;
- b. ensure that cooperatives operate within legal requirements and based on cooperative principles and values;
- c. ensure that cooperatives become self-reliant, sustainable and competitive socio-economic organizations;
- d. support the cooperatives' general contribution towards the welfare of members and achieving social harmony;
- e. plan for the development of trained personnel in the field of cooperative development;
- f. improve the quality of the management of the DCD through technology and efficient work processes

2.1.3 Main Activities

DCD's main activities include:

- a. registration of new cooperatives and amendments of by-laws
- b. processing of cooperative matters requiring approval of the Registrar of Cooperatives, including dissolution of coops
- c. enforcement of the Cooperative Law and monitoring of activities of cooperatives and their compliance to provisions of pertinent laws and regulations covering:
 1. Loans and investments
 2. Legal matters (e.g., violations, disputes, liquidation)
 3. Audit and accounts (e.g., appointment of external auditors; statutory audit; approval of audited accounts)
- d. provision of financial assistance to small cooperatives
- e. extension and training of coops, often in coordination with ANGKASA, the National Cooperative Organization and MKM, or international coop organizations.

2.1.4 Organizational Structure

DCD is headed by a Director General (DG-DCD) who is also appointed as the Registrar General of Cooperatives in Malaysia. As the Registrar, the DG-DCD performs administrative and statutory and administrative functions over registered cooperatives, except those under the FOA and the FDA. He is assisted by two deputies and 14 State Directors who are also designated as State Registrars for cooperatives under the DCD.

Head Office Divisions are divided into two groups headed each by a Deputy Director General (DDG). DDG I heads the Statutory Services Group which handles enforcement and supervision. It includes the Audit and Accounts Department which conducts external audit of small cooperatives (about 60% of total). DDG II handles internal affairs of the DCD, as well as the Loans and Investment Department which provides financial assistance to small cooperatives. DCD has 14 State Headquarters based in the capital cities and 88 regional offices in the districts throughout Malaysia. Total number of staff is about 1,500 with 85 percent in the branch and district offices.

2.1.5 Major Programs and Support Provided by DCD

a. Legislative Reforms

The passage of the Pan Malaysia Cooperative Societies Act 1993 consolidated three separate acts. The new law and subsequent regulations issued by DCD are aimed at promoting self-reliance and self-regulation among cooperatives through:

1. strengthening cooperative members' sovereignty in the management of cooperatives by ensuring transparency of operations and greater disclosure at general meetings
2. more explicit provisions pertaining to management and board accountability
3. emphasis on membership involvement and education

Moreover, DCD issued several Registrar General's Circular on Improvement of Cooperative Management (RCICM) to enhance members' knowledge in respect to their rights, role in managing cooperative affairs and expectations regarding cooperative services.

b. Supervision and Control

The Registrar has far ranging powers over cooperative affairs. The major ones pertain to his prior approval on the following cooperative action:

1. amendments to the cooperative's by-laws, including change in its business
2. forming, acquiring or holding a subsidiary
3. loans to its subsidiaries or to other societies
4. receipt of donations and grants from foreign sources
5. investments of cooperative surplus funds in:
 - a) shares or securities of other registered society
 - b) shares or debenture stocks of any company not specified under the Cooperative Act
 - c) its subsidiaries
6. appointment of persons authorized to audit cooperatives
7. appointment of an apex body to represent the movement at the national or international level
8. winding up or deregistration of a cooperative

Moreover, the Cooperative Law requires that all cooperatives must have annual audit by external auditors, either by its Audit and Accounts Division or by accredited auditors appointed by the Registrar. All audited reports need to be submitted DCD. DCD audits yearly about 60 per cent of cooperatives under it in Peninsular Malaysia and all cooperatives in East Malaysia.

c. Promotion, Training and Publicity

DCD promotes and develop new cooperatives, especially amongst low income groups such as:

factory workers, cottage industry craftsmen and secondary school children. Out of these efforts, a 125 new cooperatives were registered in 1993, with another 174 formed in 1994-1995. DCD also conducts cooperative training for cooperative members and their boards, mainly on cooperative laws, regulations and financial reporting. It also organizes or participates in courses in coordination with ANGKASA or CCM.

d. Financial Assistance

DCD provides grant money of about RM 1 million annually to assist newly registered and deserving cooperatives. It also manages the JFK (DCD) Revolving Capital Fund. The Fund was formed from budgetary allocations to help viable and deserving cooperatives overcome liquidity problems through soft loans of not more than RM 2 million per cooperative, with interest from 0 - 6 percent payable from 1 - 15 years depending on the project financed. The Fund is about RM 50 million as of end 1995, with RM20 million approved for 50 applications during the year.

2.1.6 Issues

a. Cooperative Sovereignty on Business Decisions

The new Cooperative Societies Act and the far ranging powers of the Registrar is seen by government as measures to ensure protection of members' rights from unscrupulous cooperative boards or its management. It is reported that many of its provisions were an offshoot of a recent crisis in the financial system caused by unscrupulous deposit-taking "cooperatives". However, there are strong views within the cooperative movement that the Registrar's powers encroach on cooperative sovereignty, since his approval is needed in cooperative affairs such as:

1. forming, acquiring or holding a subsidiary
2. granting loans to subsidiaries or to other societies
3. receiving donations and grants from foreign sources
4. investing of cooperative surplus funds in:
 - a) shares or securities of other registered society
 - b) shares or debenture stocks of any company not specified under the Cooperative Act
 - c) its subsidiaries

Moreover, the Registrar has judicial functions where his decision is final or cannot be referred to a civil court. There are indications that the restrictive provisions of the Cooperative Act made some cooperatives to form subsidiaries as corporations (rather than cooperatives) under Corporation Laws. Cooperative representatives argue that the Corporate Act is far more liberal to corporations than the Cooperative Act is to cooperatives despite the lack of safeguards for stockholders under usual corporate operations as contrasted to inherent safeguards provided to members under a cooperative environment, for example:

1. cooperatives cannot be controlled by single or few individuals, while corporate control depends on the size of shareholdings.
2. small corporate stockholders of publicly held corporations hardly hold any

decision-making powers over corporate affairs, while the Cooperative General Assembly, where every member has equal voting rights: (i) make the major decisions; and (ii) elects members of the Board and key committees of their cooperative.

b. Multiple Laws and Agencies in Cooperative Development

Cooperatives in Malaysia appear to be governed by separate Acts and are supervised under three (with some overlapping) sectoral groupings. DCD covers all non-agricultural cooperatives, agri-based cooperatives in land settlement and smallholder treecrop rehabilitation schemes and all cooperatives (including agricultural cooperatives) in East Malaysia. FOA is in charge of Farmers Organizations and agricultural cooperatives of small holder (food crop) farmers, while FDA is in charge of fisheries cooperatives. There is substantial divergence in the conceptual approach and operational activities observed between the FOA and DCD². DCD appears to be more liberal while FOA is highly interventionist in its cooperative development efforts. However, among agri-based cooperatives under DCD there is also heavy government intervention not by DCD itself but by the responsible entities (e.g., FELDA, RISDA or FELCRA).

2.2 The Farmers Organization Authority

2.2.1 Overview

FOA was formed in 1973 under the Farmers Organization Act (109) to consolidate government efforts in promoting farmers organizations and agro-based (largely food production) cooperatives, which before then were handled by several government agencies.

2.2.2 Mission and Objectives

FOA was established as the single agency to register, develop, control and supervise a national farmers movement towards improving the socio-economic status of its members, consistent with the National Development Policy (NDP)³ and the National Agricultural Policy (NAP). It is a statutory agency under the Ministry of Agriculture tasked to:

1. set up and develop strong and viable farmers organizations (FOs) at the area, state and national level;
2. exercise Registrar powers over the management and operations of FOs and agro-based cooperatives to nurture their development and ensure compliance with relevant laws and regulations.

² The Team was not able to hold interviews with FDA which anyway covers a very small and specialized subsector of the cooperative movement.

³

See further discussions on section concerning Agricultural Cooperatives

2.2.3 Main Activities

There are three main activities undertaken by the FOA, namely:

a. Registrar of FOs and Agro-based Cooperatives

The Director General of FOA acts as the Registrar for all FOs and agro-based cooperatives in Malaysia, except in areas supervised by their respective authorities, such as: (i) Muda Agricultural Development Authority (MADA); (ii) Kemubu Agricultural Development Authority (KADA); and (iii) Sarawak MACD Permanent Secretary of the MACD. As mentioned, cooperatives under the land settlement and treecrops rehabilitation schemes (e.g., FELDA, RISDA, etc.) are under the supervision of the DCD. FOA registers and controls all FOs and agro-based societies under its jurisdiction. It also conducts annual audit of accounts of all cooperatives under it, except for financially strong ones which it directs to be audited by accredited private auditors.

b. Management Support for FOs

FOA practically runs the FOs as it provides 5 - 7 FOA personnel to each and every FO to act as General Manager and key officers. FOA assigned staff are fully paid by it, except for a few financially stable FOs which can afford paying the FOA staff. Presently, about 61% of FOA staff are assigned to manage FOs. FOA continues to directly manage FOs since it perceives that members still lack the needed expertise (even after 20 years).

Management expenses are considered grants although attempts are made to reflect these in FOs financial statements to give true status of FOs and to remind them to strive for self-reliance.

c. Human Resource Development

FOA designs and implements training programs for FOs and its own staff to enhance the development and improve the management of FOs. It also provides communications services in forms of publications, audio-visual presentations and other multi-media systems in its FO promotion activities. At present it maintains four Farmers Training Centres (FTCs) strategically situated all over the country to conduct training not only for farmers but also staff of other relevant agencies.

d. Financial Assistance for FO Economic Activities

FOA assists FOs in accessing credit facilities for farm production, agribusiness and small scale industry projects. It coordinates with Bank Pertanian Malaysia (BPM) which also administers the Ministry of Agriculture's Special Loan Scheme, which provides subsidized loans. FOA also assists FOs to access BPM and commercial bank loans at market rates. As a matter of policy, it does not actively support the economic activities of agro-based cooperatives unless they become members of FOs, to encourage consolidation of such cooperatives under the FO scheme.

e. Farm Mechanization

FOA provides farm mechanization services to all FOs through 18 Farm Mechanization Centres (FMCs) throughout Peninsular Malaysia.

The FMCs provide tractors, combine harvesters and lorries for the FOs, including spare parts and repair services, at reasonable rates. At present, FMCs account for 30 percent of the farm mechanization needs of FOs.

f. Infrastructure Support

FOA provides office facilities, meeting halls, storage space, branch offices and staff quarters for the use of FOs. These are given as grants although accounted for in the FOs financial statements to reflect their true financial state and to remind them to be self-reliant.

g. Promotion of Area Agricultural Development

FOA is technically empowered to declare Farmers' Development Areas and to exclusively plan and undertake agricultural development within such areas, subject to agreements by State Governments. In this context FOA is implementing the "New Approach for Village and Rural Development" which advocate the grouping of smallholdings into mini-estate farms to be collectively operated using modern management schemes and the setting up of small scale industries, all geared to improve the productivity and income of beneficiaries. Often, other agencies are also involved in integrated area development schemes covering 5,000 to 30,000 acres and about 1,000 - 3,000 farm families.

2.2.4 Organizational Structure

a. Board of Directors

The FOA is managed by a Board comprising: a Chairman, a Deputy Chairman, the DG of FOA and six other members appointed by the Minister of Agriculture. The Board formulates policies, plans and programs for FOs, and monitors and evaluates the performance of FOA and the FOs.

b. FOA Administration

FOA is headed by a Director General who is responsible to the Board. He directly manages through nine divisions at head office which undertake macro planning, advisory and inspectorate services. There are 11 State FOA offices in Peninsular Malaysia and one FOA office in Sabah all under the charge of a state director. State Offices are the operating arms of FOA including the exercise of registrar powers over FOs at state level. State offices also administer the Farm Mechanization Centres and the Farmers Training Centres operating in their areas. Under the State Offices are a total of 19 district offices overseeing 3 - 4 FOs within each district. As mentioned 60 percent of FOA personnel are assigned to manage directly the FOs and they mainly come from the district offices.

2.2.5 Issues

a. Are FOs meant to be Self-Reliant Cooperatives?

Several issues are raised on the FO concept in Malaysia as follows:

1. An FO is supposed to be set up for farmers yet it is completely managed by government personnel. This runs counter to basic cooperative principles
2. With FOs still unable to manage themselves after two decades of continued government intervention and assistance, an objective review needs to be taken on the effectiveness of such assistance to promote self-reliant or self-sustaining farmers' organizations.
3. Development efforts require "programmed obsolescence" and an important success measure for development officers is that they should eventually become unneeded by or irrelevant to their target groups. Yet, even the few FOs that could afford to pay professional management (which should indicate some degree of self-reliance) still have to be run by FOA staff at the FOs expense. Will FOA ever phase out its direct FO intervention activities?
4. Organizationally the FO is both a primary and a secondary cooperative as it comprises both individual farmer members and agro-based coops compelled to become members through Government suasion and incentives. There are practical problems presented by such a set up in terms of self-governance and member accountability.

b. Non-support and Forced Integration of other Agri-based Coops

The passage of the FO Act of 1973 was reportedly conceived to develop FOs along Korean or Taiwanese models. It was also the intention to phase out or even deregister existing agro-based cooperatives, and later on having those that opted not to be deregistered to be integrated with FOs. The present policy is that only FO members (individuals or a non-FO cooperative) could have access to government assistance or favors. These policy effectively prevents the formation of true grassroots farmers cooperatives or, conversely, forces farmers to organize solely along the FO concept of FOA. Again this runs counter to true cooperative principles.

2.3 The Cooperative College of Malaysia (CCM)

2.3.1 Overview

CCM is one major indicators of government commitment in cooperative development. Founded 40 years ago, it provides a range of courses from 3-day workshops to a Diploma Course on Cooperative Management. Its main clientele are cooperative board members, key officials, managers and staff to develop their skills in cooperative management, and government staff to enhance their skills in promoting and supervising cooperatives.

2.3.2 Main Activities

CCM conducts regular short courses, Diploma course on Cooperative Management and joint courses with local and international agencies. It conducts about 230 courses involving 4,000 to 5,000 trainees annually. CCM coordinates with ANGKASA and government agencies to ensure division of labor in training to avoid overlaps, such that government agencies focus on pre-registration, promotional and legal aspects of training, ANGKASA concentrates on post-membership indoctrination training while CCM aims at cooperative management aspects for cooperative and government officers and staff.

2.3.3 Staffing and Resources

CCM is governed by a council composed of Director Generals of Agencies in charge of Cooperatives in various sectors (DG FOA, FDA, RISDA, etc.). It is headed by a Director and has 26 full-time academic staff, 50 percent of whom masters degree holders. The school is supported out of profit from the Educational Trust Fund for cooperatives with an annual budget of about RM 4 million. It also gets financial support out of training fees and rentals of its facilities.

3.0 Private Sector Initiatives

3.1 ANGKASA

3.1.1 Overview

ANGKASA is the acronym of *Angkatan Koperasi Kebangsaan Malaysia* or the National Union for Cooperatives of Malaysia, a cooperative society registered under the Cooperative Law as a tertiary society. It was set up after two cooperative congresses held in 1966 and 1971 which saw the need to unite all types and levels of cooperative societies. At present, it claims a membership of at least 60 percent of all cooperative societies in Malaysia.

3.1.2 Objectives

ANGKASA, being a "union" under the Corporate Act could not undertake any business and instead could engage in the following:

1. to represent the country's cooperative movement at national and international level in all matters affecting the movement;
2. to disseminate and propagate the cooperative concept and ideals through education and publicity; and,
3. to assist coop societies in the proper running and management of their affairs by way of advice, education and other needed services within its capabilities

3.1.3 Activities

In line with the set objectives as a union, ANGKASA typically engage in the following:

a. Liason and Coordination with Government

ANGKASA is instrumental in the formulation of laws and regulations affecting coops, as illustrated by the drafting of the latest Cooperative Act (1993). ANGKASA advocated for such measures as tax exemptions and the inclusion of basic cooperative principles. It also maintains close rapport and coordination with Government on cooperative matters.

b. Representation at the International Level

ANGKASA is affiliated with the ICA and work closely with other international (coop or non-coop) agencies such as ILO, UNDP Asian Coop Organization.

c. Eduational and Promotional Services

Through its 4P Division (Education, Publication, Service and Information), it propagates and disseminates coop ideals, mainly through publications such as books, monthly magazine and other promotional material. It has also a team of roving officers providing short courses to coop members, staff and auditors.

d. Special Services

ANGKASA performs other services to its affiliates to include:

1. Pre-audit Services - to assist coops in updating and rectifying accounts prior to regular external audit;
2. Computerized Processing of Salary Deductions - ANGKASA has a unique computerized system developed solely to service cooperatives and their members in transactions involving automatic salary deductions (e.g., payment of loans, fees and contributions). Its BPA service bureau combines on-line and batch processing computerized systems to transfer monies between government payment centres and bank accounts of cooperatives for member-related transactions. The system is not only responsive to the needs of cooperative clients and government but is also the major fund raiser for ANGKASA (about RM 6 million per month) that makes it self-reliant in pursuing its regular services to member cooperatives.

3.1.4 Organizational Structure

ANGKASA is organized according to cooperative principles with the National Assembly, composed of representatives from member coops, acting as its highest policy-making body and electing members of its board once every three years. It has also State Liason Committees (SLCs) in every state, with representatives elected from coop members within the state, to coordinate local ANGKASA activities. The SLC Chairman is automatically a member of the National Management Committee (NMC). ANGKASA members are grouped into Functional Groups

which have their own assembly to elect the Functional Group Committee (FGC) members. The FGCs enable each grouping to discuss common problems unique to them. The Chairmen of the FGCs are also members of the NMC. A President, a Deputy President and three Vice Presidents are elected from the National Assembly and these officers also are members of the NMC.

The NMC is thus composed of the five officers, the Chairmen of the SLCs and the FGC plus two government representatives from the Ministry in charge of Cooperatives and the Ministry of Finance. The NMC meets once every three months and sets up the National Executive Committee (NEC) as well as the several sub-committees and portfolios to oversee the proper operations of ANGKASA.

Day to day activities are overseen by a General Manager assisted by 12 officers in various units and divisions.

3.1.5 Issues

a. Non-recognition of ANGKASA as a "Union"

Up to now, the Registrar of Cooperatives has yet to officially confirm ANGKASA as the "Union" to represent the movement at the national (with government) and international level based on the Corporate Act of 1993. Some of the points raised by the Registrar in not officially recognizing ANGKASA are: (i) ANGKASA "only" represents 50 - 60 percent of all coops; and (ii) it needs to amend certain provisions of its by-laws to be consistent with new Cooperative Act with regards to being a "Union". On the other hand, ANGKASA claims that while it may not represent all societies the only tertiary union of its kind in the country in terms of membership size and variety of cooperative affiliation. Furthermore, it claims that it may neither be practical nor useful to have 100 percent membership from all cooperative societies since membership to the union is voluntary. ANGKASA could then just be a union to represent its members since the Cooperative Act does not specify a single union to represent all societies of the movement.

b. ANGKASA Falls Short of Expectations of Member Cooperatives

Apart from the unique service provided by ANGKASA under the payroll deduction system, some large cooperatives interviewed and even the Cooperative College of Malaysia doubt the effectiveness of ANGKASA's educational services to its members. It is perceived that the large number of trainees annually trained by ANGKASA only go through cursory cooperative indoctrination. With only 12 roving lecturers, the union may be short-handed in providing more specialized training programs that are really needed by many cooperatives. On the other hand, ANGKASA which prides itself to represent cooperatives of all types may not be able to respond to unique needs of each and every cooperative due to the wide range of services of all types of coops. Perhaps, a "union" should really represent a particular functional grouping or related fields (e.g., credit cooperative union, transport cooperative union, etc.) to be more relevant and effective in providing services to its members.

c. ANGKASA as a Mandated Union

Again the issue of legislating a union or unions to represent the movement at the national and international level may not be consistent with basic cooperative principles (e.g., volunteerism, democratic principles) as it forces upon cooperative societies membership in such tertiary union by mandate rather than by choice. It could also add an unnecessary layer to tertiary cooperatives formed along functional groupings, the latter being more effective and relevant to many specialized cooperatives as cited above. Lastly, the Cooperative Act requires government representation in the governing board of a union. This is seen as an encroachment on the movement's autonomy and may not be necessary, especially since the Cooperative Act already grants substantial powers and influence to the Cooperative Registrar over cooperative affairs.

4.0 Issues Concerning Agricultural Cooperatives in Malaysia

4.1 Overview

Any analysis of government efforts in developing agricultural cooperatives in Malaysia must consider two basic policies which govern all programs aimed at traditional small farmers and smallholder settlers of land development schemes. These are the National Development Policy (NDP) and the National Agricultural Policy (NAP). These policy largely explains why government has consistently provided massive support and still exercise direct management intervention to cooperatives of traditional small farmers and settlers under land development schemes, when such support could be viewed by many cooperative "purists" as weakening rather than strengthening factors to the development of a true cooperative.

4.2. Government Policies

4.2.1 The National Development Policy (NDP)

The National Development Policy (NDP) is a continuation of the New Economic Plan (NEP) and the old "Bumiputra Law" which had a two-pronged objective to eradicate poverty and restructure society. NDP continues to be the basis of all programs for the marginalized ethnic Malays (Bumiputra) which are designed to give them access to mainstream economic activities in order to hasten national development and foster greater unity.

The historical rationale for "restructuring society" is that ethnic Malays, which comprise majority of the population, were the most disadvantaged group during colonial times and massive government efforts are needed to "level the field", avoid racial conflicts and foster unity in a multi-racial society, while pursuing national development objectives.

Despite the rapid growth of Malaysia in the recent years and the perceived narrowing of socio-economic gaps among racial groups, NDP is a perpetuation of past government policies which continue to be justified, partly because ethnic Malays wield the political power while other racial groups are seen to maintain their economic edge over the Bumiputras. To be sure, small farmers still comprise the poorer sector in Malaysia where the application of the NDP is doubly justified.

4.2.2 The National Agricultural Policy (NAP)

NAP aims at higher productivity and maximizing incomes in the agricultural sector. The strategy programs under NAP include:

(i) in-situ and new land development; (ii) provision of support services and incentives; (iii) improved technology and (iv) social and institutional development. Analysis of the implementation of NAP must also consider the dichotomy of Malaysian agriculture which is composed of: (i) individual smallholders engaged in food and tree crops productions; and, (ii) the treecrop estate plantations.

4.2.3 Strategy Implementation

Malaysia inherited a strong base in treecrop estate subsector, in such aspects as management, technology and market linkages. It applies this competitive edge in its strategy to mainstream the landless poor and smallholders. For the landless, this is done through land development schemes where open (often denuded) lands are developed into treecrop plantations and production areas are distributed to settlers. The capital and management intensive operations of such estates (e.g., processing plants, transport, etc.) are provided and managed by government through parastatal agencies (e.g., FELDA) with the view of eventually turning over these to the settler-producers.

A similar pattern is followed to strengthen the smallholder treecrop subsector. However, this involves the consolidation and rehabilitation of existing small farmlands to allow plantation type management and operations of otherwise fragmented lands. Again parastatal bodies (e.g., FELCRA, RISDA) provide the capital and management until the whole operation is handed to the beneficiaries.

In the smallholder foodcrops subsector the problems are more complex due to the diversity of crops, the lack of competitive advantage of Malaysia and lack of labor due to urban migration. The Farmers Organization (FO) concept was conceived to provide an institutional base for disorganized smallholders. The so-called "New Approach" requires the consolidation of small farmlands to allow mini-estate type management for foodcrop production. The scheme hopes to boost the operations of the fledging FOs.

4.3 Status of the Agricultural Cooperatives

a. Are Government-assisted Cooperatives Truly Self-Reliant?

Given the above background, it is quite clear that cooperatives under land settlement schemes for tree crops may have grown not because of the diligent application of basic cooperative tenets, but largely due to the inherent advantage of Malaysia and the sheer force of massive government support, such as: (i) the provision of management personnel (e.g., staff of Government or parastatal agencies charged with assisting particular farmer or settler groups); (ii) grants for land development; (iii) subsidized credit or grants for production; and (iv) special preferences or monopolies on estate businesses (e.g., transport of goods).

The FELDA scheme alone accounts for about 42 percent of total agricultural financing in Malaysia (with 51% from the banking system) and is supported by several parastatal subsidiary companies. FELDA-based cooperatives are also allowed monopoly control of some FELDA business activities (e.g., transport services). In the same manner, cooperatives under estate crops rehabilitation schemes are very much linked to parastatal bodies as in the case of FELCRA cooperatives. In the smallholder foodcrop subsector, the FOs are very much under government control given the direct management of FOA staff over them. Perhaps a real test on these cooperatives' self-reliance is to see them operate independently under a market environment without government assistance nor intervention.

b. Competitiveness of Agricultural Cooperatives

As mentioned, the cooperatives under the tree crops subsector ride on with the competitive edge of Malaysia and enjoy the unbridled support of government. Thus, in terms of financial strength, market access, technology, etc., (particularly under FELDA scheme) they are perhaps the most competitively prepared agricultural cooperatives in the Region. The strength may not be internally generated, but government apparently is not too concerned with following cooperative principles in "strengthening" cooperatives. Government's main concern is to mainstream and make competitive the target beneficiaries as quickly as possible consistent with the policies under NDP and its overall efforts to meet the challenges of globalization.

FOs on the other hand, would probably need more propping up and could remain weak despite all government efforts. It is a question of how affordable and sustainable is such a scheme to the government. With Malaysia experiencing an economic boom in the non-traditional (industrial) sector, it could well justify subsidizing and propping up the smallholder foodcrop subsector even for reasons of social justice and, to a lesser extent, food security.

4.4 Government Role and Influence in Coop Development

As seen, it may be difficult to convince Government to follow basic cooperative principles in the formation and development of agricultural cooperatives. Its political and economic agenda is set on a time frame that requires fast-tracking of cooperative through massive government support. Like most governments, it could find the usual cooperative development process much too slow to meet the challenges of its political and economic agenda. With its economic boom it could well afford maintaining such a strategy in creating "viable" cooperatives.

5.0 The Financial Cooperatives

5.1 Overview

Thrift and Savings Cooperatives remain the backbone of the movement in Malaysia, accounting for 40 percent (1.6 million) of total cooperatives membership and 85 Percent (RM7.5 billion) of total cooperatives' resources. There are now two cooperative banks (wholly-cooperative owned commercial banks) with several societies owning sizeable equity in other banks.

5.2 Self-Reliance and Competitiveness

Based on the growth of membership and assets, the credit cooperatives appear to be on solid footing. They grew not so much through Government assistance but through internally mobilized resources from members. Larger cooperatives have even diversified to consumer products retailing and financing, insurance (tied-up with insurance companies), travel and tours and even property development. They are run by professional managers and are reported to be competitive in staff compensation. This is laudable considering the thin labor market and the rising pay scale of Malaysian professionals.

The strong credit cooperatives in Malaysia are mostly of the institutional types (i.e., company-based) or those that cater to a sectoral grouping (e.g., government employees, teachers, etc.). Community-based coops are reported to be small and found mostly in the rural areas. However, large sectoral-type credit cooperatives, such as KOSWIP (of government civil servants) are now expanding their memberships as they see the opportunities in a community-based coop.

5.3 View on Government Policies

a. Powers of the Registrar

Based on interviews, the general sentiment is that there is too much power of the Registrar that encroaches on the autonomy of cooperatives over aspects perceived as normal business decisions (e.g., investment options, creating subsidiaries and receiving foreign donations). Cooperative officers feel that there are enough safeguards under cooperative practices which make redundant the control powers of the Registrar. They cite the government's apparent strictness in treating cooperatives as contrasted to its relative leniency on corporate affairs.

b. Delay in Approving an Apex Cooperative Bank

The aspiration of the credit and savings societies is to form a Cooperative Central Bank to provide wholesale banking and financial intermediation solely among member societies. An application for such a bank remains pending with Bank Negara (the central bank) for the last two years. Perhaps the delay in Bank Negara's action is partly due to the recent failure of a similar bank which caused serious instability in the banking system. However, there is a perception within the movement that commercial banks could be lobbying against such moves because of the potential drain it could cause considering the substantial deposits of all cooperatives circulating in the banking system, estimated at RM 8.5 billion as of end 1994.

Thailand

1.0 Introduction

Cooperative formation in Thailand date back to 1916 x x x x

.....(still being developed).....

2.0 Government Role in Cooperative Development

2.1 Overview

The Ministry of Agriculture and Cooperatives (MOAC) is directly responsible in the promotion, development and supervision of cooperatives. Within the MOAC, three offices/departments perform a dominant role in cooperative development, namely: (i) the Office of the Permanent Secretary of MOAC; (ii) The Cooperative Promotion Department (CPD); and (iii) the Cooperative Audit Department (CAD). The Bank for Agriculture and Agricultural Cooperatives (BAAC), the state bank tasked to provide financial services to farmers and their cooperatives, also plays a major role among agricultural cooperatives. The role of these entities are briefly described as follows:

2.2 The Permanent Secretary of the MOAC

The Permanent Secretary of the MOAC is presently the designated Cooperative Registrar whose powers are prescribed under the Cooperative Societies Act B.E. 2511 (1968). Among others, the Cooperative Registrar's major powers and functions are:

1. to register, amalgamate, divide or dissolve cooperatives;
2. to appoint cooperative auditors, government members in the Board of the Cooperative League of Thailand, liquidator of a bankrupt cooperative; and
3. to approve deposits of cooperative funds outside the banking system.

The Office of the Development of Farmers Institutions act as the Secretariat to assist the Permanent Secretary of MOAC in fulfilling the functions as the Registrar of Cooperatives.

2.3 Cooperatives Promotion Department (CPD)

The CPD is in charge of promoting, developing and regulating the cooperatives. Its main functions include: (i) promotion of cooperative principles to the general public; (ii) provision of cooperative training and education, especially at primary level; (iii) provision of technical and financial assistance to promote cooperative businesses; (iv) promoting cooperatives in settlement areas and urban housing project areas and (iv) supervision of cooperatives to ensure adherence to the Cooperative Act and other regulations.

2.3.1 Main Activities of CPD

The CPD classifies its activities into 7 categories, namely:

- a. **Cooperative Dissemination and Establishment** - provision of pre-membership education and promoting cooperatives among the general public for mutual benefit;
- b. **Human Resources Development** - provision of education and training for officers, staff and members of cooperatives, as well as government personnel. For this purpose CPD operates the following:
 1. **The Institute for Cooperative Studies** - provides one-year course for secondary school graduates intending to work in CPD or the cooperatives, and management courses for cooperatives' staff;
 2. **Central Training Center** - provides in-house training for CPD officials at all levels
 3. **Regional Training Centres (10)** - located all over the country, with complete training facilities and mobile units to train local government personnel, cooperative members or personnel and the general public.
- c. **Cooperative Business Promotion** - includes the promotion of multi-purpose cooperatives to optimize members' benefits and encouraging effective linkages either among cooperatives or between cooperatives and private entities. CPD also finances cooperative business activities, through the:
 1. **Cooperative Promotion Fund (CPF)** - provides low interest loans to cooperatives (2 to 4% p.a) for business activities or for relending to members. The CPF was recently given an additional budgetary allocation of Bht 700 million to boost its total resources to Bht 1.4 billion for 1996.
 2. **Common Fund to Assist Farmers (CFAF)** - provides interest free loans to farmers coops to buy members' selected crops (mainly paddy) at Government support prices when market prices are too low. CFAF was over Bht 1 billion as of 1996.
- d. **Member Occupational Promotion** - in collaboration with other agencies, extension and advisory services are provided to agri-based cooperatives (including land settlement and fisheries cooperatives), to adopt new technologies to increase productivity and income. For this purpose CPD has 11 Agricultural Cooperative Demonstration Centres.
- e. **Land Allocation and Housing Arrangement** - CPD is authorized to allot land to landless or small farmers and help set up Land Settlement Coops, Land Tenant Coops and Land Hire-purchase Coops. CPD also promotes urban housing cooperatives to assist low income groups to own houses.
- f. **Infrastructure Provision** - CPD (Engineering Division) is responsible for construction, repairing and maintenance of all infrastructure for agricultural and land settlement cooperatives, including small-scale irrigation facilities which are deemed public works wherein farmers bear only operating and maintenance costs for operating the systems.

- g. Social Development - CPD promotes among cooperatives to be involved in social and community development along cooperative principles of self-help, self-reliance, unity and democratic practices.

2.3.2 Organization, Staffing and Budget

CPD is divided into the Central Administration and the Provincial Administration. Central Administration directly supervises nine head office divisions. There are 73 Provincial Offices and 751 District Cooperative Offices. Other field units include:

- a. The Agricultural Cooperative Demonstration Centre
- b. 10 Regional Training Centres
- c. 11 Cooperative Promotion Units in Irrigated Areas
- d. 61 Land Settlement Cooperative Promotion Offices (17 under Central Office and 44 under Provincial Offices)
- e. 10 Regional Cooperative Engineering Centres
- f. 11 Agricultural Cooperative Demonstration Centres
- f. 9 Regional Cooperative Inspector's Offices.

Total manpower stood at over 7,200 officers and staff with about 80 percent manning the provincial and district offices. CPD total budget for 1996 stood at Bht 3.15 billion (excluding the Cooperative Promotion Fund and Common Fund).

2.3.3 Issues:

- a. A Large Government Bureacracy

A major issue in the existence of CPD is whether there is enough justification for maintaining a very large Government bureacracy, e.g., up to the district level, for cooperative promotion. In many countries, Government pervasive presence and influence in cooperative efforts have yet to show the benefits inspite of massive resources allocated for these. It is unlikely that Government personnel will really imbibe or promote true cooperative principles due to variance in perspective and objectives (e.g., government performance standards are usually quantity oriented, aiming for formation of more coops, instead of aiming for their quality). In fact, cooperatives in many countries seem to flourish better under adverse conditions - where people are forced to band together for mutual help (e.g., lack of access to credit or services).

Government could continue to maintain the Cooperative Institute and the Regional Training centers, eventually to be devolved to the cooperative movement for greater efficiency and effectiveness. Instead of maintaining a large CPD, resources could be channeled to private coop initiatives, not so much for business activities, but to improve coop promotion and training (e.g., upgrading training centers, computerization, trainors training, etc.). The Cooperative Audit Department presence to provide members' protection is more justifiable, although this could also

be devolve under Government supervision (see Malaysian model for cooperative audit).

b. Does Cheap Credit Strengthen Cooperatives?

The creation of the Cooperative Promotion Fund (CPF) and the Common Fund to Assist Farmers (CFAF), while well meaning, raises the issue of equity since both funds are really too small in terms of total requirement and are available only to very few cooperatives (and not even for non-agricultural coops). More importantly, cheap credit has strengthened weak coops, it merely reinforces dependence and mendicancy among coops and weakens them. Moreover, there exist the moral hazard for CPD staff in disposing very cheap credit (studies have consistently shown that cheap credit often benefit non-target groups for obvious reasons). Subsidies are more effectively used to provide support services other than credit (e.g., coop promotion, research on improved technology and extension).

2.4 The Cooperative Audit Department

The CAD is the only institution in Thailand tasked to audit cooperative societies and farmer associations. Up to 1981, CAD was organized to conduct audit from a central office. Since then, it was reorganized to strengthen and facilitate its audit functions through the establishment of Regional and Provincial Auditing Offices. It is reported to audit yearly 90 per cent of all cooperatives and about 60 percent of farmer associations.

2.4.1 Objectives

CAD has set the following objectives:

- a. To perform audit activities to cooperatives and farmers associations (FAs) within a reasonable period;
- b. to prevent willful fraud by management;
- c. to reduce or eliminate errors in accounting and controls;
- d. to educate and train officers and staff of cooperatives and FAs in proper bookkeeping and accounting;
- e. to provide advise and recommendations to cooperatives and FAs on accounting and controls
- f. to advise cooperatives and FAs on the effective use of accounting and financial information for management

2.4.2 CAD Functions

To carry out the above objectives, CAD performs the following functions:

- a. Conducts audit supervision of all cooperatives and FAs in accordance with Registrar's rules and regulations;

- b. Prescribes bookkeeping and accounting systems and standards for all types of cooperatives and FAs;
- c. Provides advise to cooperatives and FAs in management, finance and accounting;
- d. Prepares annual audit reports on the financial position of coops and FAs, and the publishing of annual statistical reports based on such audits;
- e. Conducts training of members of coops, FAs, women groups and farmers on basic accounting, simplified accounting and farm accounting;
- f. Conducts training to committee members, managers and staff to enable them to use financial and accountitng information for management and control;
- g. Act as the financial and accounting information center for all coops and FAs;
- h. Perform such other relevant functions assigned by MOAC

2.4.3 Audit Activities

The department's audit activities are divided into:

- a. Audit Service further divided into:
 - 1. Advisory Service - done monthly to upgrade capacity of cooperatives and FAs in accounting and bookkeeping in terms of accuracy, timeliness and regular updating of accounts and financial reports. The service is phased out gradually as cooperatives improve their capacity.
 - 2. Interim Audit - done anytime during the fiscal year to spot check correctness of accounting entries, adherence to proper internal control and updating of accounts. The audit is done mainly for coops not provided advisory services, large size cooperatives or those identified with internal control problems.
 - 3. Annual Audit - performed regularly at end of financial year per coop by-laws to give a true and fair view of the financial conditions of the cooperative or FA, to be part of the annual report which must be presented to the members within 150 days of end of fiscal year
- b. Training Activities further divided into:
 - 1. Basic Accounting Training Programme - for coop members to understand basic accounting to handle their finance and other business activities. Conducted by every PACs in 72 provinces covering 2,300 trainees per year.
 - 2. Simplified Accounting for Farmers Programme - for farmers whether members or non-members of cooperatives or FAs. CAD also prepares a "Simplified Accounting" booklet. The RACs and PACs jointly conduct annual training for 1,500 trainees.
 - 3. Training Programmme for Coop Officers and Staff - for managers, committee members, accountants and bookkeepers of cooperatives or FAs to improve their

capability to use accounting and financial information for management and control. Conducted by the RACs with 1,440 trainees per year.

2.4.4 Organization and Staffing

CAD has over 1,700 personnel 90 percent of which are deployed in the Regional and Provincial Centres. CAD's organization and functions are divided into:

- a. Headquarters - which provide head office functions of administration, planning, budgeting and overall supervision of all units. It also sets standards for auditing, accounting systems, preparation of manuals and evaluation of audit reports, including the performance of audit units.
- b. Regional Audit Centers - supervises and advises provincial auditing centres (PACs); assists PACs in audit work; provides occasional counselling of cooperative staff and training of selected cooperative officers and staff on financial information use for management;
- c. Provincial Auditing Centres - Conducts: actual audit of cooperatives and FAs; regular counselling of cooperative officers and staff; training of selected members and special groups (women, farmers) on simplified, basic or farm accounting; and provides resource speakers for training of other agencies (CPD, CLT, CULT)

2.4.5 Issues

a. High Staff Turn-over

The CAD is reported to be the most efficient and effective unit in MOAC as it annually audits over 90 percent of coops (but only less than 40% of FAs). It is also producing valuable cooperative statistics annually. However, due to work pressure it suffers from high personnel turn-over and is worried how it could maintain proper audit standards due to lack of qualified and experienced personnel;

b. CAD as the Sole External Auditor of Cooperatives

Government almost fully subsidizes the external audit of cooperatives as it provides for free this service to almost all cooperatives. CAD should eventually devolve its audit functions to private groups and let cooperatives shoulder the expense. Even now it could continue servicing the cooperatives but charge the cooperatives through a "socialized pricing scheme", pegged for example on asset or membership size. Large cooperatives must now be encouraged to hire external audit service. CAD eventually could phase out this function and merely set audit standards, or train and accredit prospective private auditors for cooperatives and FAs (as in the case of Malaysia);

c. Lack of Sanctions Limits Effectiveness of Audit

There are no specific sanctions under the Cooperative Act which allows the Government to dissolve or at least penalize cooperatives for serious breach of internal control or fraudulent activities. Thus, the audit service could lose its effectiveness as a control mechanism against such violations.

2.5 BAAC and its Agricultural Marketing Cooperative (AMC)

2.5.1 Overview of BAAC

BAAC is the state bank tasked primarily to provide credit to farmers and agricultural cooperatives. While it is a full commercial bank, its lending operations is limited only to loans for farmers and agricultural cooperatives. Until recently, it was not even allowed to lend to the farmers' non-farm and off-farm activities. However, by virtue of an amendment to its charter (Act B.E. 2509 [1966]) it now could provide financial support to farmers' supplementary (but still farm-related) activities, such as processing of farm produce, activities using agricultural products as inputs (e.g., weaving, furniture-making), production of farm inputs and equipment, and provision of farm services (e.g., ploughing). Apart from its own regular lending programs funded from its mobilized funds (deposits) and equity, it also implements other lending schemes of agricultural-related ministries and agencies. It is the main implementor of the subsidized credit scheme under the current RAPS program.

BAAC had a network of 80 branches, 285 district offices and 840 field offices manned by 9,899 staff, with head office staff of 1,480

2.5.2 BAAC's Cooperative Development Efforts

Since its inception, BAAC has been active in promoting cooperatives in cooperation with other agencies, particularly CPD. Apart from its lending to cooperatives it was involved in the Agricultural Cooperative Restructuring Project (1980-84), the setting up of the National Cooperative Training Institute (NACTI) From 1992 to the present it has been actively testing new cooperative development and improvement activities in at 6 pilot agricultural cooperatives (with plans for 8 more for 1996-97) in various provinces. For this project BAAC formed a working group composed of representatives from CAD, CDP and BAAC to collect and analyze data from the operations of the pilot coops in order to recommend ways of strengthening them with the view of replicating these elsewhere.

2.5.3 BAAC's Agricultural Marketing Cooperatives

a. Background

Through the years, BAAC has evolved several lending schemes for its clientele. Among these is the credit-in-kind scheme wherein loans were in forms of inputs, e.g., fertilizers and chemicals, instead of cash. Given the size of BAAC operations it was able to purchase and distribute these inputs in bulk at reasonable prices for the farmers. However, BAAC also saw that unorganized marketing of farm outputs made farmers vulnerable to middlemen. Initially, BAAC arranged marketing tie-ups between farmers and private sector and helped ensure fairness to all parties

involved. Government supported the move by giving grants to BAAC to construct regional Farm Product Marketing Centres (FPMC). BAAC later encouraged farmers to form their clubs or "Chom Roms" to organize the trading of their farm inputs and outputs to get optimum benefits. However, despite the FPMCs, BAAC saw the small size (50-60 members) and the informal stature of the "chom roms" as weaknesses that could make them unsustainable.

BAAC's credit operations has dramatically risen over the past five years with loans outstanding reaching Bht 97.7 billion as of end 1994 from just Bht 22.8 billion in 1989 or an average annual growth of 27.2 percent. As of end 1994 its loans benefitted about 4.3 million farm families or 76 percent of total farm families and covered about 37 percent (944) of total agricultural cooperatives in the country. Of its total clients, 3.07 million were direct borrowers, 1.18 million were borrowing-members of about 944 cooperatives and 58,000 are borrowing members of 377 farmers' association (refer to Annex __ for BAAC five year comparative statistics).

b. The Area Marketing Cooperatives

With its rapid increase in lending, BAAC saw the opportunity to allow farmers to engage in larger organized activities and encouraged the setting up of an Agricultural Marketing Cooperative (AMC) in Chiangmai in 1989. Since then, 73 AMCs were formed (end 1995) covering almost all provinces and matching the rapid expansion of BAAC's direct lending to farmers during the period. The AMC is a provincial primary cooperative whose members are BAAC's direct-borrowing farmers.

To ensure well-managed AMCs from the very start and to hasten their development, BAAC deems it necessary to provide AMCs, for free: (i) BAAC officers to act as key officers of the AMCs (managers, accountant, trading officers); (ii) office space; and (iii) solar drying pavement and storage facilities. Through a management agreement, BAAC staff will manage AMCs only for the first five years after which trained member-understudies should take-over. Likewise, although AMCs are organized as multi-purpose cooperatives, it have been limited (at least initially) to engage solely in trading. After all BAAC already provides direct lending to their members.

The AMC usually has very large membership of about 30,000 - 40,000, thus it has district level branches and service centre/coop shops at the subdistrict and village level.

The main objectives and functions of the AMCs at various levels are as follows:

a. The AMC (provincial) has the following objectives:

1. to have a client farmers' society responsible for trading in farm inputs and outputs for members and optimize their benefits from such activities;
2. to cooperate with government agencies and private sector in the efficient and effective trading of farm supplies and products, including having wider access to marketing channels;
3. to act as intermediary in extending new technology to members to improve their productivity and income;
4. to enable members to operate their business with self-reliance and competitiveness in the light of dynamic changes in their operating environment;

5. to be responsible for the members' general welfare

b. District Level

At the district branches extend the services of the AMC to its members. It run by a sub-committee of five members, two of which must be board members of the AMC, who provides guidelines for operating the branch to the branch manager. Financial reports of the branch are submitted to the AMC provincial every month end.

c. Village Shops

The village shops operate like consumer cooperatives providing consumer goods and farm supplies to local AMC members. Cash deficit shops may borrow up to Bht 50,000 from BAAC .

2.5.4 The Thailand Agribusiness Company (TABCO)

When the AMCs grew in number, BAAC saw the potential of big volume trading and additional benefits to the AMCs from their collective action. Thus in 1992, TABCO was created as a joint venture company with AMCs owning 90 percent and BAAC 10 percent of 100 million subscribed shares. TABCO acts as the AMCs' apex organization although it is a corporation registered under the Corporate Act (thus BAAC cannot lend to TABCO since it is not a cooperative). The functions of TABCO relative to the AMCs are:

1. to supply (domestic and imported) farm supplies, consumer goods and farm services;
2. to provide coordination in inter-coop trading and collect farm products from AMCs for domestic and export marketing;
3. to provide management services, such as staff recruitment and supply of capable staff;
4. to provide training services for AMC employees and BOD;
5. to provide social security and services to AMC members;
6. to purchase or construct farm processing facilities as joint venture with the AMCs;
7. to provide such other services required by AMCs.

2.5.5 Issues:

a. Complementation or Competition?

There are concerns in CPD and among agricultural cooperatives that BAAC's recent moves is sowing further confusion in overall cooperative development efforts, given the following:

1. AMCs directly compete with existing viable large to medium scale provincial farmer cooperatives;

2. Farmers' multiple coop memberships is very likely;
3. TABCO also competes directly with ACFT (TABCO is renting ACFT facilities and housed in the same building with it).

While it could be argued that many agricultural cooperatives are weak (reportedly over 70 percent), efforts should have been made to strengthen them rather than forming new large ones. For example, the same liberal assistance could have been given medium to large-scale provincial or district cooperatives (e.g., class A or B based on CPD-BAAC classification) with less dysfunctional effects on overall cooperative development efforts.

b. Sustainability or Strength of AMCs

Corollary to (a), BAACs move to create AMCs appear to coincide with the recent upsurge in the bank's individual farmer lending (average annual growth of 27% in the last five years). Experiences in many countries have repeatedly shown that cooperatives created out of aggressive lending by state banks are likely to (or always) fail. Moreover, the AMCs are typical of many failed Government-initiated cooperatives which have initially large memberships (averaging 35,000 for AMCs) and made to deal on complex activities such as trading large volumes of products. The large AMC membership and immediately large volume of business make more difficult the installation of needed controls which could effectively be handled by smaller cooperatives packed by more manageable activities.

c. BAAC Staff Managing the AMCs

While BAAC assigns its own (professional) staff to manage the AMCs, their experience is doubtful and AMC activities are filled with "moral hazards" for BAAC officers and staff (e.g., there exists too much conflict of interests to BAAC officers acting as creditors, traders and managers of AMCs which could easily tempt them to act not necessarily in the interest of BAAC nor the AMCs). Moreover, BAAC's direct management intervention violates the cooperative tenets of autonomy and independence.

d. BAAC's Limitations Hinder Strategic Alliances with Coops

BAAC is restricted by its charter to finance only farmers and agricultural cooperatives. It is further limited to financing only agri-based activities of its clientele. In a rapidly growing economy such as Thailand, studies have shown that as much as 40 - 50 percent of farm household incomes come from non-farm activities, such as cottage industries, petty trading and other micro-small enterprises. BAAC, which is often the only bank in many areas of rural Thailand deprives many farm household, or non-agricultural cooperatives (where farmers are also likely to be members) from access to banking services simply because they are not engaged in agricultural activities;

BAAC also excludes non-farm rural-based cooperatives, such as community-based thrift and credit or consumers cooperatives. These are usually the strongest and most viable cooperatives

which have proven to be effective rural intermediators, even among farmers.¹ With its restrictions, BAAC cannot forge strategic alliances with these non-agricultural cooperatives which could provide a powerful synergy in rural financing. Thus, it had to expand its own rural network to service a limited clientele instead of having tie-ups with these cooperatives and serving a wider range of rural entrepreneurs (farm-based or otherwise);

e. BAAC Alternatives Being Set up

Related to (d), the Chairman of CLT reported that a new Bank for Cooperatives is to be created within the next few months. The proposed bank is going to be jointly owned by Government and credit cooperatives which will have 70% and 30% equity, respectively. If such bank is set up, BAAC failed by default to become the **Bank for Agriculture and Cooperatives** and be the major driving force in total countryside development. With its network and exposure, BAAC could have easily taken the role of the proposed bank, requiring only: (i) minor adjustments in its orientation and strategy; and (ii) BAAC's privatization to cooperatives.

3.0 Private Initiatives:

3.1 The Cooperative League of Thailand

3.1.1 Establishment and Objectives

The CLT was in 1968 established through the Cooperative Society Act, B.E. 2511 to act as the apex organization of the cooperative movement. Its main tasks are as follows:

1. To enhance the progress and stability of its member societies through technical advise, training programs and educational activities;
2. To act as the members' representative in liasoning with Government and other external bodies, including international entities with activities relevant to the cooperative movement;
3. To organize and conduct seminars, conferences, surveys and researches for cooperative promotion;
4. To provide publications in cooperatives and allied subjects
5. To perform acts entrusted to it by relevant Government agencies in compliance with its objectives

3.1.2 Membership

1

It is very likely that rural based, non-agricultural cooperatives (such as credit cooperatives) in Thailand have farmer-members. In the Philippines, farmers have highest sectoral representation in such cooperatives (18-20%).

Under the Cooperative Societies Act, all cooperative societies at all levels are to be members of the CLT, regardless of types and affiliations with other federations, whether provincial, regional or national. There are six types of cooperatives, classified into: (i) Agricultural; (ii) Land Settlement; (iii) Fishery; (iv) Thrift and Credit; (v) Consumer; and (vi) Service.

3.1.3 Funding

The main source to fund CLT operations comes from fees of members as prescribed under the Cooperative Societies Act, which requires members to remit to CLT 5% of their net profit but not more than Bht 10,000. It must be noted that such payment of the fee is voluntary since no sanctions are imposed against non-payment under said law. Thus, the following are the main sources of funding for CLT:

1. Members' Contribution: Bht 15 - 19 million yearly
2. Government subsidies from the budget of the Cooperative Promotion Dept and the Cabinet. (Bht 4 million in 1995)
3. Interest Earnings from the Cooperative Central Fund (funds from liquidation of unlimited coops, about Bht 3 million for 1995)
4. Others: Sales of publications, donations.

3.1.4 Activities

a. Training

Due to limited resources, CLT's activities focus on training of the cooperative Board of Directors, officers and staff, rather than being targeted to members. Moreover, CLT does not maintain a regular core of trainers but mainly organizes training programs and invites resource speakers and subject matter specialists from Government, the academe, the private sector and the movement itself. The subject matter cover such areas as:

1. Leadership Aspects - mainly for BOD and key officers
2. Technical - BOD and key Officers (e.g., administration, management, marketing, accounting, etc.)
3. Cooperative Staff Development
4. Women and Youth Cooperatives Promotion

b. Promotions and Publications

CLT assists relevant organizations (Government or international bodies) in organizing activities, such as cooperatives' week celebration, awards for cooperative-related activities and regional and international conferences or symposia. It also comes up with publications (e.g., Monthly Cooperative League Bulletin) and multi-media promotion (press and radio) of cooperatives.

3.1.5 Issues:

a. Is CLT a Parastatal Body?

CLT is a federation is by mandate rather than by choice among the cooperative members and appears to be a quasi-Government agency given the following:

1. it is created by the Cooperative law and not as a voluntary act of the movement;
2. it receives regular subsidy or budget from Government;
3. based on Cooperative Act it may be tasked by Government to perform specific functions;
4. at least five of its Directors are appointees of MOAC

b. CLT Lacks the Competitive Advantage to Perform its Role

The CLT in its present set up is heavily constrained to perform its functions as an apex of all Thai cooperatives, due to the following factors:

1. Loopsided relationship and resources between CPD and CLT - The functioning and activities of CLT is insignificant given the resources and pervasive presence of the latter, while CLT has very limited capacity (see further discussions).
2. CLT has no comparative advantage and is seen to duplicate the national federations of the different types of cooperative societies;
3. Internal weaknesses and constraints of CLT

The delineation of responsibility between CPD and CLT is suppose to be as follows:

1. CPD focuses on training of (1) students geared for cooperative work (government or coops); (2) CPD and Government officials; (3) pre-membership and membership training at primary levels and (4) Agricultural committee members
2. CLT focuses on cooperative committee members for non-agricultural cooperatives and cooperatives management staff

This seems logical since CPD is under the MOAC and is more widespread. However, the resources of CLT is insignificant and far less than what it is expected to do considering the size and number of even those in the non-agricultural sector. CPD is a large beaucracy by itself and is part of even a much larger agency - MOAC. It is very likely that Government will maintain, if not expand its activities (see section on CPD) and encroach on CLT's activities since the latter is too weak to perform its designated function. CPD has over 7,000 staff all over the country with a huge budget, while CLT has merely 70 (head office only) personnel operating on an annual budget below Bht 20 million, barely enough to cover its administrative expenses.

c. CLT duplicates the respective National Federations

National federations of the different types of cooperatives already exist (e.g., Cooperative Union League of Thailand - CULT, Federation of Saving and Credit Cooperatives of Thailand - FSCC, Consumer Cooperative Federation of Thailand - CCFT, and the Agricultural Cooperative Federation of Thailand - ACFT). These federations were formed largely on voluntary basis from the movement itself (except NACFT) and provide either supporting businesses or direct services

(e.g., training) to its members. A supreme national apex over the existing national federations appears to be a mere duplication hard to justify or support.

The CLT was designated mainly to act the apex for non-agricultural cooperatives since there are already a number of entities providing massive support to the sector, namely CPD, BAAC and NACFT. However, national federations in the non-agricultural sector are already performing the functions of national apex bodies with far more efficiency and visible impact to their members than what CLT could ever hope to deliver. CULT, for example, provides training (with its own live-in facilities), technical assistance, and business activities (e.g., mutual benefit fund, deposit and loan insurance fund) designed to support its 500 plus members.

For federations like CULT, it is clear there is no incentive for member cooperatives to support or strengthen CLT when all they need to strengthen is CULT itself. Again it must be noted that CULT is a making of its own members consistent with cooperative principles rather by operation of law. Perhaps the only advantage of having CLT is that it is partly subsidized by Government. Even so, this raises the following issues:

- a) Government assistance could be given directly to the respective national federations with more impact and without having to go through another bureaucracy;
- b) there is the added but unneeded burden to support CLT (currently at 5% of cooperatives' net income but not more than Bht 10,000, with a proposal to increase this to 10% of cooperatives' income) when such contribution could have been used as an add-on to the budget of the existing national federations (e.g., CULT) for their promotional activities instead of simply defraying the overhead expenses of CLT.

d. Extreme Budget Constraints

The biggest weakness of CLT is its limited budget which is barely enough to cover administrative expenses. Its main sources of funds come from: (i) contributions from cooperatives which accounts for ___% of total funds; (ii) Government budget through CPD of about Bht 2 million annually; (iii) interest earnings from the Cooperative Central Fund of another Bht 2-3 million annually; (iv) occasional contribution from the Cabinet amounting to Bht 4 million in 1995. The table below shows the three-year (1993-1995) breakdown of the administrative expenses against contributions from cooperatives (amounts in million Baht):

Year	Fees Collected	Total Admin Costs	Staff Salaries
1993	16.49	15.38	10.78
1994	19.18	14.84	10.72
1995	15.82	17.47	12.10

It can be shown that fees barely covered administrative expenses, and was not enough last year. Thus in 1995, additional funds from Government amounting to Bht 9 million were partly used for administration, leaving only Bht 7.4 million for promotional programs or activities of CLT.

This is miniscule considering the number of cooperative societies expecting services from CLT and the varied activities in delivering these services. Note that while

e. The New Training Facility - a Big Financial Burden

The CLT recently completed the building of a new training facility at a staggering cost of Bht 150 million as actual cost soared to about 3 times the original budget estimates. The unexpected costs overrun forced CLT to borrow Bht 100 million at an interest rate of 13.5% per annum, payable in five years, inclusive of a 2-year grace period when only loan interest will be paid. With its budget constraints shown above, there is no way that CLT could service even interest payments (about Bht 13.5 million per year) during the grace period, much less amortize the principal of Bht 50 million starting the third year. CLT management is frantically looking for some refinancing schemes with no success for now. Its only options are to:

1. seek refinancing with very long repayment terms and low interest to suit its current cashflows (a very dim prospect since there had been no takers so far);
2. quickly conduct money-making training programs to augment its cash inflows (also a dim prospect with its limited operating budget and duplicating programs of CPD and the national federations); or
3. seek a buyer or lessee of the building and real estate to help liquidate or amortize the loan, and possibly earn some profits in the process (perhaps the only practical and doable option)

g. A Very Large Board of Directors

CLT's present Board of Director (BOD) has 46 members, making it very likely to be unwieldy for efficient and effective decision-making. This is an attempt to have proportional representation from all types of cooperatives. After all the Cooperative Act merely sets the minimum (not the maximum) BOD membership, with 5 members already earmarked for non-coop movement MOAC appointees. Proposed amendments to the Act limits the number of BOD members to 15. Yet even without the amendments, the CLT BOD could (and should) reduce itself to a manageable number for efficiency.

4.0 The Financial Cooperatives

4.1 The Credit Union League of Thailand (CULT)

4.1.1 Historical Background

CULT's history started with the birth of the first credit union in the country in July 1965 - Soon Klang Thewa Credit Union, after the founders realized the weaknesses of welfare-type assistance in promoting self-reliance among slum communities. With its success, many more followed suit and by August 1972, 60 credit union leaders met to discuss common problems and opportunities, among these include: training on cooperative principles and operations of credit unions, mutual assistance potentials among communities and understanding of government policies or programs affecting the movement. This meeting created the CULT, which was registered in 1979.

The Credit Unions in Thailand are the strongest and most viable among cooperatives (see annex ___ for statistical trends). This is typical among the countries covered by this study. They simply disprove two pervasive perceptions among government bureaucrats: (i) the poor are incapable of saving; and (ii) cooperatives cannot thrive much less grow without heavy government assistance or intervention.

4.1.2 Vision, Mission and Objectives

a. Vision

A strong viable Thai credit union movement dedicated to the development of credit unions where members work together and bound together by virtues of honesty, sacrifice, responsibility, mutual respect and self-reliance to enhance their socio-economic well-being as well as spiritual development

b. Mission

CULT the national federation of credit unions in Thailand and is committed to the principles of democratic control and cooperation among cooperatives. CULT is dedicated to the delivery of excellent financial and other services to its members, responsive to their social and economic needs

c. Objectives:

1. promote the creation of new credit unions
2. provide services essential to the creation, improvement, maintaining of financial stability and fostering growth of credit unions;
3. assist its members in developing high standards of management, operations and supervision of the unions;
4. manage CULT financial operations ensuring security, efficiency and equitable rate of returns to members;
5. promote the credit union movement and facilitate cooperation among credit unions, chapters, leagues, both domestic and international;
6. represent the Thai credit unions to the general public, government and private organizations, including the development of mutually beneficial linkages.

4.1.3 Organizational Structure

CULT is a secondary cooperative organized according to cooperative norms. It has a 15 member-board representing about 520 credit union members, with Supervisory and Executive Committees. It is run by a professional manager with 52 officers and permanent staff working in 6 departments, namely Administration, Accounting and Finance, Mutual Aid, Education, CU Development and Women and Youth Program.

4.1.4 Programs and Services:

a. Education and Training

CULT places very strong emphasis on education and yearly puts up a variety of training courses and seminars, ranging from credit union promotion to management and staff skills training. These training are either held by local chapters of credit unions or on the central facilities of CULT in Bangkok. Resource speakers come from CULT or involve volunteer lecturers from government or universities. Over 55 courses and seminars are organized yearly for over 2,200 participants. The CULT Central training facilities in Bangkok include not only lecture rooms but a 100 bed dormitory (which is also rented out to non-members organizations as an income generating activity for CULT).

b. Accounting, Audit and Field Visits

CULT staff trains CU members in proper accounting and control systems. It assists members through field visits with pre-audit verification and advise, often prior to the conduct of CAD audit.

c. CU Interlending Program

This programs offer CUs with excess liquidity to invest in high yield and safe investments as well as assist CUs to overcome temporary liquidity problems. As of end 1993, Intercoop Lending Fund was Bht 55 million with the following activities:

1. Fund Mobilizing through: members' deposits and shares, promisory notes offered to members and non-members and donations;
2. Regular intercoop lending and special programs, e.g, land redemption, slum rehabilitation, small and microenterprise development

d. Loan Protection Program

This is designed to pay off member loans in case of death. Premiums paid monthly by CUs, based on insurable balance for the month. This is covered by co-insurance agreement with CUNA Mutual Insurance Society.

e. Life Savings Program

To encourage regular savings mobilization, the program matches a member's eligible deposit with an equal amount of life insurance. Premiums are fully paid by CUs and not members. Also with co-insurance arrangements with CUNA.

f. Deposit Insurance Scheme

For a .06 percent premium paid by CUs, members are covered by a deposit insurance of up to Bht 300,000, in case of closure or other failure of the CUs to service deposit withdrawals.

g. Bonding Program

This protects CUs from fraud or dishonesty among directors, officers and staff, or lossess from theft and larceny. Also covered are audit and legal fees associated with insurable losses. Also managed with CUNA insurers

h. Cremation Mutual Fund

This is a form of mutual charity fund for members in case of death. Each member contributes to Bht 5 in case of death of members or relatives and CULT facilitates collection and remittance of the fund.

i. Supplies and Publication

CULT provides various kinds of materials and supplies to CU members at reasonable prices (bookkeeping forms, passbooks, slides, education documents, cassettes and souvenirs).

j. CU Chapter Promotion

To improve its outreach for CU assistance, CULT helped organized local chapters to service needs of members. It provides technical and financial assistance in the formation of these chapters, of which 13 were set up as of 1993.

k. Women and Youth Development

This program was developed to promote women and youth participation in CU activities. CU women's committees in every region and a national committee was also formed. CULT provided technical and financial assistance including soft loans for income-generating programs of women and youth.

4.1.5 Issues and Prospects

a. Perceived Lack of Government Support to Non-Agri Coops

CULT officials strongly object to the pervasive presence and influence of Government through CPD which they feel have are only assisting (ineffectively) agricultural cooperatives.

b. Perceived Lack of Relevance of CLT

CULT officials also expressed the weakness and doubted the relevance of CLT as an apex organization, since it could not even match the services and capabilities of CULT. They see how funds accruing to CLT hardly covers overhead expenses, which could have been put to more productive use under national federations like CULT.

c. No Venue for Strategic Alliance with BAAC

As discussed in the section concerning BAAC, the limitations of the bank does not make possible the forming of strategic alliance between BAAC and CUs. Such tie-up which could have great potentials for: creating an effective rural financial intermediation system, enhancing the mobilization of rural savings and improving credit discipline among rural borrowers. Nevertheless, the competitive strength of CUs in Thailand could perhaps be further enhanced through:

1. the creation of the proposed Bank for Cooperatives reportedly to be set up within the year - this could expand opportunities for intercoop financial intermediation, cooperatives fund management and provide coops with linkage to the formal banking system with all the concomittant synergy mentioned above;
2. passage of the new Cooperative Act which gives more independence in the management and investment of cooperative resources

d. Credit Unions (CUs) Confident of Market Niche

CULT officials also saw no particular threat even from the banking sector and saw great potentials for growth of CUs. This is due to the particular niche dominated by CUs among low or even middle income groups. These groups usually have no credit access to the banking sector (although they maybe savers), and are left with the option of either using high-priced informal creditors or forming self-help groups such as CUs for their credit needs.

e. CUs Reflect True Cooperative Spirit

CUs and CULT exemplify the virtues and potentials of self-reliant cooperatives flourishing because of true adherence to the cooperative principles. They thrive and grow despite extremes of government action either through complete neglect or too much interference. They flourish simply by remaining independent, self-reliant and striving for self-improvement.

5.0 Agricultural Cooperatives

5.1 Agricultural Policy and Major Programs

In the last decade, the Government's main efforts in agriculture were focused on crop diversification and restructuring of the sector. During this period, five main programs were introduced to pursue said objectives, namely: (i) the Crop Substitution Program; (ii) the Green Esan Project; (iii) the Four-pronged Project; (iv) Agricultural Rehabilitation Plan; and (v) Restructuring of Agricultural Production Systems (RAPS).

5.1.1 Restructuring of Agricultural Production Systems (RAPS)

The current 7th Development plan also recognized the weakening of Thai competitiveness in rice, cassava, coffee and pepper; and the persistence of drought and water shortages as main constraints to agricultural development. Consistent with earlier efforts, the program for the period 1994-97 is to reduce areas planted to these crops by 4.9 million rais of which: rice - 3.5 million rais; cassava - 1.2 million rais; coffee - 210,000 rais; and pepper - 2,000 rais. RAPS emphasizes farmers' own decision-making process, with massive information campaign and the package of sevicees merely provided to induce farmers to shift to the preferred commodities. Government will provide the following assistance to farmers:

1. for rice and cassava farmers:
 - 5% per annum subsidized credit
 - partial subsidy for inputs and water supply for crops production and livestock (dairy)

- technical services
- 2. for coffee and pepper producers:
 - grant of 6,800 baht/rai for crop substitution
 - technical services
- 3. subsidized credit for water resource for cultivation of fruit trees and perennial crops
- 4. marketing assistance for paper pulp production and dairy products through linkages with the private sector

RAPS is also centered on a subsidized credit scheme (5% interest rate) administered by the BAAC. BAAC was able to convince government to adopt an innovative credit scheme wherein farmers' loans are initially set at commercial rates (11 percent) but convertible to a subsidized rate as an incentive for farmers to pay on time and adhere to loan conditions. Total budget for a five-year program period was 65.9 billion baht broken down to (in billion baht):

1.	low interest (5%) term loan (15 years)	- 33.8 (51.2%)
2.	input subsidy	- 6.2 (9.4%)
3.	water resource development subsidy	- 3.0 (4.6%)
4.	interest differential subsidy for BAAC	- 22.1 (33.6%)
5.	administration	- .8 (1.2%)

5.1.2 Other Supporting Policies

a. Agricultural Input Policy

1. Irrigation

Natural water resource development is considered part of Government infrastructure development, thus the costs of construction and maintenance of gravity irrigation are shouldered wholly by Government without any usage fees collected.

Government also bears the costs of construction and equipment for river-pumping and underground water irrigation, while farmer-users pay for maintenance and energy costs.

2. Fertilizer and Seed Subsidies

Partial subsidy for certain types of fertilizers, mainly for paddy, has been implemented since 1975. In 1991 it is estimated that 20 percent of total fertilizer supplied in the country were subsidized. Current distribution of subsidized fertilizers are done through Marketing Organization for Farmers (MOF - under the MOAC), the Agricultural Cooperative Federation of Thailand (ACFT) and the recently formed Thailand Agribusiness Corporation (TABCO - a joint venture between BAAC and the 68 Agricultural Marketing Cooperatives it formed among its borrowing farmers).

To encourage the adoption of improved seeds, seed subsidies come in several forms, especially for open-pollinated seeds of annual crops and vegetable. The Department of Agriculture (DOA) through fully funded research activities produces (mainly open-pollinated) foundation seeds while the Department of Agricultural Extension (DOAE) does the multiplication, extension and

distribution of improved seeds at subsidized prices.

b. Land Reform and Consolidation

Land reform and land consolidation were started in the mid-70's. Land consolidation, including infrastructure development is undertaken by the CPD with total costs borne by Government. However, rapid increase in real estate prices and shortage in agricultural land forced innovations in recent land use policies.

c. Subsidized Agricultural Credit

Several credit programs for farmers have been heavily subsidized from 0 to 6 percent, way below prime commercial rates or cost of funds (currently at 13.8% and 9% respectively). MOA through CPD for example has the Cooperative Promotion Fund (at 2- 4%) for cooperative business activities. Commercial banks have credit quotas for subsidized agricultural loans, which since 1992 also cover agro-industrial entities. BAAC is the state bank that primarily provide loans to farmers and agricultural cooperatives. While it is commercializing its banking operations it also implements subsidized credit schemes with Government support (e.g., RAPS). Such support comes either through direct funds infusion or through payment to BAAC of interest differential between the bank's subsidized rates to farmer loans and cost of funds mobilized by the bank.

Another major subsidized credit program is the Common Fund for Assisting Farmers (CFAF) was set up and pegged at 2 percent of total government fiscal budget (Bht 11 billion in 1992). The Committee on Policy and Schemes for Assisting Farmers formulates strategies, supervises and approves funding projects under the CFAF. The CFAF provides loans (at 0% interest) for price support market activities of selected products (mostly for paddy). For example, under the paddy pledging program, farmers who pledged their paddy to BAAC may forfeit the same at the Government's guaranteed price when this is higher than the current market price. Loans from CFAF for marketing support is also given to other products such as rubber, soybean, coffee, and onion, and more recently to prawns and hogs.

d. Agricultural Output Price Policy

The overall agricultural output policy focuses more on price stabilization and support rather than controlling prices of commodities. The current strategy classifies products into three categories for which specific measures are adopted, namely:

1. Commodities with excess supply and for exports (e.g., rice, maize, sorghum, coffee, tapioca) for which the main assistance measures are in terms of processing and quality improvement; export market expansion; and market intervention through credit, stock accumulation and direct purchase from small farmers.
2. Commodities for domestic consumption (e.g., garlic, onion, shallot, palm and coconut oil) with key measures focused on marketing improvement, promotion of agro-industry, tariff and import quota regulations.
3. Commodities with insufficient supply (e.g., soybean meal, fish meal and cotton) where key support is given to expand production, supported by quantitative

restrictions and surcharged taxes on imports.

e. **Agricultural Trade Policies**

1. **Import Taxes and Licensing Requirements** - agricultural inputs such as seed, fertilizers, breeders, agricultural machineries and chemicals are subject to import taxes, but at levels so as not to put heavy burden to domestic users or producers. However, imports of some commodities are subject to surcharge taxes and licensing to protect domestic production of soybean and meal, raw jute and kenaf and cotton fabrics.
2. **Import ban** - this is imposed on many agricultural products produced domestically in excess and for exports. These include: rice and rice products, maize, raw silk and yarn, and sugar. The ban is more precautionary in nature and reportedly could be abolished without immediate adverse effects.
3. **Export promotion policies** - these include import duty rebates for manufacturing of export-oriented agro-industrial products and export tax rebate applicable to all agro-industrial products, such as canned goods, processed fruit and vegetables.

5.2 **The Agricultural Cooperatives**

5.2.1 **Structure and Functions of Agricultural Cooperatives**

a. **Conventional Agricultural Cooperatives**

Agricultural cooperatives in Thailand are organized in three-tier structures consisting of primary or district cooperatives, provincial or changwhat federations and national federations.

Consistent with the standard cooperative structure, primary cooperatives are composed of individual farmers producing varieties of crops (given the diversification of Thai agriculture) although majority are still paddy farmers. Usually members within a society are further grouped by commodity lines to rationalize economic activities, extension and training. Business activities are usually credit and savings, supply of inputs and collection or marketing of produce.

Provincial or Changwat federations are secondary cooperatives with the primaries within the province as members. At present there are 76 provincial federations conducting joint business activities with their members, usually involving agricultural input distribution, and the processing and marketing of produce.

b. **The Federations and Apex Bodies**

Based on earlier discussions, BAAC set up 73 (primary) provincial Agricultural Marketing Cooperatives (AMCs) created by BAAC, conducting similar businesses as the provincial federations but solely for individual-farmer members who are also direct borrowers of BAAC.

The national federations are apex organizations of the secondary and primary cooperatives. With BAAC's entry in forming AMC's, There are now three major groupings:

1. The Agricultural Cooperative Federation of Thailand, Ltd. (ACFT) whose members are mainly multi-purpose, general agricultural cooperatives. It is engaged mainly in the supply of agricultural inputs (especially subsidized fertilizers from Government), farm machinery and equipment directly to cooperatives; and the marketing of primary grains. It is also engaged in export-import activities.
2. Thailand Agribusiness Company, Ltd. (TABCO) - This is a corporate body (not cooperative) formed as a joint venture between the BAAC (with 10% equity) and all provincial AMCs created by it. It acts as the apex organization for the AMCs and also conducts similar activities of ACFT, but solely for the AMCs.
3. Those apex societies of specialized agricultural cooperatives, such as the Swine Raisers Cooperative Federation and the Sugar Cane Growers Cooperative Federation, which carry out business activities for members.

c. BAAC's Agricultural Marketing Cooperatives (AMC)

The AMC is a provincial primary cooperative whose members are BAAC's direct-borrowing farmers. To "professionalize" management and ensure well-managed AMCs from the very start, BAAC deemed it necessary to enter into a management contract with the AMCs for the first five years of their existence. Under this contract:

- 1) BAAC assigns its own staff, and at its own expense, to act as key officers of the AMC (managers, accountant, trading officers);
- 2) BAAC will train cooperative members as management understudies for eventual take-over
- 3) Although the AMC is organized as a multi-purpose cooperative, it is initially limited to trading since BAAC provides direct lending to its members.

Likewise the apex organization of the AMCs - the Thailand Agribusiness Company, Ltd. (TABCO) - was set up as a corporation and not as a cooperative. Thus, it functions and is structured under corporate norms, although the AMCs who own 90% of TABCO are fully represented in its board.

d. The Farmer Associations

A disparate group in the cooperative movement in Thailand is the Farmer Associations (FAs). As of 1995, there were 4,170 FAs with total members of about 358,500. Their number, membership and resources have not significantly changed for many years now. They have not been allowed to become full fledged cooperatives, nor amalgamated with other cooperatives due to political reasons. Little is known about their actual operations.

5.2.2 Business Activities

Business activities of agricultural cooperatives may vary according to crops and location, however they are generally involve in:

1. Provision of financial services - credit and savings
2. Collection of members' produce for marketing
3. Supply of inputs and equipment to members
4. Provision of other services such as irrigation, land preparation and extension.

The AMCs and TABCO, created under BAAC initiative are limited to trading operations only as BAAC provides financing to individual farmers.

5.2.3 Performance of Agricultural Coops (up to 1993-1994)

In fiscal year 1994, agricultural cooperatives in Thailand experienced impressive growth in all business activities. The following data are based on 1,949 cooperatives audited in 1994 (79 percent of total).

a. **Business volume** - Total business turn-over was worth Bht 28.93 billion an increase of 22.7 percent over 1993, based on the following breakdown:

1. **Credit Business** - still the major activity with total volume of credit business generated amounting to Bht 12.2 billion or an increase of 10.99 percent over 1993
2. **Savings Generated** - savings for the period amounted to Bht 7.2 billion or an increase of 28.3% over 1993
3. **Supply Business** - generated a volume worth Bht 6.2 billion or an impressive 66.4% increase over 1993
4. **Marketing Business** - marketing volume amounted to Bht 3.3 billion or an 11.11% increase over 1993
5. **Agricultural Services** - still a minor activity which generated Bht 91.58 million, a 13.6% increase over 1993

b. **Profitability**

Out of 1,949 cooperatives audited in 1994, 1,625 (80.2%) were operational and 324 (19.8%) were dormant. Among operational coops, 1,391 (70% of total, 85% of operational) had total profit of Bht 979.7 million, while 234 (12% of total and 15% of operational) had total losses of Bht 41.5 million.

c. **Financial Status**

As of end fiscal year (end March) 1994, the financial status of agricultural cooperatives are as follows:

1. Total assets stood at Bht 22.7 billion or an increase of 21% from 1993;
2. Total liabilities stood at Bht 13.9 billion or a 24.2% increase from 1993;
3. Total cooperative equity was Bht 8.8 billion or an increase of 17.3% from 1993.

4. Total savings generated was reported at Bht 7.21 billion or an increase of 28.3% from 1993.

d. Number of Societies and Membership

There is still a continuing increase in number and membership among agri-based cooperatives, (which includes: agricultural, fishery and land settlement cooperatives). As of end 1995, there were 3,014 cooperatives with total membership of about 3.972 million, or an increase of ___% and ___%, respectively over 1994. The growth was spurred mainly by the performance of agricultural cooperatives.

5.3 Propects and Issues

a. Competitiveness of Thai Agriculture Sector

The current Agricultural Policies are being subjected to revisions, especially export and import restrictions, in compliance with GATT. Non-tariff trade barriers will be eliminated and revised tariffication is under process.

Overall, the efforts of Thailand in crop diversification have made its agricultural sector as one of the most competitive in the region. With Government heavy investments (and subsidies) in irrigation, research and extension, it remains a major exporter of a variety of products and is self-sufficient on many others. It also has the advantage of heavy involvement of the private sector in developing high quality, high value-added agro-industrial products which eventually resulted in increased productivity and income for small primary producers.

b. Analysis of Agri-Coop Growth Trends

The growth trends among agricultural cooperatives appear impressive and encouraging. Their financial performance show growing strength from all indicators. What is worth noting is that the growth appears to be fueled in a significant way by internal funds, from savings and equity, rather than from heavy reliance on borrowings. As shown, 1994 savings generated by the sector was Bht 7.21 billion, which is a 28.3 percent increase over 1993. The five year (1990-1994) average growth rate in savings remains high at 28%. Although the growth trend may not be conclusive and there is need to verify further the nature of savings, the figures could indicate growing inner strength, self-reliance and maturity among the majority of agricultural cooperatives.

Some distortions on Agri-cooperatives' inner strength could exist due to:

1. granting of subsidized credit both for cooperative business activities and for relending to members;
2. directed quota sale of subsidized inputs (e.g., fertilizers) through cooperatives for members;
3. government procurement schemes through cooperatives

Substantial assistance and business activities are also provided by the Ministry of Commerce into aspects: (i) the purchase of milled rice from primary cooperatives under the government purchase

program via the Warehouse Organization and ACFT; and (ii) award of quotas for the import of agricultural commodities to ACFT for commodities purchased by primaries (e.g., fertilizer)